Ministerie van Financiën

Official report on

Opportunities for lower tax rates and better policy

Approach to tax expenditures for a simpler and improved tax system

Date
June 30, 2025

Policy directions tax expenditures

Central question: How can the tax system be made simpler, more effective for all taxpayers, more efficient, and easier to administer for the Tax Administration?

Facts and numbers: impact of tax expenditures on tax system

What are tax expenditures?
Tax expenditures are exceptions within the tax system, such as deductions, exemptions, tax credits and reduced rates. These tax benefits are often introduced to serve the publicinterest, for example by encouraging certain behaviour or by redistributing income.

Tax expenditures are often complex, which leads to problems:

- Tax expenditures are difficult to understand or impractical for citizens. This results in incorrect use or non-use.
- Tax expenditures create higher administrative burdens for businesses.
- Tax expenditures are difficult for the Tax Administration to monitor. Oversight, enforce-ment, communication, and (legal) disputes are also time-consuming.

Government finances 2025:

Total expenditures: € 458,8 bln

Totale income: € 428,7 bln

What is the effect of tax expenditures on the treasury?

125 tax expenditures monitored: budgetary costs € 167 bln

116 schemes **evaluated**, 53 schemes have negative outcome

Budgetary **costs** of these 53 schemes: € 85 bln

That is equivalent to almost **€ 5.000 per Dutch citizen**

Tax expenditures often fail to achieve the intended goals effectively

	Positive	Debatable	Negative	Not investigated/ not relevant
Is the policy objective still relevant?	67	32	17	
Is the policy objective achieved?	31	37	20	28
Is the scheme feasible to administer and enforceable?	50	42	24	
Are they feasible for citizens or entrepreneurs?	31	8	3	74
Do the costs outweigh the benefits?	14	42	32	28

What are the potential benefits of reducing tax expenditures?

- Using the revenue to address current societal challenges
- Lower tax rates for citizens and businesses

Abolishing or **adjusting** negatively assessed schemes

=

Budgetary yield: **€35 billion**

Equivalent to approximately **€2.000 per Dutch citizen**


Lowering tax rates on personal income


Lowering tax rates on corporate income


Improving achievement of societal objectives

- A simpler tax system for


Citizens (simpler tax returns)


Businesses (reduced admini-strative burden)


Tax Administration (fewer enforcement challenges)

Four clusters have the greatest impact

An integrated approach through thematic clusters can lead to major improvements in the tax system.
At the same time, addressing individual schemes also represents meaningful steps in the right direction.

Cluster 1: Tax expenditures for entrepreneurs and businesses

Key issues

- Current policy **incentivises** the status of being an entrepreneur, rather than entrepreneurial activities.
- **Unequal tax treatment** of different types of workers distorts the labour market.
- Entrepreneurs are incentivised to own (polluting) vans rather than to engage in productive activities.

Options for:
11 tax expenditures

Budgetary scope:
approx. € 8 billion

Equivalent to over
€ 3.000 per business

Cluster 2: Reduced VAT rates

Key issues

- Reduced VAT rates have proven **unsuitable** for income redistribution and other policy goals.
- In practice, they create **complexity and disputes** over scope and definitions.
- Some policy objectives are **poorly substantiated or outdated** (e.g. stimulating employment).

Options for:
7 categories

Budgetary scope:
nearly € 16 billion

Equivalent to almost 1/5[e] of all VAT revenues and over
€ 1.900 per household

Cluster 3: Home ownership tax expenditures

Key issues

- Current home ownership schemes are complex for taxpayers and will create **administrative challenges** for the Tax Administration once the first 30-year terms begin to expire in 2031.
- House prices are pushed up by low taxation, increasing wealth **inequality**.
- Tax incentives contribute to **higher mortgage debt**, creating macroeconomic risks if many households are unable to service their mortgages during economic downturns.

Options for:
3 schemes

Budgetary scope:
over € 9 billion

Equivalent to around
€ 2.000 per owner-occupied home per year

Cluster 4: Individual tax expenditures

Key issues

- Various stand-alone schemes fail to deliver the **intended outcomes** or are **too complex** for citizens, businesses, and/or the Tax Administration.

Options for:
19 schemes

Budgetary scope:
over € 9 billion

Equivalent to around
€ 550 per Dutch citizen per year

Table of content

Summary

Tax expenditures are frequently used to achieve policy objectives; however, they often prove ineffective, outdated, or unnecessarily complicate the tax system. Currently, around 200 tax expenditures (TEs) have been identified, of which 125 are actively monitored, representing an estimated €167 billion in 2025. This amounts to over 40% of total tax revenues. Collectively, these schemes[1] make the tax system difficult for citizens and businesses to understand, and challenging for the Tax and Customs Administration to administer. While some complexity is defensible—most schemes were introduced to serve specific policy goals—TEs must, in practice, deliver on their objectives at the lowest possible social cost, such as lost revenue and increased administrative burden for taxpayers and the tax authorities. Since the actual effectiveness of these schemes often only becomes apparent over time or may change as circumstances evolve, these TEs are regularly evaluated. The 2023 official report *Approach to Tax Expenditures* reviewed a large number of such schemes. Since then, several additional evaluations have been conducted. Only a small portion of the TEs have been positively assessed; many were found to be ineffective or poorly targeted, complex to implement, burdensome for taxpayers, or outdated.

Maintaining the tax system is essential, and it offers opportunities to simplify, reduce rates, and improve policy. For TEs assessed negatively, policy options have been developed to abolish, adjust or redesign them. Depending on the policy choices made, this could generate up to €35 billion in savings (from total tax revenues of around €425 billion). These savings could, for example, fund tax rate reductions for citizens and businesses, making the benefits widely felt across society. Income tax rates, for instance, could be lowered by over 5 percentage points. Alternatively, the funds could be used to address pressing social challenges.

For several areas where substantial gains can be achieved, integrated policy directions have been developed. By grouping TEs into clusters, a more coherent approach becomes possible, taking a broader policy perspective. Often, several TEs target the same objectives or groups. Based on these interrelations, the following policy clusters have been identified:

- Entrepreneurship and businesses
- Reduced VAT rates
- Home ownership TEs (including mortgage interest deduction)

Entrepreneurship schemes could be better targeted at generating positive societal effects, with less distortion of the labour market and lower labour costs. Currently, these schemes are often poorly targeted and fail to deliver the intended societal benefits. They tend to reward the status of being an entrepreneur rather than activities such as innovation or sustainable investment. Furthermore, these TEs contribute to different tax treatments for various types of workers (employees vs. entrepreneurs), distorting the labour market. The reduced motor vehicle tax (MRB) rate for entrepreneurs vans mainly incentivises ownership of (polluting) vans rather than entrepreneurship itself. The proposed policy directions generally involve abolishing and reforming existing TEs. This would enable more equal taxation of workers, establish a single corporate income tax rate of 24%, and lower labour costs (for employers and employees). Additionally, it would allow for more targeted support of entrepreneurial activities and a discount in MRB for electric vans. The three policy directions vary in how they align tax rates for different types of workers and entrepreneurs:

1. Fully equalised top rate for all workers,

[1] *The terms 'schemes' and 'tax expenditures' refer to the same and are used alternately throughout the report*

2. Lower rates for initial profit distributions in box 2 and for self-employed entrepreneurs under personal income tax, and
3. A slightly lower tax burden on business profits compared to employees.
   An optional measure is to recycle higher MRB revenues from entrepreneurs' vans into the mobility domain, for instance by lowering MRB more broadly.

Harmonising or partially unifying VAT rates could enable more targeted support for low-income groups and significantly simplify administration for the tax authorities and businesses. The reduced VAT rate is generally an ineffective tool for achieving policy goals and adds complexity, leading to high administrative costs. Moreover, the reduced rate is an expensive way to relieve the tax burden for lower-income households: the wealthiest 50% of households benefit twice as much as the poorest 50%. Some reduced rates are outdated, and there may be better policy alternatives to achieve the same objectives.

The proposed policy directions include:

1. Gradually moving towards a fully uniform VAT rate at a revenue-neutral level,
2. Uniform VAT rate at 21% with the revenue used to reduce personal income tax rates, and
3. Partial harmonisation combined with alternative policy instruments.

Reforming home ownership schemes—including mortgage interest deduction and the imputed rental value—could reduce administrative issues and improve the functioning of the housing market. These schemes are complex and difficult for taxpayers to understand and apply. They also contribute to excessive debt accumulation, greater wealth inequality between homeowners and renters, and distort housing choices. Gradual reform could mitigate these problems and free up resources to reduce the tax burden on labour. Options include:

1. Gradually phasing out the mortgage interest deduction, or
2. Incrementally increasing the imputed rental value, potentially combined with accelerated reduction of the "Hillen Act" benefits.
   Eliminating the 30-year limit on mortgage interest deduction is also a possibility to reduce enforcement complexity, although this would cause temporary revenue losses and would disproportionately benefit those who have already used the deduction for a long time.

Beyond these clusters, reviewing individual tax expenditures also contributes to simplification and better policy. For other TEs assessed negatively, policy variants have been developed individually. Adjusting these standalone measures can also help create a simpler system for taxpayers and the tax administration. Moreover, some options better achieve the social objectives behind current schemes. Individual TEs within clusters can, of course, also be reformed individually.

Finally, public and stakeholder support is crucial for substantial changes to the tax system. The potential benefits of the proposed policy directions are significant but would mean some groups currently enjoying tax advantages would lose them. This could be perceived as unfair, especially where such advantages have been longstanding and thus seen as "acquired rights." Therefore, it is essential to engage stakeholders in the further elaboration of these policy directions to ensure success and to better understand possible unintended consequences and practical challenges for citizens and businesses

1. Room for improvement

Summary

- The tax system includes approximately 200 tax expenditures (TEs). These are exceptions to general rates, such as exemptions, deductions, and reduced rates. Tax TEs are employed to achieve societal goals for citizens and businesses—for example, encouraging specific behaviors or redistributing income.
- TEsmake the tax system complex for citizens, businesses, and administrators and are not without cost: they reduce tax revenues by €167 billion in 2025.
- TEscan be a valuable instrument if they achieve an important societal goal at acceptable costs and with limited complexity. However, the 2023 official report shows that a substantial proportion of the 116 reviewed TEs does not function effectively, is too complex, or has become outdated.
- Maintaining the tax system is necessary and presents opportunities for greater simplicity, better policy, and better allocation of resources. It is important to consider societal impacts and accompanying measures when making adjustments.

Tax expenditures (TEs) are used to achieve various policy objectives but come at a cost to society by reducing the amount of tax revenue collected.
Through our tax system, we raise over €400 billion annually to fund various public expenditures, such as healthcare, education, and defense. At the same time, money is "given back" via the tax system in the form of TEs. This can happen, for example, by granting tax reductions on payable taxes or by taxing specific services or sectors less heavily. These are exceptions within the tax system, such as deductions, exemptions, and credits, which lower the amount of tax owed. Exceptions to the general tax rules are often used to achieve social goals for citizens and businesses, to stimulate certain behaviors, or to redistribute income. Approximately 200 TEs have been identified. Of these, 125 are actively monitored, with a total cost of nearly €167 billion in 2025[2], equivalent to over 40% of total revenues.

Well-functioning tax expenditures can be of great value. This is the case when a scheme achieves an important societal goal at the lowest possible societal costs. These costs include lost public revenue, increased complexity for the tax authorities, and challenges for taxpayers. To assess their ongoing utility, TEs are frequently evaluated. These evaluations take into account the evolving context and societal developments while exploring whether alternative, non-tax instruments might better achieve the underlying goals.

Tax expenditures make the tax system more complex for citizens, businesses, and administrators. Because so many exceptions exist, the system becomes harder to understand and implement. TEs create layers of exemptions and exceptions to those exemptions. Taxpayers must spend time and effort understanding and correctly applying them, but they do not always

[2] See Annexes 10 and 11 of the 2025 Budget Memorandum: 10 Tax TEs | Ministry of Finance - Government of the Netherlands

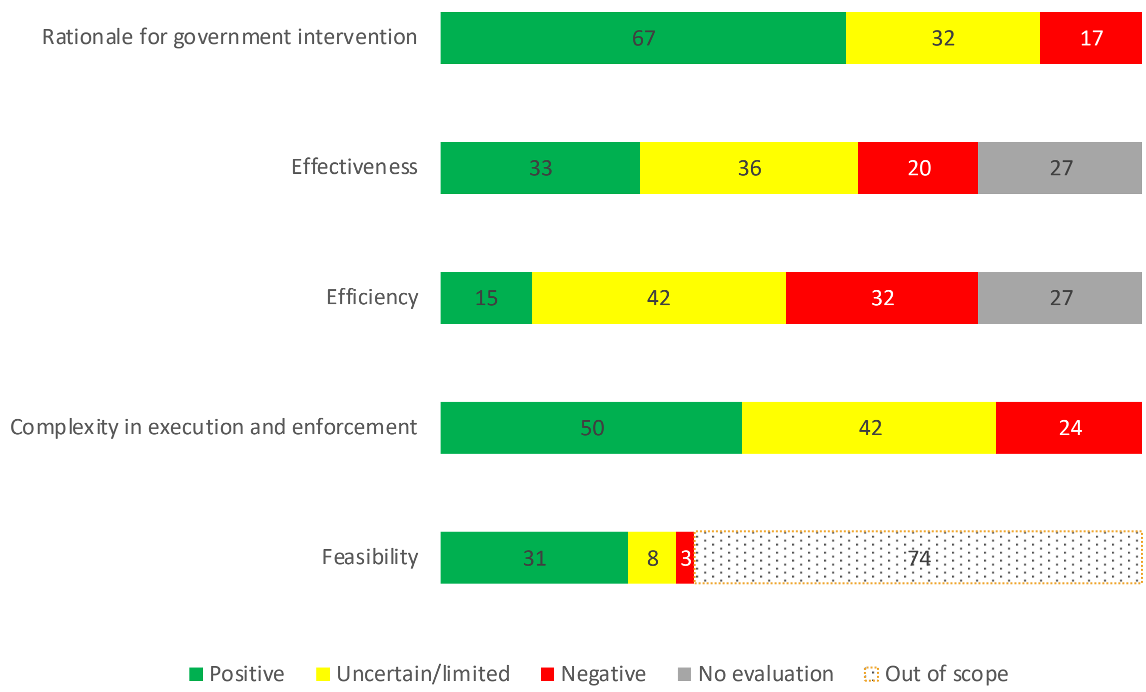
succeed. Tax authority employees must oversee the entire tax landscape, which increases the scope for errors or conflicts in practical application. A detailed system heightens the risks of missing key information, increases the chances of disputes, requires complex software solutions, and often becomes legally vulnerable or even untenable. Furthermore, it may lead to an accumulation of new policy assignments.

The compliance and enforcement strategies adopted by the tax authorities are aimed at ensuring that citizens and businesses comply with rules as independently as possible, avoiding costly enforcement actions. However, as complexity increases, citizens and businesses find it harder to comply with tax rules, and the tax authority struggles to support or promote compliance. The result is more errors in filings, a high volume of inquiries at the TaxHelpline, an increase in complaints and appeals, and even the need for remedial actions. This complexity also has a negative impact on public trust in the government. Given this complexity, it is essential that TEs continue to meet their stated objectives and that these objectives remain relevant.

In the 2023 official report, an in-depth review was conducted on a significant portion of tax expenditures.[3] The underlying question in this assessment was to what extent the existence of TEs outweighs the societal costs, such as lost tax revenues and increased system complexity. To evaluate this, the report assessed 116 TEsagainst five criteria: 1) rationale for government intervention, 2) effectiveness, 3) efficiency, 4) complexity of implementation and enforcement, and 5) feasibility. These terms are explained further in the box at the bottom of this chapter. Figure 1 summarizes the findings, and Annex 1 contains the ratings for each scheme.

[3] Official Report on theApproach to Tax Expenditures | Report | Government of the Netherlands.

