

Presentation IPTI-congres



Ms. mr. A.P. (Anneke) Monsma

ESBL
Erasmus School of Law



Thank you very much for the nice introduction. I feel very honoured to be given the opportunity to speak to you today about local taxation in the Netherlands at this international IPTI congress.

ESBL and publications

- Erasmus Study Centre for Local Taxes (ESBL), located at Erasmus University Rotterdam
- Established in 1989 by 4 big cities and the university
- Unique legal scientific research into local taxes:
 - Municipalities, Water Boards, Provinces
 - Law on Assessment of Real Estate (Wet WOZ)
 - Education, lectures, courses
 - Several forms of publication
- Article on housing taxation in Bulletin for International Taxation: august 2015



My name is Anneke Monsma, I'm researcher at the Erasmus Study Centre for Local Taxation in Rotterdam, The Netherlands. This study centre is established in 1989 by a consortium of 4 big municipalities (Rotterdam, Amsterdam, The Hague and Utrecht) and the Erasmus University. The study centre is part of the Tax Law Department and is external funded by a foundation, led by a

number of municipalities and the university. At the right moment, a vacancy exists for the associated Chair of Professor of Local Taxes and we hope we can welcome a new professor later on this year. Together with my colleague Arjen Schep, we conduct fiscal-legal research into local taxes. In august, an article of professor Sigrid Hemels and myself about housing taxation – including the property tax – will be published in the Bulletin for International Taxation.



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Today's menu

- Valuation of real estate & property tax
- in perspective of total local (tax) revenue
- in the Netherlands and abroad



Today I'd like to tell you something about the valuation of real estate and property tax, in perspective of the total local revenue including tax revenue, in The Netherlands and abroad.

Please feel free to ask questions during my presentation. Afterwards, there'll be also time to discuss the subject further.



Real estate valuation & property tax

- See plenary sessions yesterday
- Both tasks of local government in The Netherlands
- Historical developments towards system nowadays
- WOZ-valuation now broadly used for taxes (both national and sub-central) and non-tax-uses
- For municipalities the property tax is the most important application of WOZ-value
- Nowadays 3 local property taxes exist: owners&users non-residences, owners of residences; 4th (users of residences) was abolished in 2006.



First I'll tell you in short something about the Dutch way of valuation of real estate and about the Dutch property tax. Yesterday, during the plenary sessions, this subject is discussed in more detail, so I'll only give a brief overview.

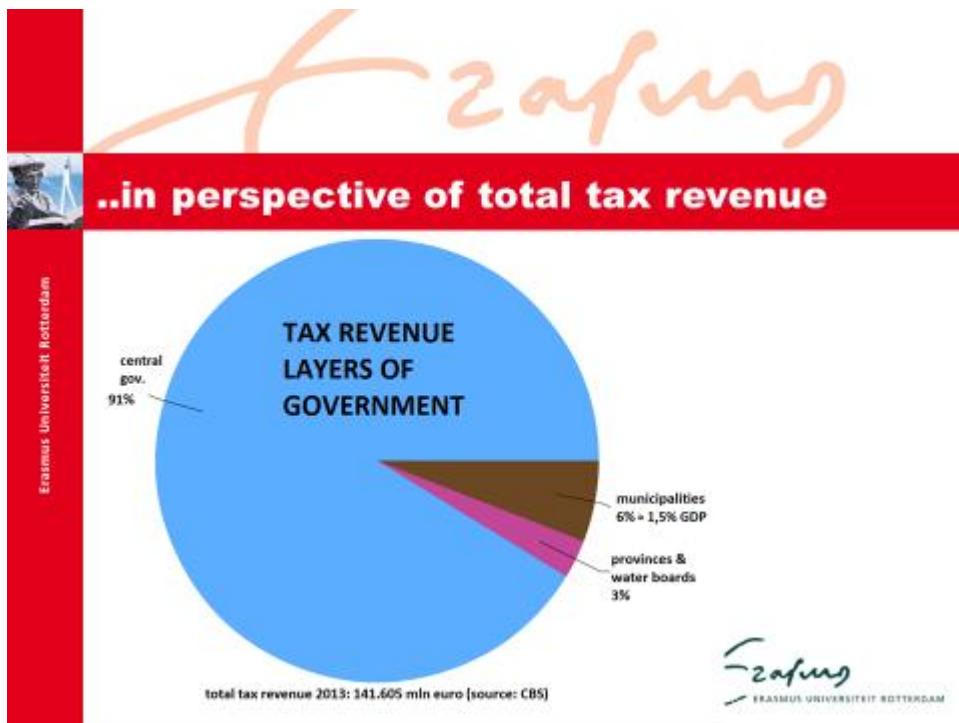
Both the valuation and the property tax are tasks carried out by the municipalities nowadays. From the 1970's on, a property tax exists in The Netherlands and from 1995 onwards, this property tax is based on the market value of the taxed real estate. Before 1995, the tax base either consisted of the square metres of the property or of the value, at the option of the municipality involved. In 1995, the Law on Valuation of Immovable Property (in Dutch called WOZ) was introduced. According to this law, municipalities carry out the valuation of all immovable properties within their boundaries at the market price. The first years, this valuation took place every four years, but from 2007 onwards there's an annual revaluation cycle. Because of this yearly valuation and the improved quality of the whole valuation system and data, the WOZ-value has become a figure which is not only suitable for the local property tax, but also for other taxes (such as the national inheritance tax) and even for non-tax uses, such as the fight against property fraud. Another contributing fact is the introduction of the WOZ-registration within a broader set of governmental basic registrations, which can be or have to be used by all layers of government carrying out their public tasks. The WOZ-value has also in that respect become a more useful figure.

For municipalities, the property tax is the most important application of WOZ-value. About half of the tax income of municipalities consists of the property tax revenue, as you can see on the next picture.