Figure 1: Assessment of 116 tax expenditures by Criterion[4]



The report highlights that a significant portion of tax expenditures under these criteria does not function well, is unnecessarily complex, or has become outdated. Only a minority of TEs have been found to effectively achieve their objectives and do so at a reasonable cost. The report concludes that addressing these TEs provides opportunities for lower tariffs and a simpler system. With fewer tax schemes, misuse and unintended applications are also likely to decrease, ensuring that funds—and the associated tax benefits—are directed toward the intended beneficiaries.

In recent years, initial steps have been taken to address tax expenditures. Several schemes have been improved, replaced, or abolished. For example, an exemption for gift taxation ('jubelton') was terminated, tax deductions for monument maintenance replaced with a more targeted subsidy scheme, exceptions in vehicle taxation reduced, and the self-employed deduction lowered[5]. Monitoring and periodic evaluation play a crucial role in this process. Budgetary details, results of evaluations, and evaluation agendas are included as annexes in the annual Budget Memorandum. Budgetary guidelines stipulate that when evaluations reveal negative results, the standard response is to abolish, improve, or reform the scheme. This contributes to managing TEsand maintaining the tax system.

Maintenance of the system is necessary for greater simplicity and better achievement of policy objectives. This report presents policy options forTEs that contribute to a simpler system

[4] The ratings have been updated wherever possible with recent evaluations and may no longer fully correspond to the figure from the 2023 official report on tax TEs. Annex 1 provides a comprehensive overview of the assessments for these TEs.
[5] See also the annexes to the Budget Memorandum for an annual overview of measures related to tax TEs.

and better allocation of public resources. This involves improving existing TEs and offering alternatives, which may also fall outside the tax domain. The aim is to ensure that societal goals for citizens and businesses are achieved. Additionally, an alternative may not be required if the goal of the scheme is outdated or conflicts with other societal objectives. This represents a periodic and continuous maintenance of the tax system, separate from larger structural reforms[6]. Simplifying the tax system in this way makes it more understandable and feasible for taxpayers, reduces administrative burdens, and makes implementation easier for the Tax Administration. Furthermore, this approach could create budgetary space for other, more societally significant goals.

The societal benefits of such changes are significant, but attention must also be paid to those negatively affected. The call for adjustments to TEs is not new, and past experiences sometimes demonstrate the difficulties in implementing changes. It often proves challenging to redefine what some consider "acquired rights." An evaluation of a scheme may be "negative," but that does not imply that it has no merit or that the organizations, citizens, or businesses benefiting from it are unimportant. Nonetheless, it remains essential to adjust TEs that are not functioning well and, where necessary, focus on addressing new challenges that require attention. Changes to TEs require adaptations from the parties involved. Therefore, the policy options developed in this report have carefully considered complementary measures to mitigate significant negative societal impacts.

Chapter 2 discusses the policy options, with Section 2.1 providing an overview of the policy options and identifying opportunities for improvement. Section 2.2 focuses on tax schemes related to entrepreneurship and enterprises. Section 2.3 examines the VAT system in detail. Section 2.4 centers on schemes for owner-occupied housing, while Section 2.5 provides an overview of other TEs covered in this report. Finally, Chapter 3 explores potential next steps.

[6] Such as the reform of the tax and benefits system (including income-dependent tax credits, which are not part of this process

Box: Explanation of Criteria Used to Assess tax expenditures

Effectiveness and Efficiency

This criterion evaluates whether, and to what extent, a scheme achieves its policy objective (effectiveness) and whether it does so at the lowest possible cost and in the most appropriate manner (efficiency). TEs that are very generic (i.e., accessible to everyone) often score poorly on efficiency. In such cases, the target group could be reached more directly using fewer resources. For instance, consider the reduced VAT rate, where one of its primary objectives is to lower the tax burden for people with lower incomes. Although the reduced VAT rate indeed reduces the tax pressure on lower-income households, it also benefits all other households. The government must forgo approximately €20 in tax revenue to direct €1 to the 10% least economically advantaged households.

Rationale for Government Intervention

This criterion examines whether there is a legitimate role for government intervention. Key considerations include whether there is a clear government task, a need to correct behavior, evidence of market or governance failures, wel-fare redistribution as the primary goal, or if the scheme exists for administrative reasons. Sometimes, a scheme was introduced long ago for good reasons, but in the current context, there is no longer a convincing need for its continuation. For example, this applies to the participation deduction (see also Chapter 2.2).

Complexity in Execution and Enforcement

This aspect reviews the extent to which a scheme causes complexity during implementation and enforcement. Simple measures, such as automatic pre-filled entries on tax returns or payroll tax filings via employers, reduce complexity. The execution becomes more challenging when little or no counter-information is available, when the scheme creates potential for disputes, or when the tax authority lacks the specific expertise to assess its application.

Feasibility

The feasibility of a scheme is assessed by estimating the extent to which it demands effort and understanding from taxpayers. This includes the number of actions taxpayers must undertake, whether these actions are understandable, the degree to which the target group might need professional tax assistance, and how various circumstances (e.g., financial stress, life events like divorce, moving, illness, or death) might limit their ability to comply with the scheme. The analysis also considers the size of the impacted population and the financial and psychological vulnerability of the target group.

2. No blueprint, but a promising perspective

Summary

- Policy options have been developed for tax expenditures (TEs) that received negative evaluations. An integrated approach has been applied to three key areas: (1) entrepreneurship and enterprises, (2) reduced VAT rates, and (3) owner-occupied housing regulations, given their strong policy-related interlinkages.
- An integrated method allows for impactful improvements to the taxation system while addressing relevant policy contexts and coherence.
- Addressing individual TEs also leads to gradual positive steps in simplifying the system.
- Along with simplifications for individuals, businesses, and implementation agencies, the proposed policy options create room for significant rate reductions or provide an avenue to achieve policy goals more effectively (e.g., through transformation to a subsidy scheme).

2.1 Overview of policy options with an integrated approach where Possible

Policy options have been developed for tax expenditures (TEs) that are ineffective, outdated, or complex for taxpayers and administrators. These are schemes that are negatively evaluated in the 2023 official report or subsequent evaluations. When a tax expenditure performs poorly based on one or more criteria, modifying or abolishing it becomes a logical consideration. The developed policy options can be found in Annex 3. TEs that were not negatively assessed fall outside the scope of this report, though further improvements could be worthwhile for these too. In many cases, a "questionable/unclear" score signals a poorly defined objective or insufficient data to draw clear conclusions. This also applies to TEs that scored "moderately" across most or all criteria. Annex 1 includes the evaluation scores for all TEs and clarifies the measures discussed in this report.

When developing policy options, interlinkages between tax expenditures become increasingly clear. TEs are not isolated; they are part of the taxation system and often intertwined with laws, regulations, and budgetary instruments on the expenditure side. Thus, grouping TEs into clusters provides an opportunity to apply a more holistic perspective during policymaking. TEs often overlap in terms of objectives or target groups. This coherence led to the formation of four clusters. Table 1 provides an overview of the existing issues and the policy directions within these clusters aimed at addressing these challenges.

Table 1: Overview of challenges and policy directions

CLUSTER	CHALLENGES	POLICY DIRECTIONS
Entrepreneurship and Enterprises	The focus is on "being an entrepreneur" rather than activities important for societal goals. Tax differences increase the prevalence of freelancers (self-employed with no staff) or lead to inefficient choices between business forms. Stimulating entrepreneurs to own delivery vans instead of focusing on entrepreneurship itself.	➢ Phasing out entrepreneurial schemes in favor of lower labor costs ➢ A reduced corporate income tax rate of 24% ➢ Targeted incentives for innovation, financing, and investments ➢ Tax rate reductions for electric delivery vans used by entrepreneurs Various sub-policy tracks aimed at rate parity between employees, self-employed workers, and directors major shareholders (DGA): 1. Equal top-rate taxes 2. Lower tax burdens for self-employed and DGA shareholders for profits up to €70,000 3. Overall reduced tax burdens for entrepreneurs
VAT	Using VAT reduction as a redistribution tool or policy lever is inefficient. Legal disputes and debates continuously occur over defining boundaries for reduced rates. Providing tax benefits to sectors where it is not societally desirable.	1. Gradual steps toward a single VAT rate of 18%. 2. Alternatively, a single rate of 21% with lower labor taxes. 3. Significant reduction in VAT exceptions, supplemented with alternate policies or the retention of some lower rates.
Owner-Occupied Housing	Current tax arrangements cause administrative challenges and burden taxpayers Subsidizing home ownership exacerbates price increases, favoring homeowners over renters and amplifying inequality Higher mortgage debt burdens introduce macroeconomic risks	1. Gradually phasing out mortgage interest deductions and repealing the 30-year duration limit. 2. Reducing tax incentives by increasing the deemed rental income and repealing the "Hillen Act.", lower income tax rates
Individual tax expenditures (TEs)	Current schemesmisallocate public funds that could be spent more effectively elsewhere Tax deductions and exemptions increase complexity for	Phase out and eliminate TEs Adjust and improve TEs Reform TEs to better meet societal goals

CLUSTER	CHALLENGES	POLICY DIRECTIONS
	taxpayers and tax authority TEs are outdated and no longer aligned with present-day challenges.	Using saved resources to reduce taxes on labor and profits or to address other societal needs

An integrated approach provides an opportunity to make significant improvements to the taxation system; however, addressing individual schemes also leads to incremental steps toward the desired outcome. In the fourth cluster (individual tax expendituresTEs), fewer policy-related linkages exist between interventions, leading to a "scheme-by-scheme" approach. Although less transformative than systemic reform, this tactic allows for gradual steps that simplify the taxation framework and is generally more easy to implement. This also includes individual improvements for TEs within the clusters mentioned earlier.

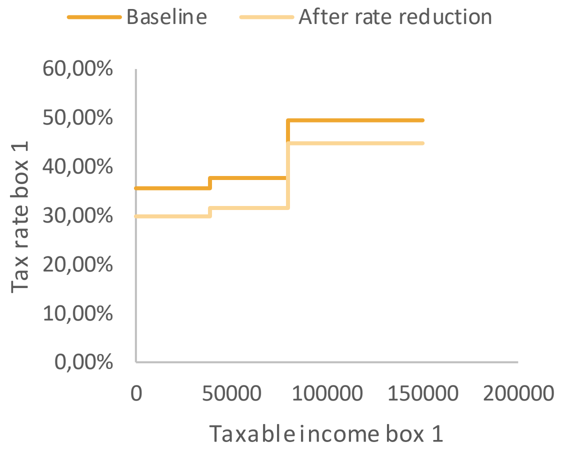
Many promising policy opportunities stem from tax expenditures with significant societal or political sensitivities. For example, the tax treatment of owner-occupied homes, reduced VAT rates or agricultural tax relief all pose challenges. While these TEs are very costly and ineffective for their supposed goals, revising them is difficult due to the profound impact changes may have on specific beneficiary groups. Still, these TEs come at steep societal costs, and inaction should not be taken lightly. Therefore, this report considers measures such as complementary policies to help mitigate the adverse effects of reform.

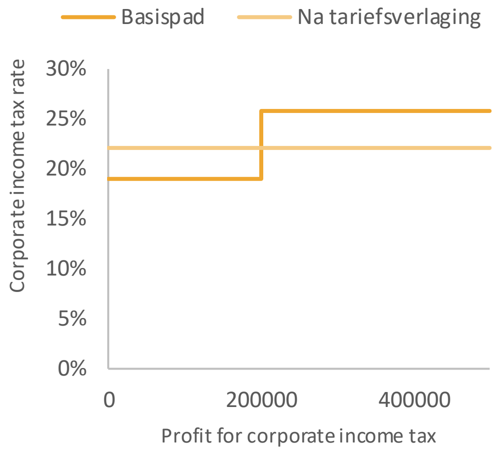
Next to simplification for civilians, companies and the tax authority, the policy options outlined in this report free up significant amounts of funds, which can then be used for broader societal benefits. Collectively, these measures could yield approximately €35 billion (see Annex 2). For instance, these savings could enable meaningful reductions in income tax rates. Figure 2 illustrates how tax structures might look if the funds are returned to reduce the tax burden[7]. The rate for the first and second income tax brackets could drop by 5.75 percentage points, while the top bracket could decrease by 4.7 percentage points. For a single individual with an income of €50,000, the reduction would mean savings of approximately €2,700 per year due to a 5.5% average reduction in tax burden. The corporate income tax rate could fall from 25.8% to 22.1% under such tax adjustments (as shown in Figure 2).

[7] For the calculations, it is assumed that out of the total revenue of 35 billion euros, 29 billion euros will be redirected to income tax and 6 billion euros to corporate tax. This is based on policy directions, where the redistribution primarily focuses on income tax.

A system with fewer exceptions brings societal benefits but also results in certain groups losing their advantages, and – without alternative instruments – less scope for targeted policies. Alongside the aforementioned rate reductions, there are trade-offs, such as potential price increases due to higher VAT rates, higher taxation on low profits, and the elimination of various deductions. The ultimate impact on individual citizens depends on their personal circumstances, such as whether they own a home, are entrepreneurs under income tax (or operate through a private limited company), the level of their profits, and their spending patterns. Lower taxes on labour and profits contribute to higher economic growth and prosperity for the Netherlands.

Figure 2: Income Tax Rates Box 1 (left) and Corporate Tax (right) Before and After Rate Reductions





2.2 Policy Options for entrepreneurs and enterprises

Cluster 1: Tax expenditures for entrepreneurs and businesses

Key issues

- Current policy **incentivises** the status of being an entrepreneur rather than entrepreneurial activities.
- **Unequal tax treatment** of workers distorts the labour market.
- Entrepreneurs are encouraged to own (polluting) vans.

Options for:
11 schemes including:

- Entrepreneurial schemes in personal income tax (self-employment deduction, start-up allowance, etc.)
- Reduced corporate income tax rate
- Profit exemption Small and Medium Enterprises (SME)
- Reduced Motor Vehicle Tax (MRB) rate for entrepreneurs' vans

Budgetary scope:
approx. € 8 billion

Equivalent to more than **€ 3.000 per business**

Policy directions

- **Targeted incentives** for innovation, financing and investment through subsidies or tax measures
- **Reduction** of the general corporate **income tax** (CIT) rate to 24%
- 25% motor vehicle tax (MRB) **discount** for electric vans
- **Lower employer costs** through reduced social security contributions
- **Lower tax burden** on labour (income tax)
- More **equal top tax rates** for all workers (self-employed entrepreneurs, director–major shareholders, employees)

DIRECTION 1:
- Full equalisation of the top rate at 44.8%

DIRECTION 2:
- Lower tax burden for self-employed entrepreneurs and the first part of profit distributions by director–major shareholders (both top rate at 45%)
- Top rate for employees and higher profit distributions by director-major shareholders at 47.2%

DIRECTION 3:
- Lower tax burden for director-major shareholders (top rate 43%/45.5%) and self-employed entrepreneurs (around 45.5%)
- Top rate for employees at 48%

- **Optional:** lower motor vehicle tax

Summary

- Current tax expenditures (TEs) for entrepreneurs are often unfocused and fail to deliver the desired positive (societal) effects. This includes measures like the self-employment deduction, the reduced corporate income tax rate, and the lower vehicle tax rate for delivery vans owned by entrepreneurs.
- These entrepreneurship-related TEs lead to a differing tax treatment for workers, which distorts the labor market.
- The proposed policy directions involve abolishing or reforming current regulations. These reforms aim to 1) equalize taxation for workers, 2) introduce a single corporate income tax rate of 24%, and 3) reduce the taxburden on labor (for both employers and employees).
- Additionally, these plans shift the focus to targeted support for entrepreneurial activities with positive societal effects and introduce a tax discount for electric delivery vans.
- Three policy directions are suggested, each balancing tax rates for employees and entrepreneurs differently: 1) a completely equal marginal top tax rate for all workers. 2) A lower tax rate for initial profits distributed by directors and major shareholders (DGAs) in Box 2 and for self-employed workers. 3) A slightly lower tax burden for all entrepreneurial profits compared to wages for employees.
- An optional policy enhancement involves channeling increased vehicle taxes into mobility-related initiatives, such as lowering general vehicle taxes.

Within the tax system, several tax expenditures (TEs) are aimed at fostering entrepreneurship and enterprises. The objective of these TEs is to encourage societal spill-overs of entrepreneurship, such as additional employment, capital investments, and innovation. These include entrepreneurial facilities in income tax, such as the self-employment deduction, the start-up deduction, the start-up deduction for disabled, the co-working partners deduction, random depreciation for start-ups, the discontinuation deduction, the SME profit exemption, and the business use exemption[8]**.** Additionally, this includes the reduced corporate tax rate and the reduced motor vehicle tax rate for vans used by entrepreneurs.

Recent evaluations[9] of these schemes show that they are largely untargeted and have little to no correlation with fostering societal spill-overs. The cessation deduction and co-working deduction no longer have any current purpose. Furthermore, these entrepreneurial TEs place significant demands on the Tax Administration, particularly due to the assessment of the hours criterion that entrepreneurs must meet (see box below). With the exception of the SME profit exemption, the implementation costs for these TEs are relatively high.[10] Finally, these schemes contribute to disparities in tax burden among different categories of workers. For some time, reports have recommended phasing out these TEs with a predictable timeline.[11]

[8] The 2025 Spring Memorandum includes a plan to phase out and abolish the co-working and cessation deductions to fund a new tax scheme for employee stock options for start-ups and scale-ups.
[9] *Evaluatie Fiscale ondernemerschapsregelingen*, SEO, 2024.
[10] *The SME profit exemption is not tied to the hours criterion.*
[11] 'In wat voor land willen wij werken?'Final Report of the Commission on Regulation of Work (Borstlap Commission), 2020.

The hours criterion for entrepeneurs

Entrepreneurs must meet an "hours criterion" to qualify for several tax expenditures, such as the self-employment deduction. This criterion requires them to spend at least 1,225 hours annually on one or more businesses. Entrepreneurs must track their time invested, which can be a significant administrative burden. For disabled entrepreneurs, a lower hours threshold applies.

The tax authority's verification of the hours criterion is resource-intensive. Inspectors must rely on paperwork to assess entrepreneurs' actual time spent—a challenging task, especially for part-time entrepreneurs or those entering or leaving entrepreneurship mid-year. While full-time business owners are easier to verify, part-time or intermittent activities involve complex judgment calls. Removing this hours criterion could significantly reduce administrative burdens for both the tax authority and entrepreneurs alike.

Unequal tax treatment creates labor market disruptions

At the inception of the current taxation system (2001), the marginal top tax rates for different worker types (employees, self-employed workers, and directors/major shareholders) were roughly equal, a principle referred to as "global balance" in taxation. However, subsequent policy decisions—often not aligned with this principle—have caused these rates to diverge over time. These differences in tax treatment distort the labor market. They have, for instance, contributed to the exceptionally high increase in the number of freelancers (self-employed without personnel), some of whom are economically comparable to employees. Although steps have been taken in recent years to narrow these disparities, significant gaps remain. According to economic theory, the average tax burden plays a crucial role in entrepreneurs' decisions about business formation and structure. However, calculating average burdens requires numerous assumptions, including those related to insurance against disability, pension contributions, or income division. Directors/major shareholders (DGAs) also have unique opportunities to delay profit distributions or adjust the balance between wages and dividends, adding further complexity to these comparisons. As a result, policymakers analyze the marginal tax burden as the key reference point for maintaining balance across worker categories.

The reduced corporate tax rate lacks clear justification and contributes only marginally to supporting SMEs. This was established during the evaluation of the scheme[12]. Based on the goal of "supporting SMEs," the reduced corporate tax rate has been found to be both limited in effectiveness and inefficient, as approximately 45%-60% of the tax benefit goes to companies outside the target group. Additionally, around 25% of the tax benefit from the reduced rate ends up with the top 1% of wealthiest households. As a result, the reduced corporate tax rate does not contribute to progressive taxation and indirectly exacerbates income and wealth inequality between households.

[12] Evaluatie verlaagd tarief in de vennootschapsbelasting, CPB, 2024.

The reduced motor vehicle tax (MRB) rate for vans owned by entrepreneurs makes owning a van, rather than entrepreneurship itself, fiscally attractive. This follows from the distinction this scheme makes between entrepreneurs and private individuals within the automotive domain. When entrepreneurs choose between a passenger car and a van for their business operations, the reduced MRB rate can become a deciding factor in favor of the van. Currently, 90% of the nearly 1 million vans on Dutch roads are owned by entrepreneurs, with the majority being fossil fuel-powered vans. The evaluation of this scheme advises replacing the reduced MRB rate for vans owned by entrepreneurs with policies that contribute to socially significant entrepreneurial activities without harming the environment.[13]

Policy options

By equalizing the tax burden across all forms of work and focusing on directly incentivizing desirable entrepreneurial activities, tax distortions can be minimized. The existing focus on simply "being" an entrepreneur no longer meets today's needs. It creates disparities in how different categories of workers are treated under the tax system.
All three proposed policy approaches involve reducing the tax burden on labor, introducing a single corporate income tax rate of 24%, phasing out entrepreneurial incentives in the profit domain[14][15], and gradually aligning the vehicle tax (MRB) for delivery vans owned by entrepreneurs with the tax levels applied to individuals. For electric delivery vans, a discount on the MRB will be implemented. Additionally, each policy design reserves funds for more targeted support of entrepreneurs and businesses, although additional elaboration on these will be required.

Abolishing the hours criterion for entrepreneurial tax benefits would substantially reduce complexity for both the entrepreneurs and the tax authority. This proposal aligns with the gradual phasing out of entrepreneurial tax incentives in the profit domain[16]. Entrepreneurs would no longer need to track hours worked in their business, and the time-intensive, laborious manual checks by the tax authority would no longer be necessary.[17]

Reducing the general corporate income tax rate to 24% is beneficial for the Netherlands' fiscal environment. The existing reduced corporate tax bracket lacks justification and effectiveness while incurring societal costs, but lowering the standard corporate tax rate would relieve the tax burden on profit-generating businesses with substantial economic activities. This would, in turn, encourage investments.

A significant reduction in labour taxation is possible. In all three policy directions, a reduction in labour taxes has been proposed. This is achieved partly through lower effective (top) rates in box 1 and partly through reduced premiums for employee insurance schemes. Lowering the tax burden on labour directly or indirectly benefits entrepreneurs and SMEs. Reducing employer contributions (such as the AOF premium[18], both rates) directly lowers labour costs.

[13] Evaluatie bijzondere regelingen MRB en BPM, SEO, *pdf*
[14] The 2025 Spring Memorandum proposes phasing out and abolishing the co-working deduction and cessation deduction to fund new fiscal policies, such as employee stock options for startups and scale-ups.
[15] The SME profit exemption remains in several policy variants and has not been negatively assessed, unlike other entrepreneurial TEs.
[16] The R&D deduction is retained without the hours criterion in these policy directions.
[17] The hours criterion is applied not only in income tax but also in other regulations, such as those related to self-employed assistance. Full or partial abolition of this criterion requires further investigation.
[18] This relates to contributions employers make to the Occupational Disability Fund ('Arbeidsongeschiktheidsfonds')

Additionally, lowering income tax rates positively impacts, among others, SMEs. Lower labour taxation increases the labour supply and exerts downward pressure on (gross) wages. Moreover, entrepreneurs are also workers, so they personally benefit from lower labour taxes. In the three policy directions (illustrative), various possibilities have been outlined regarding the scope and composition of the tax relief on labour.

Discount for electric delivery vans promotes sustainability. A 25% discount on the MRB for electric delivery vans complements the existing CO_2-dependent purchase tax (BPM) reductions and further encourages the transition toward a greener vehicle fleet. This measure aligns with sustainability goals set for the Dutch vehicle market and broader policy. The discount would apply from 2026 through 2029 to synchronize with similar reductions for passenger vehicles, and a horizon clause could be considered when implementing the measure[19].

Assuming a budget-neutral scenario, €300 million in savings becomes available to intensify more targeted reallocations. For instance, funding could support initiatives that enhance access to financing for smaller businesses (e.g., through loan guarantee schemes or small-scale investment support programs). Alternatively, resources may improve incentives for sustainable business practices or R&D, such as expanding deductions through programs like the Energy Investment Allowance (EIA) or Milieu-Investeringaftrek (MIA), which promote green technologies.

There are various options for bringing the (effective) top tax rates for employees and entrepreneurs closer together. The graph below illustrates the (combined) top tax rates for employees, self-employed individuals, and directors/major shareholders (DGAs) in the current system as well as under the three proposed policy directions. These rates are brought closer together compared to the baseline scenario, with different emphases outlined below. In all three policy directions, the top tax rate in Box 1 decreases by 4.7 percentage points, 2.3 percentage points, and 1.5 percentage points, respectively. Table 2 provides the parameters for each policy direction.

[19] Similar to the discount rates for passenger cars, the inclusion of a sunset clause is deemed logical and has been incorporated into the financial estimates for these policy directions.

Figure 3 top rates in baseline and policy directions[20]

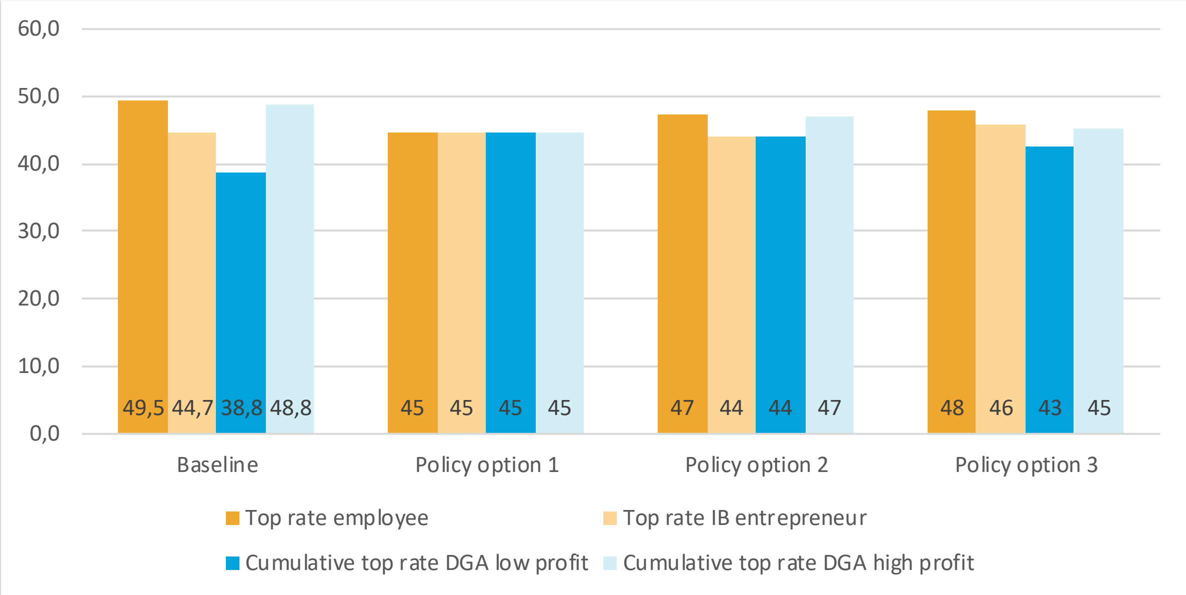


Table 2 parameters policy options

	Baseline	Policy option 1	Policy option 2	Policy option 3
Reduced Corporate Tax Rate (Vpb)	19,0%	24,0%	24,0%	24,0%
Corporate tax rate (Vpb)	25,8%			
Top rate, box 1	49,5	44,8	47,2	48,0
AOF-premium, SMEs	6,41%	6,15%*	6,15%*	6,11%
AOF-premium, Large enterprises	7,52%	7,26%*	7,26%*	7,23%
Box 2 low rate	24,5%	27,3%	26,5%	24,5%
Box 2 high rate	31,0%		30,5%	28,0%
SME profit exemption[21]	12,7%	0,0%	8,2%	6%
Motor vehicle tax (MRB) entrepeneurs' vans	Generic discount	Discount of 25% for EVs	Discount of 25% for EVs	Discount of 25% for EVs
Optional: MRB rate reductions**	-	-12%	-12%	-12%[22]

** The rate reduction increases to -0.26%/-0.3%-points in the structural situation; see Annex 2 for further details and the budgetary effects.*
*** Given the close relationship with the mobility domain, this choice implies that one or more of the other parameters cannot, or can only partially, be reduced.*

Policy Direction 1 assumes a single (combined effective) top tax rate of 44.8% for all workers. This brings the top tax rate for employees, self-employed individuals, and directors/major shareholders (DGAs) to the same level, achieving what is referred to as "global balance." Labor income is taxed uniformly, in line with the recommendation of the Commission for

[20] For directors-major shareholders (DGA), we typically present the combinations of a low corporate tax rate (VPB) + a high box 2 rate and a high VPB rate + a high box 2 rate. In this figure, the low corporate tax rate is combined with the low box 2 rate ("DGA low profit").
[21] The availability exemption (currently 12.0%) is aligned with the SME profit exemption in these scenarios..
[22] Based on the structural revenue generated from abolishing the reduced MRB rate for entrepreneurs' vans.

the Regulation of Work[23]. For DGAs who immediately distribute their profits, the combined tax burden of corporate tax and the harmonized Box 2 rate equals the effective top rate for employees and self-employed individuals. This policy direction therefore simplifies the system and reduces tax-driven decisions and arbitrage. Entrepreneurs, however, retain a distinct status through the deduction of (business-related) costs, and DGAs retain the option of deferring profit distribution and hence postponing Box 2 taxation.

Under this policy, the labor tax burden would be reduced by almost €3 billion, with €2.2 billion coming from lower income tax rates. The figure below illustrates the top tax rates as they emerge under this policy direction, using 2026 as an example. A potential drawback could be a reduced incentive for DGAs to distribute profits, as the current tax difference in Box 2 diminishes and the Box 2 rate rises beyond the current low rate of 24.5%. Additionally, lowering the Box 1 top rate reduces tax progressivity, though this would ultimately depend on the specific design of the reform and its combination with other policy changes.

Figure 4 top rates policy option 1*

* For directors-major shareholders (DGA), we typically present the combinations of a low corporate tax rate (VPB) + a high box 2 rate and a high VPB rate + a high box 2 rate. In this figure, the low corporate tax rate is combined with the low box 2 rate ("DGA low profit").

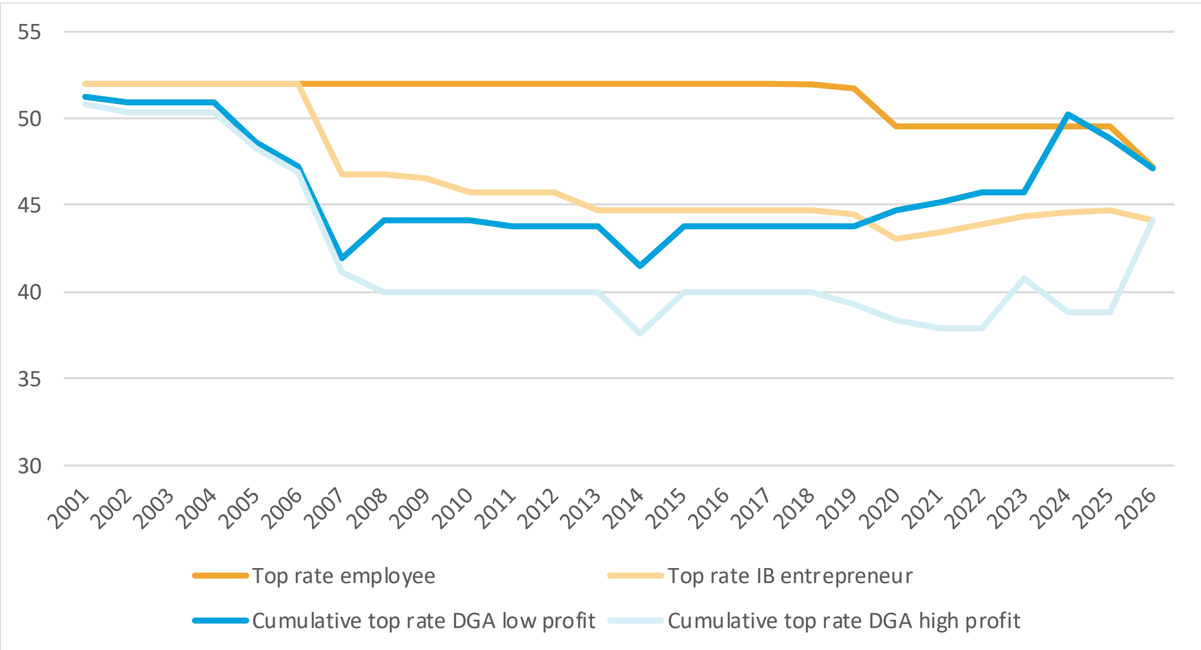
[23] Kamerstukken II, 2019-2020, 29 544 nr. 970

Policy Direction 2 stimulates the distribution of profits in Box 2 and offers a lower tax burden for distributed profits by DGAs up to €70,000 and for profits of self-employed individuals.

In Policy Direction 2, the (combined) top rate for self-employed individuals and distributed profits by DGAs up to approximately €70,000 is set at 44%. By introducing two rates in Box 2, a stimulus is created to distribute a portion of profits annually. This is an advantage compared to Variant 1, but comes at the expense of the uniformity achieved there. The marginal (effective) top tax rate for self-employed individuals is slightly lower than in the current situation. The combined marginal (effective) top tax rate for a DGA with profits up to €70,000 reaches 44%, which is higher than in the current system, thereby equalizing the tax difference between a DGA and a self-employed individual. For higher (distributed) profits, the combined marginal (effective) top tax rate of a DGA is higher than that of a self-employed individual and aligns with the top rate of 47% applied to employees.

The labor tax reduction under this policy direction is slightly smaller, amounting to €1.8 billion, of which €1.1 billion is achieved through income tax reductions. This policy direction also leads to simplification and fewer tax-driven choices, though to a lesser extent than Policy Direction 1. Additionally, certain tax deductions, such as the SME profit exemption, remain in place, continuing to create discrepancies between the top tax rates of entrepreneurs and employees. The top tax rates resulting from this policy direction are depicted in the figure below.

Figure 5 top rates policy option 2*



* For directors-major shareholders (DGA), we typically present the combinations of a low corporate tax rate (VPB) + a high box 2 rate and a high VPB rate + a high box 2 rate. In this figure, the low corporate tax rate is combined with the low box 2 rate ("DGA low profit").

With the third policy direction, all forms of entrepreneurship are taxed (slightly) more favorably than employees. In this variant, the top tax rates for entrepreneurs are slightly lower than those for employees. The global balance improves noticeably compared to the baseline scenario but less so than in Variants 1 and 2. The top tax rates for self-employed individuals and DGAs are roughly equal (both at approximately 45%).
Entrepreneurs have to contend with specific challenges, such as self-arranged pensions and taking on greater risks. The marginally lower tax rate for entrepreneurs compared to employees in this variant reflects a potential political preference to support them in these areas. This option contributes to tax neutrality between business structures by taxing entrepreneurial income in Box 1 and Box 2 more uniformly. At the same time, the preferential lower Box 2 rate is preserved to encourage DGAs to distribute a portion of profits annually.

Figure 6 top rates policy option 3*

* For directors-major shareholders (DGA), we typically present the combinations of a low corporate tax rate (VPB) + a high box 2 rate and a high VPB rate + a high box 2 rate. In this figure, the low corporate tax rate is combined with the low box 2 rate ("DGA low profit").

Higher vehicle taxes on delivery vans used by entrepreneurs could also be reinvested into the mobility domain. For instance, general MRB rates could be reduced, lowering vehicle tax burdens by an estimated 12%. If this approach is chosen, there will be less scope for reductions in employer premiums, income taxes, or corporate taxes[24]. Alternatively, the use of funds saved by abolishing the reduced MRB rate for delivery vans warrants further exploration. For example, the savings could be allocated toward (fiscal) initiatives that promote fleet sustainability.

[24] For example, the structural reduction of employer premiums by -0.26%/-0.3%-points would, in that case, decrease by 0.22%-points.

2.3 Policy options reduced VAT rates

Cluster 2: Reduced VAT rates

Key issues

- Reduced VAT rates have proven **unsuitable** for income redistribution and other policy objectives.
- In practice, reduced rates create **complexity and disputes** over scope and definitions.
- Several policy goals are **poorly substantiated or outdated** (e.g. stimulating employment).

Options for:
7 categories

Budgetary scope:
nearly € 16 billion

Equivalent to almost 1/5e of all VAT revenues and over **€ 1.900 per household**

Reduced VAT rates currently apply to:
- Culture, media, and sports
- Food and water
- Medicines and medical devices
- Horticulture
- Passenger transport
- Campsites and holiday accommodation
- Labour-intensive services (cleaning, insulation and repair works, painting, plastering and wallpapering, hairdressing services)

Policy direction 1
- **Lowering** the general VAT rate from 21% to 18%
- Gradually **increasing** reduced VAT rates to 18%

Policy direction 2
- **Gradual transition** to a single VAT rate of 21%
- **The full proceeds** would be allocated to **reducing** income tax: €16 billion for household tax relief.

Policy direction 3
- **9%** for food and water
- **Alternative** (where available) for passenger transport, repair and insulation works, and culture, media and sports
- **21%** for all other goods and services
- €3 billion earmarked for tax **relief for households**

Samenvatting
- The reduced VAT rate is unfocused in supporting low-income households and, in general, an unsuitable instrument for achieving policy objectives.
- Having multiple VAT rates leads to complexity and increased administrative burdens due to ongoing disputes and discussions regarding their delineation.
- Certain reduced VAT rates are outdated, and for others, alternative policies—such as subsidies—may achieve the same objectives at lower costs.
- Three policy directions are presented: 1) gradually fully standardizing VAT rates to achieve a revenue-neutral rate; 2) Gradually fully standardizing VAT rates at 21%, using the resulting revenues to lower other taxes and 3) partially standardizing VAT rates combined with alternative policy tools.

The reduced VAT rate is an unfocused instrument for reducing the tax burden on low-income households[25]. Reducing the tax burden for low-income groups was the primary objective of introducing the two-tier VAT system. The policy's inefficiency stems from the fact that all income groups—not just low-income households—benefit from the reduced VAT rate. According to

[25] For example, see CD/KIPF (2014), The Distributional Effects of Consumption Taxes in OECD Countries, OECD Tax Policy Studies, No. 22, OECD Publishing, Paris. Raadpleegbaar via https://doi.org/10.1787/9789264224520-en.

a 2023 evaluation of reduced VAT rates, the 50% wealthiest households benefit twice as much from the reduced rates as the 50% least wealthy households[26].

The reduced VAT rate is generally an inefficient tool for achieving other policy goals. In addition to the primary goal, numerous items have been added to the reduced VAT category over time, often tied to different policy objectives. Examples include the reduced VAT rate for passenger transport, intended to promote the use of public transport ("merit goods"[27]), and the reduced VAT rate for labor-intensive services, aimed at supporting employment within those sectors. This broad range of goals has resulted in measures that are frequently poorly articulated, making it difficult to evaluate their effectiveness and efficiency. According to the 2023 evaluation, the reduced VAT rate is likely an inefficient tool for increasing the consumption of merit goods. This inefficiency arises because it is challenging to precisely delineate goods and services that policy aims to promote. Similarly, the reduced VAT rate has proven ineffective in supporting employment in labor-intensive sectors, as the costs incurred to generate a single job often exceed the associated income benefits.

Multiple VAT rates create complexity and frequent disputes regarding their delineation. Court rulings have established that exceptions to the standard VAT rate must be interpreted narrowly. This demands clear and specific delineations of products or services that qualify for reduced rates. At the same time, principles such as tax neutrality and the concept of "composite supplies" complicate the situation. For example, in the case of a magazine subscription subject to a 9% reduced VAT rate but including a welcome gift taxed at 21%, or an obstacle run (9%) accompanied by a branded event shirt (21%), challenges arise in determining whether ancillary components align under the reduced rate. These ambiguities lead to higher administrative and compliance costs for the tax authority, including pre-assessment consultations and disputes through objections and appeals.

VAT Classification of Catheters

Initially, the term "catheter" referred only to urinary catheters. However, over time, its meaning within medical contexts has broadened to include highly specialized surgical devices. This evolution has created ambiguity about whether such products qualify for reduced VAT rates. The Dutch Tax Authority ruled that the reduced VAT rate applies exclusively when the catheter's primary function is transporting fluids, like the original urinary functions. Secondary features, such as temperature monitoring, are permissible under "reduced rate" eligibility provided they are incidental. In contrast, essential additional functions—like cutting or puncturing capabilities—disqualify the product from reduced VAT rates. Thus, multifunctional devices often fall under the standard VAT classification. However, services such as repair and maintenance of catheters are still eligible for reduced VAT rates.

[26] Appendix with Kamerstukken II 2022/2023, 32 140, nr. 151.

[27] Goods or services that the government believes people should consume more of than they would based on their own preferences or market dynamics. This is often because individuals underestimate the benefits or fail to fully consider the positive external effects in their decision-making

When developing policy options, the underlying objectives of the reduced rates must be taken into account. One of the recommendations from the recent evaluation is to critically assess whether the objectives of the reduced VAT rate are still relevant. The first step in this process is to determine whether there is a well-founded rationale for government intervention. For the primary objective, the rationale is well-substantiated, namely reducing the tax burden on lower-income groups and supporting basic necessities. There are also items under the reduced rate with an alternative objective that is well-founded. Consider the reduced VAT rate on insulation work (to promote energy savings) and the reduced VAT rate on passenger transport (to support and encourage public transport).

For a number of reduced rates, the rationale for government intervention is less well-founded. For ornamental horticulture products and labor-intensive services in general, stimulating employment at the lower end of the labor market is not a strong argument for government intervention, given the persistent tightness in the labor market. Additionally, the reduced rate for maintenance work (painting, plastering, wallpapering) was originally introduced to address the housing market crisis a decade ago. This objective no longer aligns well with the current challenges in the housing market. While some objectives may have become outdated, the reduced VAT rate has been a long-standing feature for many sectors, and businesses and citizens have adapted to it. The various policy directions below will elaborate further on this. The table below categorizes the different items under the reduced VAT rate based on their objectives.

Table 3: Three Categories of Objectives for the Reduced VAT Rate

1. Items under the reduced rate aimed at the primary objective: reducing the tax burden on lower-income groups and supporting basic necessities	2. Items under the reduced rate with alternative objectives and well-founded rationale for government intervention	3. Items under the reduced rate with alternative objectives and no or less well-founded rationale for government intervention
Food and water	Insulation work	Painting, plastering, and wallpapering
Medicines and medical devices	Repair work	Cleaning work
	Passenger transport	Hairdressing services
	Cultural goods and services (including sports)	Ornamental horticulture

The policy directions outlined below are based on a modern VAT system with as few exceptions as possible. In a modern system, the principle is a broad tax base with a single rate applicable[28]. An example of this is Denmark, which applies a single VAT rate of 25% to most goods and services. A modern VAT system does not necessarily mean that policies can no longer be implemented within the VAT framework. If the reduced rate remains the best way to achieve a specific objective, it makes sense to retain the reduced rate for that purpose. However, if better alternatives exist or if government intervention is not well-founded, abolition should be considered. Attention must, of course, be given to the effects of raising the VAT rate on the relevant sectors.

[28] In addition to reduced VAT rates, zero rates and exemptions also exist. These exceptions do not or only partially fit into a modern system, but this report focuses on the reduced VAT rate.

In addition to general tax relief, the funds can also be used for complementary policies more targeted at the sectors. The guiding principle here should be that this leads to a more effective use of public resources. The detailed policy options (see Annex 3) further elaborate on the effects per sector and the possibility of complementary policies.

Redistribution can be better achieved outside the VAT, but not everyone will benefit. For lower-income groups, reducing the tax burden can be achieved more effectively outside the VAT framework. One of the recommendations from the 2023 evaluation was therefore to explore alternatives for this primary objective. The CPB had previously conducted simulations on harmonizing VAT rates, with the resulting revenues redistributed in various ways:[29] budget-neutral harmonization; harmonization with the revenues redistributed through lower income tax rates, higher general tax credits, or refundable tax credits.[30] These simulations show that for the median household[31] in each income decile (group of 10%), harmonization has little effect on the tax burden. However, there is significant variation between households within the same income decile due to differing spending patterns. This variation is particularly pronounced in the lower income deciles. Through the various redistribution options, these effects for low-income groups can be partially, but not fully, mitigated—not even with the most far-reaching variant of a refundable tax credit. Furthermore, strengthening (refundable) tax credits also comes with negative side effects, such as increased complexity and higher marginal tax rates. On the other hand, harmonization of the VAT rates would significantly simplify the VAT system as there would no longer be differentiated rates. Additionally, a larger portion of financial support could be directed to those with lower incomes.

Policy options

Table 4: Overview of Policy Directions, Rates, and Complementary Policy Options

Policy Directions	New VAT rate	Complementary policy
1. Budget-neutral harmonization	18% for all goods and services	Harmonization is budget-neutral within the VAT framework. The VAT increase can be implemented incrementally.
2. Harmonization with full redistribution to income tax	21% for all goods and services	The revenue from harmonization is used to reduce the tax burden on citizens. The VAT increase can be implemented incrementally.
3. Partial harmonization with consideration for well-founded policy goals	9% for food and water; Alternative (if available) for passenger transport, repair and insulation work, culture, media, and sports; 21% for all other goods and services	Revenue is allocated to alternative policies where relevant. The remaining revenue is used to reduce the tax burden on citizens.

The first two policy directions are based on full harmonization of VAT rates. This means that a single VAT rate will apply to all goods and services. Redistribution occurs outside the VAT

[29] Effecten van belastinghervormingen op de belastingdruk van verschillende inkomensgroepen | CPB.nl
[30] Each household receives a fixed amount regardless of the taxes they pay
[31] This means that 50% of people have a lower income and 50% have a higher income.

framework, and no other objectives beyond generating fiscal revenue are pursued. Given the impact of such increases, the VAT rate can be gradually raised. In policy direction 1, the revenue from abolishing the reduced rate (approximately €16 billion) is used to lower the standard rate in a budget-neutral manner. The new VAT rate would then be approximately 18%. In scenario 2, the standard rate of 21% is maintained, and the revenue is used to lower income taxes. For example, with the full redistribution of revenue, the first and second income tax brackets could be reduced by 3.38 percentage points—from 35.63% and 37.54% to 32.25% and 34.16%, respectively, by 2026. In both cases, the distinction between VAT rates on different products and services is entirely eliminated, achieving maximum simplification. Furthermore, in both scenarios, the revenues are fully redistributed, partially mitigating income effects (see the previous paragraph). The main difference between the two variants is that, under budget-neutral harmonization, no additional funds remain to compensate for income effects in a targeted way. Finally, for both variants, cross-border effects may arise due to relatively higher product prices in the Netherlands (more so in policy direction 2 because of the higher rate). This is particularly relevant for food products. However, other factors besides VAT often play a significant role in cross-border purchasing decisions.

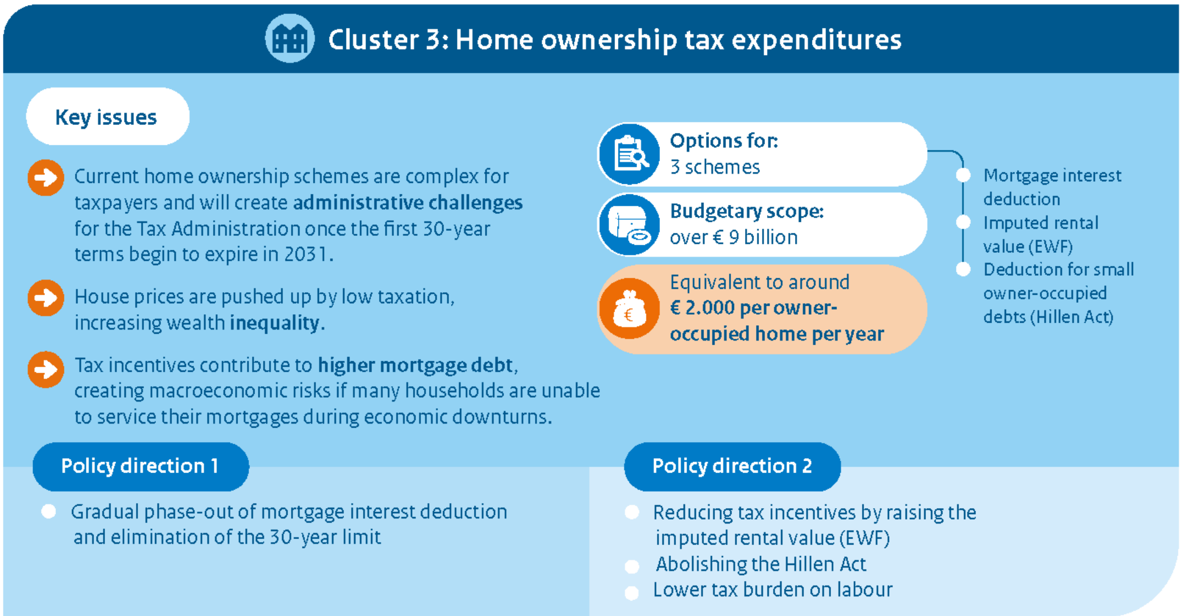
The third policy direction is based on partial harmonization and the use of alternative instruments. One disadvantage of policy directions 1 and 2 is that they do not account for the non-primary policy objectives of the reduced VAT rates. In variant 3, significant steps are taken toward harmonization, and alternative measures are implemented (where available) for items with a well-founded rationale for government intervention (see category 2, Table 3). In this variant, the reduced VAT rate on food is retained in the short term, considering its impact and the imperfections of the current redistribution mechanisms (refer to the text above on redistribution outside the VAT framework)[32]. Adjustments to this rate will be considered as part of a broader tax reform. This could create new and simpler ways of income support that are less income-independent but benefit lower-income groups more effectively.

- The reduced rates on passenger transport, insulation and repair work, and culture, media, and sports have a well-founded rationale for government intervention but add complexity to the system. Furthermore, these schemes are not all equally effective or efficient, or this cannot be established (e.g., in the case of culture). These schemes could, therefore, be replaced by alternative policies (on the expenditure side of the budget). If no better alternative is available, the reduced VAT rate may be retained (temporarily).
- For the reduced rate on labor-intensive services[33], ornamental horticulture, and camping facilities, there is no well-founded rationale for the reduced VAT rate in the current context. Therefore, the revenues generated by increasing the VAT rate are generally redistributed through lower income taxes (lower taxes on labor). Where necessary, more targeted complementary policies may be implemented, such as allocating funds within the housing domain or tailored measures for low-income groups.
- For certain VAT measures, a higher VAT rate results in increased public expenditures, reducing the revenue that can be ‘freely’ allocated. This applies, for example, to the VAT on medicines and medical devices, where a VAT increase leads to higher healthcare expenditures.
- For the reduced VAT rate on medicines and medical devices, a large part of the cost increase from a VAT hike is offset through healthcare premiums and allowances. However,

[32] This argument also partially applies to medicines and medical devices; however, a large part of the cost increases are offset through premiums and subsidies. Even so, not everyone will be fully compensated.
[33] Generally speaking, there are good reasons for government intervention for insulation and repair work.

abolishing this reduced rate still leads to higher costs for individuals who pay for many medicines and medical devices out of pocket, and it remains the case that not everyone will be fully compensated.

2.4 Policy options owner-occupied housing schemes



Summary

- The owner-occupied housing scheme – mortgage interest deduction and imputed rental income – is difficult to follow and places excessive demands on individuals' practical ability. It also leads to implementation challenges and unintended side effects, such as excessive debt accumulation, greater wealth inequality between homeowners and renters, and distortions in housing choices.
- Gradual adjustment of the owner-occupied housing scheme can alleviate these issues and provides the opportunity for alternative use of funds, for instance, to enable significant reductions in labour taxes.
- Options for this include a step-by-step increase in the imputed rental income and a gradual phasing out of the mortgage interest deduction.
- Removing the 30-year term requirement is a possibility to reduce complexity in enforcement, but it also has drawbacks in the form of (temporary) budgetary losses and an additional financial benefit for the group that has already benefited the most from the mortgage interest deduction (HRA).

The owner-occupied housing scheme consists of the mortgage interest deduction (HRA) and the imputed rental income (EWF)[34]. The interest paid on the mortgage of an owner-occupied home can, under certain conditions, be deducted from the aggregate income, reducing the household's tax burden. The EWF is added to the aggregate income. Currently, the EWF is so

[34] In addition to the HRA and the EWF, the owner-occupied housing scheme also includes several sub-arrangements, such as the 30-year term, the fiscal repayment requirement, and the carryover rule.

low that the extra tax burden from the EWF does not proportionally offset the benefit of using the owner-occupied home, nor the mortgage interest deduction, resulting in a net fiscal subsidization.

The owner-occupied housing scheme contributes little to homeownership but results in significant tax revenue loss. In 2019, SEO[35] evaluated the owner-occupied housing scheme. Their findings indicate that the scheme drives up house prices and therefore barely contributes to increasing homeownership. Additionally, the promotion of the owner-occupied market leads to a shrinking rental market, disproportionately affecting lower and middle-income households. Beyond its limited effectiveness, the scheme has also been found to lack efficiency, as it achieves its objectives only to a limited extent relative to its substantial budgetary cost. Moreover, it generates unintended side effects, such as increased debt accumulation. Finally, the advantages of the scheme disproportionately benefit higher-income households, giving the scheme a regressive character, in contrast to the income tax system. A prior analysis by the CPB demonstrates that abolishing the owner-occupied housing scheme would, in the long term, increase overall welfare by reducing economic distortions[36].

The owner-occupied housing scheme is a complex arrangement that places excessive demands on people's practical ability.[37] The scheme is challenging to navigate because taxpayers must maintain an overview of all individual parts of their mortgage. While it may still be realistic to expect this from a taxpayer who has purchased one house in their lifetime and has lived there continuously, the situation becomes highly complex when houses are sold, new homes are purchased, people begin cohabiting, or a divorce is finalized. In such cases, determining which portion of the mortgage interest remains deductible quickly becomes exceedingly complicated. Moreover, it is likely that many people whose 30-year term expires are unaware of this or of what it means for them. The Tax Administration’s website is frequently visited for information on the owner-occupied housing scheme, and the tax helpline receives a large volume of inquiries on the topic as well. This complexity leads to detailed questioning in the tax return, with certain information being unavailable for pre-filling by the Tax Administration. As a result, taxpayers often feel uncertain about the accuracy of their tax returns, increasing the risk of errors (due to lack of knowledge or misunderstanding). The complexity is further exacerbated by the requirement for information about a taxpayer's housing history. For tax advisors, it is often impossible to gather all the required information, and taxpayers themselves are often only partially able to provide it.[38]

The feasibility for the Tax Administration also constitutes a point of concern. The 2019[39] evaluation shows that the various sub-arrangements primarily cause complexity for both the Tax Administration and taxpayers. This applies to the carryover rule, the tax repayment requirement, and the 30-year term.[40] he Tax Administration receives signals about this via the tax helpline and from tax advisors. One specific arrangement is highlighted here: the 30-year term provision.

[35] 2019-61-Evaluatie-doeltreffendheid-en-doelmatigheid-eigenwoningregeling.pdf (seo.nl)
[36] cpb-notitie-ex-post-effecten-woningmarktmaatregelen-.pdf
[37] Stand van de uitvoering 2022, Belastingdienst.
[38] In the annual "Stand van de uitvoering" reports submitted to Parliament by the Tax Administration, the owner-occupied housing scheme is consistently highlighted as an area where complexity signals are received.
[39] blg-916177.pdf (officielebekendmakingen.nl)
[40] The issues concerning these three sub-arrangements are detailed in the official report “Belastingen in een maatschappelijk perspectief.”

30-Year Term for Mortgage Interest Deduction
Under this provision, which has been in effect since 2001, mortgage interest may be deducted from aggregate income for no more than 30 years. However, the Tax Administration does not possess the necessary counter-information to enforce the 30-year term after 2031, and taxpayers likewise often no longer have access to this information. The complexity of this provision arises due to high administrative burdens for citizens and the lack of counter-information, making enforcement unfeasible. This means that compliance with the regulation is either very difficult or nearly impossible for taxpayers, resulting in significant administrative burdens, particularly when multiple changes in the mortgage or life situation occur within the 30-year period. For the Tax Administration, the absence of counter-information impedes effective oversight, leading to associated risks in enforcement.

The current level of the imputed rental value (EWF) is outdated, leading to increased fiscal subsidization. The EWF was originally determined based on the gross rental value corrected for (presumptively calculated) deductions to arrive at a net rental value. The justification for this calculation was last updated in 1997, as noted in the General Court of Audit's 2019 report[41]. Although the EWF has since been periodically adjusted via an adjustment mechanism, the original rationale has been abandoned. Furthermore, the EWF was intentionally reduced from 2020 to 2022 as part of policy decisions. As a result, the current level of the EWF has become more arbitrary in nature and is significantly lower compared to the original rate. This creates both potential and justification for an increase. At the same time, attention must be given to the Hillen Act. This provision[42] reduces the tax burden on the EWF for homeowners with (almost) fully repaid mortgages if the mortgage interest deduction is lower than the EWF. The Hillen Act has been gradually phased out since 2019 and will be abolished completely by 2048, but until then it continues to contribute to the tax subsidization of owner-occupied housing.

Adjustments to the owner-occupied housing scheme should be implemented gradually. A drastic adjustment to the scheme could cause a shock to housing prices, leading to undesirable side effects. Therefore, a sudden and significant change is not recommended. By introducing a gradual reduction, house price increases can be mitigated, and households will have the opportunity to adapt to the new situation over time, thereby avoiding significant income shocks.

Policy options

To reduce fiscal subsidization of owner-occupied housing, it is prudent to scale back the owner-occupied housing scheme. This would slow the increase in borrowing capacity for households, ultimately dampening house price growth in the long term and reducing (wealth) inequality. This can be achieved in two ways: phasing out the mortgage interest deduction or increasing the imputed rental value (EWF).

The mortgage interest deduction can be fully phased out over a period of 20 years. This

[41] Forfaits in het belastingstelsel | Rapport | Algemene Rekenkamer
[42] This provision is being phased out over 30 years starting January 1, 2019. The deduction will be fully abolished by January 1, 2048.

would result in a smaller portion of interest expenses being deducted from aggregate income, thereby decreasing borrowing capacity. However, a disadvantage of this approach is that it primarily reduces fiscal subsidization for households with relatively high interest expenses, including first-time buyers, while having no effect on wealthier households with fully paid-off mortgages[43]. The table below outlines a potential phase-out schedule. Since this constitutes a structural change to the Tax Administration's systems, implementation would only be feasible after the current cabinet term. Annex 3 of this report provides a more detailed policy option on this issue.

Table 5 Example of a Phase-Out Schedule for Mortgage Interest Deduction

	Jaar 1	Jaar 2	Jaar 3	Jaar 4	struc[44]
Interest deductibility	95%	90%	85%	80%	0%

Increasing the imputed rental value (EWF) leads to fewer undesirable side effects. Another option is to raise the EWF by, for example, 0.4 percentage points. This approach does not result in the same undesirable side effects as phasing out the mortgage interest deduction. For instance, the impact on homeowners with high property values (WOZ) would be proportional to that on households with low property values. Consequently, at an equivalent budgetary effect, the impact on first-time buyers would be less severe compared to limiting the mortgage interest deduction. An additional benefit is that this option does not incentivize shifting owner-occupied housing debt to box 3. However, it does make the eventual policy step of moving both owner-occupied homes and mortgages to box 3 simpler and more feasible. This policy direction, however, does not address the complexity of the owner-occupied housing scheme. Considering the potential negative effects on housing prices and thereby on homeowners, it would be logical to implement an EWF increase gradually, for instance in four increments of 0.1 percentage points. The table below provides an example for this approach.

A faster phase-out of the Hillen Act results in more evenly distributed effects of increasing the EWF. Currently, the Hillen Act is being phased out over 30 years. Accelerating this phase-out would more quickly reduce the fiscal subsidization of owner-occupied housing. It would also decrease the complexity of the owner-occupied housing scheme, as it would eliminate an exception for a specific group.

Table 6 Example of Imputed Rental Value (EWF) Increase

	2026	2027	2028	2029	struc
Expected EWF Baseline	0,3%	0,3%	0,3%	0,3%	0,3%
Change relative to baseline	+0,1pp	+0,2pp	+0,3pp	+0,4pp	+0,4pp
New EWF	0,4%	0,5%	0,6%	0,7%	0,7%

A less extensive owner-occupied housing scheme allows for redistribution via a

[43] Additionally, there is a risk that wealthy households might adjust their mortgage terms such that the debt no longer qualifies for box 1 deduction but instead falls under box 3, where interest deduction can still be applied.
[44] Assumes a 20-year phase-out with equal steps of 5%.

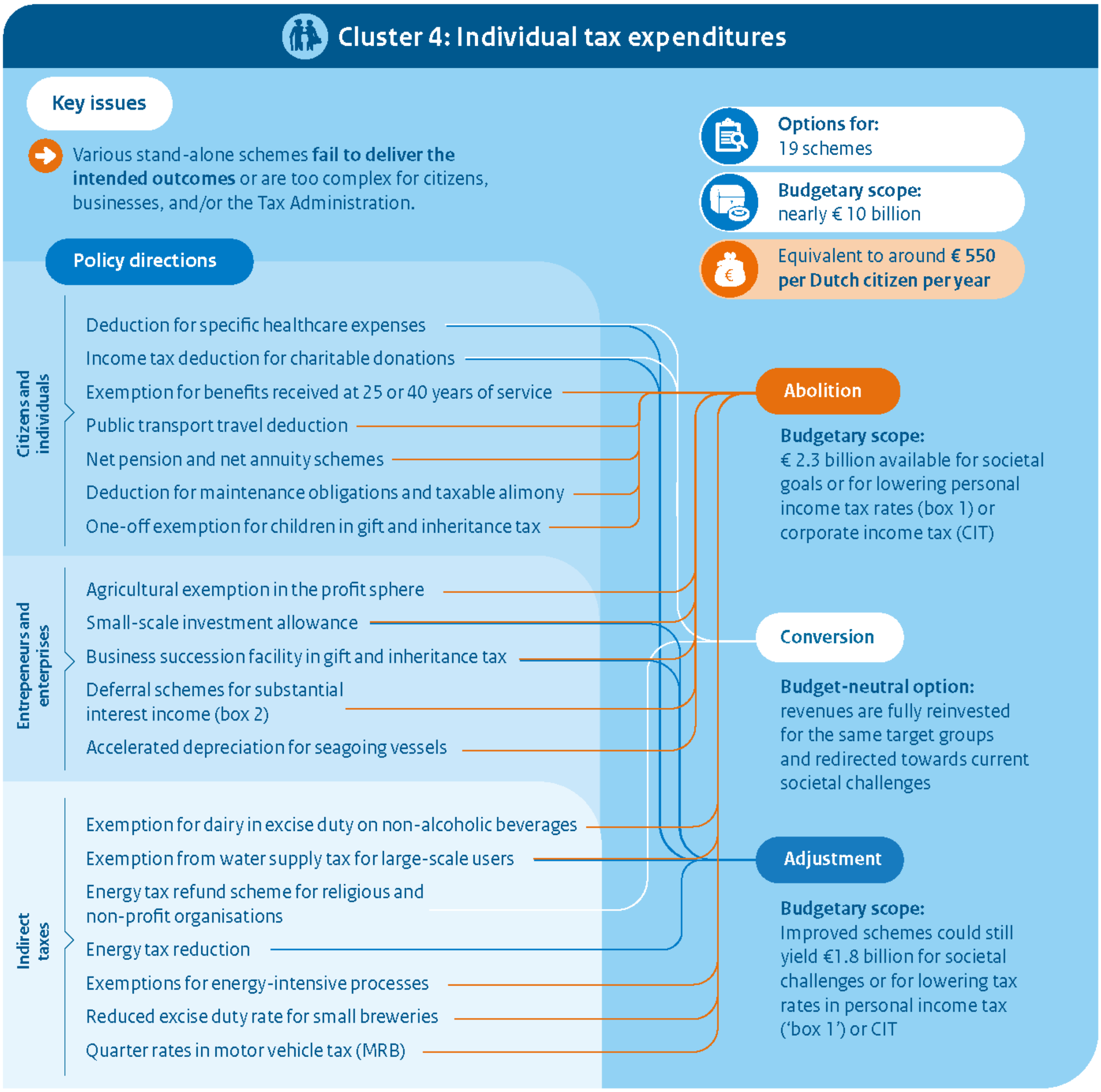
reduction in labour taxes. It makes sense to implement a redistribution in a general way, providing tax relief to both homeowners and non-homeowners. This would help narrow the gap between homeowners and renters. Analysis indicates that the income effects of increasing the EWF combined with a general redistribution through a reduction in the first and second income tax brackets are limited to 0.1% for the median household.[45] Underlying this is an income redistribution from homeowners to renters.

Eliminating the 30-year term is an option to reduce complexity in enforcement. From 2031 onward, the 30-year term will need to be enforced by the Tax Administration to prevent households that have already benefited from the mortgage interest deduction for 30 years from continuing to claim it. However, enforcing the 30-year term is likely to be challenging, which is why eliminating this requirement could be considered. In this case, a revenue loss would occur during the 2031–2042 period because households with interest-only mortgages would still benefit from the mortgage interest deduction beyond the 30-year limit. This loss would not be structural, as the fiscal repayment requirement introduced in 2013 mandates that new mortgages must be repaid within 30 years in order to qualify for the mortgage interest deduction. Consequently, by 2043, all interest-only mortgages would no longer qualify for the deduction.

In addition to the significant budgetary loss of eliminating the 30-year term, several negative side effects should be considered. Removing the 30-year term provides a financial advantage to households with interest-only mortgages under the transitional regime. These households would temporarily be able to deduct more interest than they would under the 30-year term. Typically, this group has already benefited the most from the mortgage interest deduction. The main disadvantage of abolishing the 30-year term is that it temporarily removes the fiscal incentive for households with interest-only mortgages — some of whom have excessive debts — to repay their loans. For this reason, further research into addressing the challenges of the 30-year term is planned for 2025.

[45] See fiche E01 in the official report “Belastingen in maatschappelijk perspectief”.

2.5 Policy options individual tax expenditures



Summary

- For certain tax expenditures (TEs) discussed in this report, no integrated approach has been chosen; however, adjustments to individual TEs are equally important.
- Adjustments to individual TEs can contribute to a simpler system for taxpayers and administrators. In some cases, the societal goals of the current TEs can be better achieved, while for others, outdated objectives can free up resources for addressing more pressing societal challenges.

In addition to the integrated approach applied to the previous clusters, attention must also be given to the individual tax expenditures (TEs) that require adjustment, reform, or abolishment. Many of the TEs discussed in this section are outdated, overly complex, or fail to achieve their stated objectives. Often, these schemes are subject to significant discussion in both public and political debates. However, maintaining these underperforming schemes comes at a high societal cost. Table 7 provides an overview of the policy options developed for these TEs. The options are divided into three categories: phasing out and eliminating a scheme, adjusting the scheme to improve or optimize its efficiency, and transforming the scheme into another instrument. Below the table, each scheme's policy options and rationale are explained in further detail.

Not all tax expenditures are suited for the same type of reform. The type of measure proposed depends on the scheme's evaluation and whether it leads to simplification or better-targeted policy objectives. For example, while the deduction for specific healthcare costs is inefficient and complex, eliminating it without a substitute would undermine its important societal purpose. For this reason, adjustments within the scheme are outlined, as well as possible transitions to alternative non-fiscal instruments. Contrarily, for TEs like the exemption for 25- and 40-year work anniversaries, adjusting or replacing the measure is unnecessary as there is no remaining rationale for its existence, making elimination the most logical solution.

A significant portion of the policy options focus on phasing out and abolishing TEs in exchange for tax relief for citizens and businesses. In particular, several TEs are both complex to administer and burdensome for taxpayers while being limited in effectiveness or efficiency, such as the agricultural exemption, the business succession facility (BOR), the service years exemption, and the public transport commuter deduction. Abolishing these and other TEs would result in substantial simplification and a more efficient system. The budgetary savings of nearly €2.3 billion could, for example, be used to reduce the tax burden on citizens and businesses. Where relevant, these funds could also be allocated to more targeted complementary policies. For some TEs, beyond abolishment, an adjustment is also possible to make them simpler or less generous, as with the BOR or the small-scale investment allowance (KIA). Such adjustments would also contribute to improved efficiency and simplicity, albeit to a lesser extent than abolishment.

Transforming certain TEs could lead to substantial simplification, but comes with challenges. This concerns the charitable donation deduction, the deduction for specific healthcare costs, and the energy tax refund scheme for religious and non-profit institutions. These TEs are particularly complex for taxpayers and/or the Tax Administration. At the same time, abolishing these schemes without alternatives is not a logical option. For these TEs, alternatives outside the tax system have therefore been explored. One of the challenges is ensuring that the original objectives are adequately achieved under the new design. These policy options generally require further elaboration (see also Annex 3), but they offer prospects for potentially better ways to reach target groups, reduce complexity, and improve the allocation of tax resources.

Specific Healthcare Costs

In addition to the provisions covered by the healthcare system, the tax code also provides an option to deduct certain out-of-pocket healthcare expenses. This measure aims to support individuals with high healthcare costs, but it is poorly aligned with the mass-scale nature of income taxation. Taxpayers must provide detailed documentation (e.g., invoices and receipts), which creates administrative burdens. No pre-registered data is available for these deductions, and thus taxpayers must manually provide information that cannot be pre-filled in tax returns. The complexity of this scheme makes accurate filings by taxpayers difficult. Evaluations have shown that 39% of claimed health expense deductions had to be corrected by the Tax Authority upon review. These deductions often lead to time-consuming disputes with taxpayers, many of which are emotionally charged due to the personal nature of healthcare costs. Furthermore, corrections typically involve relatively small amounts, yet require significant effort to process.

Table 1 Overview policy options

Scheme	Abolish	Adjust	Reform
1. Citizens/Individuals			
Deduction for specific healthcare costs		√	√
Gift deduction in income tax		√	√
Exemption for 25- or 40-year service anniversary payout	√		
Public transport commuter deduction	√		
Net pension and net annuity	√		
Deduction for maintenance obligations and taxable alimony	√		
Gift and inheritance tax One-off exemption for children	√		
2. Entrepeneurs and enterprises			
Agricultural exemption in the profit sphere	√		
Small-scale investment allowance	√	√	
Gift and inheritance tax Business succession facility	√	√	
Deferral schemes for substantial interest income in box 2	√		
Random depreciation of sea-going vessels	√		
3. Indirect taxes			
Non-alcoholic beverages tax exemption for dairy[46]	√		
Tap water tax exemption for large users1[47]	√	√	
Energy tax refund for religious and non-profit institutions			√
Energy tax reduction per connection		√	
Energy tax exemptions for energy-intensive processes	√		
Reduced excise duty rate for small breweries	√		
MRB Quarter rates	√		

[46] Proposed anti-avoidance measure to prevent misuse of the dairy exemption by adding a "hint of dairy" in Spring Memorandum 2025.
[47] Proposal included in Spring Memorandum 2025 to phase out and abolish the large consumer water tax ceiling by 2026.

Budgetary impact of measures	€ 2,3 billion	€ 1,8 billion	Budget neutral

Policy options

Deduction for Specific Healthcare Costs
The 2022 evaluation of the specific healthcare cost deduction shows substantial incorrect use of the scheme, with an estimated 39% of reported healthcare costs being inaccurately claimed, as explained in the box on the previous page. Additionally, for more than a quarter of individuals, the healthcare costs do not stem from a chronic illness or disability, and for another quarter, only partially. While this does not fall under incorrect usage, it indicates that the specific healthcare cost deduction is used broadly. There are also various elements within the scheme that increase deductible costs without adequate (current) justification.

Two potential policy directions have been identified. The first involves making the current scheme more targeted by reconsidering eligible expense categories, adjusting thresholds for certain groups, and/or modifying multiplication factors. The second policy direction proposes reallocating the funds from the scheme to municipalities, following the recommendations of the evaluation.[48]

Gift deduction in income tax
The deduction for charitable donations in personal and corporate income taxes was evaluated in 2024. The evaluation concluded that although the deduction encourages donations, the increase in charitable giving is less than the cost of the tax subsidies, making the policy inefficient. Additionally, enforcement is a challenge for the Tax Authority. Taxpayers often do not distinguish between occasional and recurring donations, which results in frequent submission errors. The lack of counter-information necessitates manual audits by the Tax Authority, but only a fraction of errors are addressed. Several measures to simplify the deduction have been proposed, including:

- Treating occasional and recurring donations uniformly,
- Raising the minimum donation threshold,
- Lowering the maximum deduction limit,
- Abolishing the cultural multiplier, and
- Eliminating deductions for donations to supporting foundations for small community-based initiatives (SBBIs).

Alternatively, the deduction may be replaced by a "giving subsidy," where donations are partially matched by the government. Though promising, this option requires further elaboration due to potential complexities.

Exemption for payouts for 25- or 40-year employment anniversary
Employees who receive a one-time gift or benefit upon reaching 25 or 40 years of service are currently exempt from payroll tax. This exemption is increasingly outdated in today's labor market, which encourages career mobility over long-term tenure within a single organization. Eliminating this exemption would enhance fairness, as workers in flexible contracts are excluded from this

[48] The VNG (Association of Netherlands Municipalities), in collaboration with municipalities, conducted an initial general implementation scan of municipal policy options and has been highly critical of it.

benefit. Revenue savings from the elimination could be redistributed via reductions in income taxes.

Public transport commuter deduction

The public transport deduction (reisaftrek OV) allows employees who commute via public transport to claim a fixed deduction if not reimbursed by their employer. The deduction's financial incentive for using public transport is negligible, as the net benefit is too low relative to commuting costs. Furthermore, many employees do not claim the reimbursement yet still choose other modes of transport. While the deduction applies to a small group, primarily lower-income workers, its implementation imposes significant administrative burdens. The Tax Authority must verify eligibility based on various conditions and variables, which further complicates enforcement. Eliminating the deduction could simplify the tax code. Savings could be redistributed broadly via generic relief or directed toward public transport subsidies through the Ministry of Infrastructure and Water Management.

Net Pension and Net Annuity

Through two exemptions in Box 3 of the income tax system, individuals with incomes exceeding the pensionable salary cap (€137,800 in 2025) can establish additional tax-advantaged savings via a net pension or a net annuity. An evaluation of the Box 3 exemption for net plans found that, for the majority of the target group, the exemption has been effective and is considered sufficiently efficient. However, eliminating this exemption would simplify the legal framework and ease implementation for the Tax Authority and pension administrators.

Deduction for maintenance obligations and taxable alimony

Payments made under an alimony agreement are directly derived from family law and are deductible up to a certain amount and at a specific rate (like any other deductible item) in the personal income tax system. For the recipient, alimony payments constitute taxable income and must be reported in their income tax return. A recent evaluation revealed that these arrangements are overly complicated for both taxpayers and the Tax Authority.
Treating partner alimony in the same way as child alimony by removing its fiscal treatment ("de-fiscalization") could simplify the system. However, this approach would conflict with the principle of ability to pay, as the alimony would no longer impact income-dependent arrangements like social benefits or allowances for either the payer or recipient.

Gift and Inheritance Tax: One-Off Exemptions for Children and Expensive Studies

The one-time increased gift exemption for any purpose (€32,195 in 2025) can be used by children between the ages of 18 and 40, provided they have not previously utilized another increased exemption. Likewise, the one-time increased exemption for funding expensive studies (€67,064 in 2025) requires that the study costs exceed €20,000 annually and that the gift is formalized in a notarial deed.
A recent evaluation found that these exemptions are not necessary and that only about a quarter of the gifts align with their intended purpose, namely financially supporting children during significant life events. Consequently, abolishment of these exemptions has been further elaborated.

Agricultural exemption in the profit sphere

The agricultural exemption was originally introduced to ensure a level fiscal playing field between farmer-entrepreneurs who owned land and private individuals who leased agricultural land. However, with the introduction of the 2001 Income Tax Act, this rationale no longer applies, as private individuals were made subject to fixed-rate taxation on agricultural land value appreciation. A 2024 evaluation[49] concluded that the agricultural exemption is neither effective nor efficient, and it cannot be justified based on achieving (potentially desirable) side effects. In the event of abolition, transitional measures will ensure that the consequences apply only to value changes from the date of abolition onward. These tax effects will ultimately be realized when the land is sold or withdrawn for private use. A more generic fiscal reallocation of these resources is logical. Alternatively, the funds could be directed toward nature, climate, or water-related objectives within the agricultural sector.

Small-Scale Investment Tax deduction (KIA)

The KIA is intended to encourage investments in qualifying business assets, particularly for SMEs (small and medium-sized enterprises). It provides an additional deduction from taxable profit for entrepreneurs in the income tax system and for taxpayers under corporate tax obligations. However, the criteria and thresholds for KIA eligibility can result in deferred investment decisions. A 2017 evaluation concluded that it is unclear whether specific investments were directly motivated by the KIA or whether such investments would have been made regardless of its existence. Due to a lack of data, the effectiveness of the KIA could not be definitively established. Additionally, questions remain as to whether the credit sufficiently meets its goal of supporting relatively small-scale investments via the deduction.

Proposed measures focus on adjustments to the eligibility thresholds, modifications to the phasing-out structure, and a gradual reduction or eventual elimination of the KIA. This would likely be combined with enhancements to other investment incentive schemes.

Business Succession facility (BOR)[50]

The 2022 evaluation of the Business Succession Scheme (BOR) by the CPB concluded that, while effective in facilitating the continuity of businesses (ensuring that inheritance and gift tax do not hinder transfers), the scheme is inefficient. The evaluation revealed that in 75% of cases, heirs or beneficiaries could have paid the inheritance or gift tax using freely available private assets without relying on the BOR. For the remaining 25%, providing more flexible payment options would have sufficed to maintain continuity.

Additionally, the BOR contributes to wealth inequality within the next generation. Business assets are disproportionately held by households with the greatest wealth, and inheritances or gifts benefiting from the BOR tend to involve high-value transactions. The advantages of the scheme often flow to families that are already relatively well-off.

More tailored adjustments to the BOR have been proposed in recent years, but not all recommended changes have been implemented. The appendix of this report outlines two primary proposals:

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[49] Evaluatie landbouwvrijstelling - Rapport SEO | Rapport | Rijksoverheid.nl

[50] The business succession facility (BOR) is not part of the cluster for entrepreneurs and enterprises because it pertains to a transfer of wealth.

a) Implementing a uniform exemption rate of, for example, 25%.
b) Maintaining a 100% exemption on the first €1.5 million of business assets while reducing the 75% exemption rate on amounts exceeding this threshold to, for instance, 25%.
Lowering the ongoing concern value exemption to a uniform rate of 25% would significantly enhance the scheme's efficiency. At the same time, this adjustment would simplify enforcement of the BOR by the Tax Authority. Redirecting the freed-up fiscal resources back into the business ecosystem—through mechanisms such as corporate tax reductions—offers an additional consideration.

Deferred Taxation for Substantial Interest Shares (Box 2)
The Deferred Taxation Scheme (DSR) for substantial interest shares in Box 2 allows, under specific conditions, for the deferment of income tax on gains realized from the transfer of a business. In 2022, the CPB concluded that the deferred taxation schemes in both the income tax profit context (IB) and Box 2 context are effective in ensuring business continuity by preventing the imposition of income tax liabilities that could threaten the transfer. However, due to a lack of data, it could not be determined in how many cases the deferred taxation schemes were strictly necessary for maintaining continuity. Abolishing the deferment facilities related to business transfers ensures that indefinite postponement of income tax liability in Box 2 is no longer possible, as the tax liability is settled at the time of transfer.

Random depreciation on Seagoing Vessels
The arbitrary depreciation scheme for seagoing vessels allows for accelerated or discretionary depreciation under the income tax and corporate tax systems, provided the tonnage tax regime is not used. However, an evaluation found that this measure is neither effective nor efficient, largely due to its limited use. As such, the proposal involves abolishing this scheme altogether.

Exemption for Dairy and Soy Drinks in the Excise Tax on Non-Alcoholic Beverages
Currently, dairy and soy drinks are exempt from the excise tax on non-alcoholic beverages. However, from a sustainability perspective, this exemption is illogical. It is also deemed unnecessary from a health standpoint and creates an uneven playing field compared to other beverages. Removing this exemption simplifies enforcement processes and achieves a more level playing field, making this measure a prioritized area for reform

Exemption from Tap Water Tax (BoL) for large users
Within the tap water tax, there is a cap of 300 cubic meters of tap water per connection per year. No tap water tax (BoL) is owed on consumption above this threshold. This cap was originally introduced to ensure that the tap water tax primarily applied to households. By increasing the consumption cap, the BoL would better align with the principle of 'the user pays,' by also including tap water consumption exceeding 300 cubic meters per year in the BoL. At the same time, this measure only results in a limited reduction in tap water usage.

Energy Tax Refund Scheme for Religious and Non-Profit Institutions
Certain institutions may qualify for a refund of part of the energy tax. The refund scheme for religious and non-profit institutions is a labor-intensive arrangement for the Tax Administration. Annually, the Tax Administration receives approximately 30,000 refund requests, most of which are processed manually. Consequently, alternatives have been explored, with the elaboration of these alternatives provided in Annex 3.

Energy tax reduction per connection
The energy tax is reduced by a fixed annual amount per electricity connection with a residential function, regardless of consumption (524.95 euros in 2025 and 529.10 euros in 2026, excluding VAT). The reduction has been evaluated as having limited efficiency. The reduction partially benefits non-households, and for some households, the energy tax paid is relatively low, occasionally even lower than the reduction itself. Two policy options have been developed: focusing the reduction specifically on households and lowering the amount of the reduction.

Exemptions from Energy Tax for Energy-Intensive Processes
The energy tax includes several exemptions for the metallurgical and mineralogical industries. The evaluation of this arrangement in 2020 indicated that it is effective but of limited efficiency. The arrangement provides a weaker incentive for sustainability. The proposed measure is to abolish these exemptions by 2030, with the exception of the exemption for the use of electricity in electrolytic processes for hydrogen production.

Reduced Excise Duty Rate for Small Breweries
The Excise Duty Act provides small breweries (with production up to 200,000 hectoliters of beer per calendar year) the option to apply a reduced excise duty rate to their beer. An evaluation completed in 2008 concluded that differences in beer sales prices are hardly dependent on whether or not the small breweries discount is applied, and that there is no logical basis for a lower rate. The proposed measure is to abolish the possibility of applying the reduced rate. For example, on a glass of beer of 250 ml with 7% alcohol, 1 cent more excise duty would then need to be paid.

3. Next steps: together towards improvement

Summary

- The report outlines several directions for a simpler tax system and improved policies. Both taxpayers and the Tax Administration can benefit from simplifications.
- Additionally, the resources associated with negatively evaluated tax expenditures could often be deployed more effectively. When considering alternative policies, attention has been explicitly paid to the reallocation of resources, such as through lower tax rates, alternative uses of resources, and complementary policies.
- Broad support is a critical success factor in implementing major adjustments to the tax system. Though the societal benefits of the proposed policy directions are significant, specific groups that currently benefit from tax advantages may face losses. For this reason, it is crucial to involve stakeholders in further developing the proposed policy directions.

Broad support is a critical success factor in implementing major adjustments to the tax system[51]. A joint approach can enhance success in the next steps by involving stakeholders closely in the further development of policy options yet to be selected. In practice, this can be challenging, as not every tax scheme has a representative advocacy group, or there may be numerous different interest groups. Nonetheless, investing in a collaborative approach and the development of policy options is essential, as broad support is one of the decisive elements in the success of a change process[52]. Such an approach also allows for better insight into potential risks, impacts, and implementation aspects affecting citizens and businesses. This report provides a solid foundation for such efforts.

Stakeholdermeeting

Tax expenditures affect all citizens and businesses. Therefore, at the start of this report, a meeting was held with several stakeholders and experts. The purpose of this meeting was to involve relevant parties at an early stage and exchange ideas. The box below provides a brief impression of this meeting. Naturally, the group of stakeholders that could be involved is much larger. In follow-up steps, more targeted efforts can be made where possible, potentially using a phased approach. Preliminary work could also be done through an administrative process. Ultimately, the choice to advance specific policy directions within society remains a political decision.

[51] Lejour, A. (2016). De politieke economie van belastinghervormingen. CPB Policy Brief 2016/08.
[52] *The literature refers to the Knoster Model*

Impressions from the Stakeholder Session on the Approach to Tax expenditures

Support for simplification
The session demonstrated broad support for steps to simplify the tax system. At the same time, many participants emphasized the importance of an integrated approach and/or a long-term revision of the tax system.

Consider fiscal coherence
It was noted that it is illogical to view certain tax expenditures (TEs) in isolation from the design of the primary system, the chosen base, and the rate against which a scheme is assessed. TEs now encompass more than with the former definition 'belastinguitgaven'; nearly all reduced rates, exemptions, exceptions, and flat-rate rules are part of this. According to participants, these are in many cases (inextricably) intertwined with the structural design choices of the primary system.

Ensure objectivity and attention to societal aspects
When weighing TEs, participants requested an objective methodology and clear explanation of criteria to avoid arbitrariness.
Evaluations were recognized as highly valuable. They help align the facts and serve as input for political debates. However, some expressed concerns about the frequency of evaluations (too high) and the inclusion of (qualitative) societal aspects.

Pay attention to policy coherence and sector implementation aspects
Participants acknowledged the added value of clustering TEs, particularly based on policy themes. Several participants noted that a clear policy vision should come first, followed by aligning fiscal measures with that vision—not the other way around. For instance, views on topics like entrepreneurship or sustainability should guide fiscal measures. Participants expressed interest in being involved in concrete and detailed (legislative) proposals. This would provide opportunities to contribute to discussions on sectoral implementation aspects, such as timing of measures and specific design.

Engaging with Societal Groups Can Increase Support for Adjustments
It is important to consider the impact of changes, especially as adjustments can directly affect individual citizens and businesses. The box below highlights some insights from studies on change processes. The CPB concluded that solid policy preparation during the lead-up to legislative processes and implementation can support better justification and presentation of (major or minor) reforms. This, in turn, can help secure support for the plans. Societal support is one of the critical success factors for (major or minor) reforms. This report takes an extra step beyond regular evaluations of TEs by considering opportunities for complementary policies and re-channeling resources.

Box: Aspects and insights from literature for (successful) reforms

- CPB Policybrief "Economische en politieke factoren die van belang zijn voor succesvolle hervormingen" (2016): Important factors include integrating the reform into the coalition agreement, societal support, and thorough research showing the exact nature of the problem and where the solution lies. Slightly less critical, but still relevant, are a political majority in both the House of Representatives and the Senate, readiness for reform (a sense of urgency and necessity), budgetary room to mitigate negative effects, political leadership, and effective communication.
- Studie TNO: "Hoe kan overheid sturen op randvoorwaarden die nodig zijn voor goede transitie" : this report discusses broad transition challenges and associated dilemmas. It emphasizes the importance of governmental knowledge and clear vision before initiating change, along with the need for a collaborative approach. In transitions, securing support for the new system, dismantling the old, and creating governance structures is essential. There should also be space to learn, experiment, and incorporate progressive insights, making the approach more evolutionary than linear.
- Braams et al. (2021, 2022): Successful reforms require additional mechanisms, such addressing risks and unforeseen consequences during transitions. This is challenging in political decision-making and may lead to inertia (partly due to a "blame culture"). These new mechanisms complement traditional administrative practices, which emphasize efficiency, legitimacy, and support in policy design.
- Nelson: "The Moon and the Ghetto" (1977) : Achieving a clearly defined and well-bounded mission, such as moving from point A to point B ("moonshot" missions), is easier—especially when B is a broadly supported goal. Complex societal issues interwoven with multiple challenges ("ghetto" missions) are significantly harder to tackle. While the transition/transformation literature largely ignores fiscal adjustments, a parallel can perhaps be drawn here. This perspective suggests that fiscal changes could be approached as complex societal challenges, following similar steps.

For a follow-up with societal parties, it is worthwhile to define a number of principles and preconditions. A change to a scheme is rarely an improvement in all areas; the guiding principle should nonetheless be that the adjustment simplifies the system and/or results in better policy. This includes reducing administrative burdens, better targeting or achieving policy objectives, simplifying supervision and enforcement for the Tax Administration, or improving transparency and practicality for taxpayers.

Annex 1: Explanation of Scope and assessments of tax expenditures

The policy options in sections 2.2 to 2.5 mainly focus on tax expenditures (TEs) that were negatively evaluated in the 2023 official report based on one of the various assessment criteria (see the explanation of these criteria and the evaluation methodology in H1): 1) effectiveness and efficiency, 2) rationale for government intervention, 3) complexity in implementation and enforcement, and 4) feasibility. This overview has been updated with negatively evaluated TEs from subsequent evaluation reports on tax measures.

In some cases, other TEs—beyond those with negative scores—have also been considered with proper justification, for example, due to interconnections between schemes. For not all negatively evaluated TEs, policy options have been developed. Tax credits in the income tax have been excluded from the scope due to their strong linkage with the benefits system and the rate structure of box 1, as well as their associated effects on marginal tax pressure. Similarly, no policy options have been developed for TEs that were recently (or are currently being) significantly adjusted or abolished[53]. This also applies where, at first glance, no policy options were identified that could lead to improvements[54]. The TEs for which policy options have been developed are listed in the table below. The colors indicate per criterion whether a scheme was positively evaluated (green), debatable or uncertain (yellow), or negatively evaluated (red).

Table 8: TEs Within Scope and Policy Options Developed

Source: Official Report on the Approach to Tax expenditures, July 2023, and Recent Evaluations

Scheme	Effectiveness	Efficiency	Complexity tax authority	Feasibility	Justification for government intervention	Budgetary costs[55]
Entrepreneurship and Enterprises						
Lower corporate income tax rate						3032
Reduced MRB rate for entrepreneurs' vans						1256
Co-working partners deduction						7
Start-up deduction						126
Self-employed deduction						739
Business discontinuation deduction						19
Start-up deduction in case of occupational disability						1
Random depreciation for start-ups						8

[53] This includes the reduced VAT rate on agricultural goods, the partial foreign taxpayer scheme, the liquidation and cessation loss scheme, the fiscal facilities under the Nature Conservation Act, the net-metering scheme, and the input exemption in the energy tax for electricity generation.

[54] This includes the reinvestment reserve, certain exemptions in insurance tax, the degressive rate structure in energy tax, the exemption for works of art in box 3, and several VAT exemptions. Although these TEs are often assessed as complex by the Tax Administration, no measures are currently available to simplify their implementation. Abolishment is also deemed unfeasible, as, for instance, in the case of insurance tax, such action would not simplify matters and could even make them more complex.

[55] Based on Annex 10 of the Budget Memorandum 2025. The fiscal significance is in many cases not equal to the budgetary revenue in the elaborated policy options due to behavioural effects and updates. The fiscal series for the reduced VAT rates are based on the recent letter on alternative funding options and updated with the figures from the CEP forecast by the CPB.

SME profit exemption						2609
Business use exemption						23
Research and development deduction						4
Reduced VAT Rates						
Reduced VAT rate on camping accomodations						177
Reduced VAT rate on medicines and medical devices						1.970
Reduced VAT rate on painting, plastering, and wallpapering						428
Reduced VAT rate on hairstyling services						227
Reduced VAT rate on cleaning services						69
Reduced VAT rate on repair services[56]						48
Reduced VAT rate on insulation services						38
Reduced VAT rate on food and water						10.550
Reduced VAT rate on ornamental horticulture						345
Reduced VAT rate on passenger transport						760
Owner-Occupied Housing						
Owner-occupied housing scheme[57]						8854
Deduction for no or low owner-occupied housing debt						418
Other tax expenditures						
Agricultural exemption in the profit sphere						2157
Deduction for specific healthcare costs						309
Gift deduction in income tax						487
Gift and inheritance tax business Succession facility (BOR)						709
Energy tax reduction per connection						4743
Exemption for payouts for 25- or 40-year employment anniversary						36
Commuting deduction for public transport						7
Reduced excise duty rate for small breweries						5
MRB quarter and half rates						321
Energy tax exemptions for energy-intensive processes						222
Energy tax refund scheme for religious and non-profit institutions						31
Gift and inheritance tax one-time exemption for children						43
Random depreciation for sea vessels						2
Deferral TEs for substantial interest income in box 2						115
Small-scale investment deduction						506

[56] The assessments apply to labour-intensive services in general terms. The reduced rate on repair services has not been evaluated for its 'contribution to the circular economy'.
[57] This includes mortgage interest relief, other deductions for costs incurred for owner-occupied homes and the owner-occupied home imputed income. The fiscal significance is calculated as the sum of these items.

Deduction for maintenance obligations and taxed alimony received						37
Net pensions and net annuities						25
Non-alcoholic beverages tax exemption for dairy[1]						290
Tap water tax exemption for large users[1]						110

[1] These TEs have been added based on new insights and are not part of the 116 TEs reviewed in the official report, which is why color scores are absent here

Table 9: Overview of Evaluation of Other tax expenditures (Outside the Scope of This Report)

Source: Official Report on the Approach to Tax expenditures, July 2023, and Recent Evaluations

Scheme	Effectiveness	Efficiency	Complexity tax authority	Feasibility	Justification for government intervention	Budgettary costs
Reinvestment reserve						100
Pension fiscal facilities						20838
Annuity fiscal facilities						687
Transfer tax reduced rate housing for starters						4595
Fiscal facilities for disability insurance						157
Transfer tax exemption buy-back VoV (conditional sale) homes						52
Room rental exemption						17
Exemption for payouts of specific capital rights (box 3)						993
Exemption for capital payouts upon death (box 3)						50
Exemption for green investments (box 3)						42
Tax credit for green investments (box 3)						32
Tax-free wealth (box 3)						1982
Fiscal facilities under the Nature Conservation Act						40
Exemption for works of art and science (box 3)						-
Exemption for forest and natural land (box 3)						-
Innovation box[58]						2417
Liquidation and discontinuation loss scheme						506
Energy investment deduction (EIA)						431
Environmental investment deduction (MIA)						194
VAMIL (Arbitrary Depreciation on Environmental Investments)						25
Tonnage Tax Scheme for maritime profits						470

[58] The evaluation shows that the scheme is of limited effectiveness and not efficient in stimulating innovation, but it is effective and partly efficient in promoting the business climate.

Scheme	Effectiveness	Efficiency	Complexity tax authority	Feasibility	Justification for government intervention	Budgettary costs
Exemption for income from forestry activities						-
Exemption for forest and nature management payments						11
Transfer tax exemption for cultivated land						279
Transfer tax exemption for family business transfer						30
Gift and inheritance tax facilities for charities (ANBIs)						709
Work-related expenses scheme						-
Remittance reduction for R&D (WBSO)						1582
30% rule (expat scheme)						1465
Partial foreign taxpayer regime						14
Remittance reduction for shipping						118
Transfer tax exemption for urban restructuring						-
Transfer tax exemption for Bureau of Agricultural Land Management						-
Transfer tax exemption for rural development projects						-
Transfer tax exemption for natural land						-
General tax credit						25552
Employment tax credit						35289
Income-dependent combination tax credit						2169
Young disabled person tax credit						221
Single elderly person tax credit						714
Elderly person tax credit						5489
Energy tax reduced rate for greenhouse horticulture						135
Energy tax net-metering scheme						684
Energy tax district heating scheme						74
Energy tax reduced rate for public charging stations						-
Energy tax exemption for electricity generation						883
Input exemption coal tax for power generation						36
Input exemption coal tax for dual consumption						78
Energy tax degressive rate structure for electricity						5277
Energy tax degressive rate structure for gas						1647

Scheme	Effectiveness	Efficiency	Complexity tax authority	Feasibility	Justification for government intervention	Budgettary costs
Reduced VAT rate on cultural goods and services						1326
Reduced VAT rate for agricultural goods						0
VAT zero rate for solar panels						41
VAT small business scheme						334
VAT zero rate for international passenger transport						-
VAT exemption for sports clubs						-
VAT exemption for postal services						-
VAT exemption for unions, employers' organizations, political parties, churches						-
VAT exemption for fundraising						-
VAT exemption for composers, writers, and journalists						-
VAT exemption for funeral services						-
BPM zero tariff for zero-emission vehicles						-
Lower MRB rate for zero-emission vehicles						395
Income tax/payroll tax reduction for zero-emission benefits						229
MRB exemption for taxis and public transport						51
BPM refund and MRB exemption for publicly important vehicles						31
Reduced MRB rate for vans used by disabled persons						20
MRB exemption for vehicles older than 40 years						126
Half MRB rate for plug-in hybrid vehicles						34
Insurance tax exemption for Broad Weather Insurance						7
Insurance tax exemption for sea vessels						21
Insurance tax exemption for aircraft						5
Insurance tax exemption for transport insurance						69
Insurance tax exemption for export credit insurance						16
Excise duty exemption for alcohol and motor fuel for diplomats						-
Excise duty exemption community waters						-
Excise duty exemption for aircraft						2123

Annex 2: Budgetary Tables and Implementation Aspects of Policy Packages

Implementation Aspects of Policy Packages

The implementation aspects for the Tax Administration have been broadly assessed per measure. These assessments were conducted on an isolated basis for each measure. Finalized implementation aspects and effective dates must be determined as part of the further elaboration of a measure and should be subject to an implementation review. This review should also consider the interaction of the overall package of demands placed on the Tax Administration, including the resulting lead time needed to realize a proposal. It assumes a decision in 2025, followed by a legislative process and an implementation process. If a decision on a measure is made later, the budgetary projections must be updated to reflect the new effective date.

Budgetary Tables for Policy Options

Table 10 Budgetary Impact of Policy Directions for Clusters 1 to 4
(in million euros, 2025 prices, '+' indicates budget-enhancing/tax burden increase)

Cluster	Policy Direction	Budgetary Impact
Cluster 1: Entrepreneurs and Entrepreneurship	Policy Direction 1: Standardize CIT rate, abolish entrepreneurial facilities and reduced MRB rate for entrepreneurs' vans, targeted innovation/entrepreneurship incentives, more equal top rates for workers, and lower labor taxes.	6.595
	Policy Direction 2: Similar to Policy Direction 1, but with differentiated box 2 rates / SME profit exemption remains.	5.131
	Policy Direction 3: Like Policy Direction 2, but with (slightly) lower tax burdens for all entrepreneurs.	5.244
Cluster 2: Reduced VAT Rates	Policy Direction 1 and 2: Abolish all reduced VAT rates / uniform VAT rates.	15.938
	Policy Direction 3: Partial uniformity of VAT rates.	3.216
Cluster 3: Owner-Occupied Housing Schemes	Policy Direction 1: Phasing out of mortgage interest deduction and removal of 30-year period.	9.322
	Policy Direction 2: Increase imputed rental value (EWF) and accelerate phase-out of the Hillen Act.	4.184
Cluster 4: Individual Tax expenditures	Abolish, modify, and restructure individual[59]	3.352
	Abolition and restructuring only	2.272
	Modifications only	1.827
Total Clusters 1-4	**Policy Directions 1**	**35.207**
Total Clusters 1-4	**Policy Directions 2/3**	**12.531**

[59] This scenario assumes complete abolition unless detailed options for specific TEs are unavailable. In these cases, modification or restructuring is assumed (see table in section 2.5).

Fiscal Policy Options for Entrepreneurship and Enterprises

Table 11: Policy Direction 1 Fiscal Measures for Entrepreneurship and Enterprises
(Budgetary impact in million euros, 2025 prices, '+' indicates budget-enhancing/tax burden increase)

Policy direction 1	2026	2027	2028	2029	struc	struc in
Abolish lower CIT rate	3.078	3.078	3.078	3.078	3.078	2026
CIT rate to 24%	- 2.981	- 2.981	- 2.981	- 2.981	- 2.981	2026
Top rate in box 1 to 44.8%	- 2186	- 2186	- 2186	- 2186	- 2186	2026
SME profit exemption and tbs exemption to 0%	2093	2110	2110	2110	2110	2027
Higher box 2 rate to 27.3%	-418	-418	-418	-418	-418	2026
Lower box 2 rate to 27.3%	353	353	353	353	353	2026
Phasing out entrepreneurial schmes	38	74	113	468	468	2029
Phasing out reduced MRB rate for vans entrepreneurs	341	315	575	520	785	2035
Targeted use of resources	0	0	-300	-300	-300	2028
Lower employer contributions	-300	-300	-300	-600	-700	20230
MRB discount BEV vans entrepreneurs 25% (2026-2029)	-14	-21	-31	-42	0	2034
Total[60]	**4**	**24**	**13**	**2**	**10**	

Table 12: Policy Direction 2 Fiscal Measures for Entrepreneurship and Enterprises
(Budgetary impact in million euros, 2025 prices, '+' indicates budget-enhancing/tax burden increase)

Policy direction 2	2026	2027	2028	2029	struc	struc in
Abolish lower CIT rate	3.078	3.078	3.078	3.078	3.078	2026
CIT rate to 24%	- 2.981	- 2.981	- 2.981	- 2.981	- 2.981	2026
Top rate in box 1 to 47.2%	- 1070	- 1070	- 1070	- 1070	- 1070	2026
SME profit exemption and tbs exemption to 8.2%	741	747	747	747	747	2027
Higher box 2 rate to 30.5%	-57	-57	-57	-57	-57	2026
Lower box 2 rate to 26.5%	252	252	252	252	252	2026
Phasing out entrepreneurial schemes	38	74	113	468	468	2029
Phasing out reduced MRB rate for vans entrepreneurs	341	315	575	520	785	2035
Targeted use of resources	0	0	-300	-300	-300	2028
Lower employer contributions	-300	-300	-300	-600	-700	2030
MRB discount BEV vans entrepreneurs 25% (2026-2029)	-14	-21	-31	-42	0	2034
Total	**29**	**38**	**27**	**16**	**24**	

[60] These figures represent an illustrative package of measures; the totals for individual years will not necessarily sum to zero . Final measures must be integrated into the budget in accordance with budgetary rules, which also applies to Tables 12 and 13

Table 13: Policy Direction 3 Fiscal Measures for Entrepreneurship and Enterprises
(Budgetary impact in million euros, 2025 prices, '+' indicates budget-enhancing/tax burden increase)

Beleidsrichting 3	2026	2027	2028	2029	struc	struc in
Abolish lower CIT rate	3.078	3.078	3.078	3.078	3.078	2026
CIT rate to 24%	-2.981	-2.981	-2.981	-2.981	-2.981	2026
Top rate in box 1 to 48%	-698	-698	-698	-698	-698	2026
SME profit exemption and tbs exemption to 6%	1104	1112	1112	1112	1112	2027
Higher box 2 rate to 28%	-339	-339	-339	-339	-339	2026
Phasing out entrepreneurial schemes	38	74	113	468	468	2029
Phasing out reduced MRB rate for vans entrepreneurs	341	315	575	520	785	2035
Targeted use of resources	0	0	-100	-400	-400	2028
Lower employer contributions	-500	-500	-700	-700	-800	2026
Lower MRB (generic)	-327	-294	-544	-478	-586	2033
MRB discount BEV vans entrepreneurs 25% (2026-2029)	-14	-21	-31	-42	0	2034
Total	**29**	**41**	**30**	**19**	**27**	

Table 14: Policy Direction optional Fiscal Measures for Entrepreneurship and Enterprises
(Budgetary impact in million euros, 2025 prices, '+' indicates budget-enhancing/tax burden increase)

Optional: lower MRB (generic)	2026	2027	2028	2029	struc	struc in
Employer contributions*	327	294	544	478	586	2033
Lower MRB (generic)	-327	-294	-544	-478	-586	2033

*Illustrative, other tax reducing measures such as the lowering of income or corporate tax could be used for this objective

Policy Options for Reduced VAT Rates

Table 15: Policy Options for Reduced VAT Rates
(Budgetary impact in million euros, 2025 prices, '+' indicates budget-enhancing/tax burden increase)

Measure	2026[1]	2027	2028	2029	struc	struc in
Abolishing Reduced VAT Rates						
Reduced VAT rate on food and water	5.275	10.550	10.550	10.550	10.550	2027
Reduced VAT rate on medicines and devices	985	1.970	1.970	1.970	1.970	2027
Reduced VAT rate on labor-intensive services	405	810	810	810	810	2027
Including hairstyling services	114	227	227	227	227	2027
Including painting, plastering, wallpapering	214	428	428	428	428	2027
Including cleaning services	35	69	69	69	69	2027
Including repair services	24	48	48	48	48	2027
Including insulation services	19	38	38	38	38	2027
Reduced VAT rate on passenger transport	380	760	760	760	760	2027
Reduced VAT rate on ornamental horticulture	173	345	345	345	345	2027
Reduced VAT rate on camping accommodations	89	177	177	177	177	2027
Reduced VAT rate on cultural goods and services	663	1.326	1.326	1.326	1.326	2027
Budgetary Impact	7.969	15.938	15.938	15.938	15.938	2027
Policy Direction 1: Budget-Neutral Uniformity						
Abolish reduced rates	7.969	15.938	15.938	15.938	15.938	2027
Uniform VAT rate of 18%	-7.969	-15.938	-15.938	-15.938	-15.938	2027
Policy Direction 2: Redistribution Through Income Tax						
Abolish reduced rates	7.969	15.938	15.938	15.938	15.938	2027
Lower base rate of income tax	-7.969	-15.938	-15.938	-15.938	-15.938	2027
Policy Direction 3: Partial Uniformity and Alternative Instruments						
Abolish reduced rates, except for food, water, passenger transport, repair, and insulation services	1.608	3.216	3.216	3.216	3.216	2027
Alternative for/retention of reduced rate on passenger transport[2]	[380]	[760]	[760]	[760]	[760]	2027
Alternative for/retention of reduced rate on insulation services[2]	[19]	[38]	[38]	[38]	[38]	2027
Alternative for/retention of reduced rate on repair services[2]	[24]	[48]	[48]	[48]	[48]	2027
Alternative for/retention of reduced rate on culture, media, and sports[2]	[663]	[1326]	[1326]	[1326]	[1326]	2027
Lower base rate of income tax	-1.608	-3.216	-3.216	-3.216	-3.216	2027

[1] The revenue for 2026 is half the structural amount due to the assumption of implementation by July 1, 2026.

[2] For these measures, the budgetary revenue is fully redistributed to the target group and/or the current policy remains (temporarily) in place, resulting in no actual budgetary effect. The budgetary significance of the current policy is shown in brackets.

Policy Options for Owner-Occupied Housing Schemes

Table 16: Policy Options Overview for Owner-Occupied Housing Schemes
(Budgetary impact in million euros, 2025 prices, '+' indicates budget-enhancing/tax burden increase)

Measure	2026	2027	2028	2029	Struc	Struc in
Phasing out mortgage interest deduction combined with removing 30-year period	Nvt	Nvt	Nvt	Nvt	9.322	2048
Increase imputed rental value (EWF)	754	1.597	2.437	3.244	4.184	2048
Increase imputed rental value with accelerated phase-out of Hillen Act	835	1.768	2.724	3.669	4.184	2048

Policy options individual tax expenditures

Table 17 Policy Options for Individual tax expenditures
Budgetary impact (in million euros, 2025 prices, '+' is budget-improving/increasing burden)

Measure	2026	2027	2028	2029	struc	struc in
Abolish						
Agriculture exemption	-	-	-	12	199	2070
Exemption for payouts for 25- or 40-year employment anniversary	-	36	36	36	36	2027
Gift and inheritance tax one-time exemption for children	-	23	25	28	33	2027
Abolish business succession facility	104	595	661	760	740	2037
Carry-over schemes for income from substantial interest in box 2	-	45	45	45	45	2029
Abolish small-scale investment allowance	150	300	450	600	600	2029
Random depreciation for seagoing vessels	4	4	4	4	4	2026
Energy tax exemptions for energy-intensive processes	-	-	-	-	151	2030
MRB quarter rates	-	-	1	1	1	2028
Reduced excise duty rate for small breweries	-	2	2	2	2	2027
Exemption for dairy from tax on non-alcoholic beverages	-	269	269	269	269	2027
Abolish exemption for large-scale water users in water tax	55	55	66	66	90	2030
Net pension and net annuity	-	-	-	34	69	2060
Deduction for maintenance obligations and taxable alimony	-	-	-	25	25	2029
Commuting deduction for public transport	-	-	-	7	7	2029
Reduce and improve						
Standardize gift deduction and adjust threshold and ceiling	51	51	51	51	189	2030
Abolish multiplier for specific healthcare costs deduction	0	0	0	0	0	
Business succession facility: uniform exemption	85	340	375	427	463	2037
Business succession facility: reduce exemption above 1.5 million euros	71	250	277	317	347	2037
Small-scale investment allowance: raise threshold and accelerate phasing out	28	28	28	28	28	2026
Reduce energy tax credit	1080	1080	1080	1080	1080	2026
Target energy tax credit on households	-	-	427	427	427	2027
Reallocate alternative policy[1]						
Transform gift deduction into donation grant	[487]	[487]	[487]	[487]	[487]	2029
Shift budget for specific healthcare costs deduction to municipalities	[309]	[309]	[309]	[309]	[309]	2029
Energy tax refund for church buildings and non-profits: alternative scheme	[31]	[31]	[31]	[31]	[31]	2029

[1] For these measures, the fiscal revenue is fully redirected to the target group, resulting in no net fiscal effect. The fiscal significance of the current scheme is shown in brackets..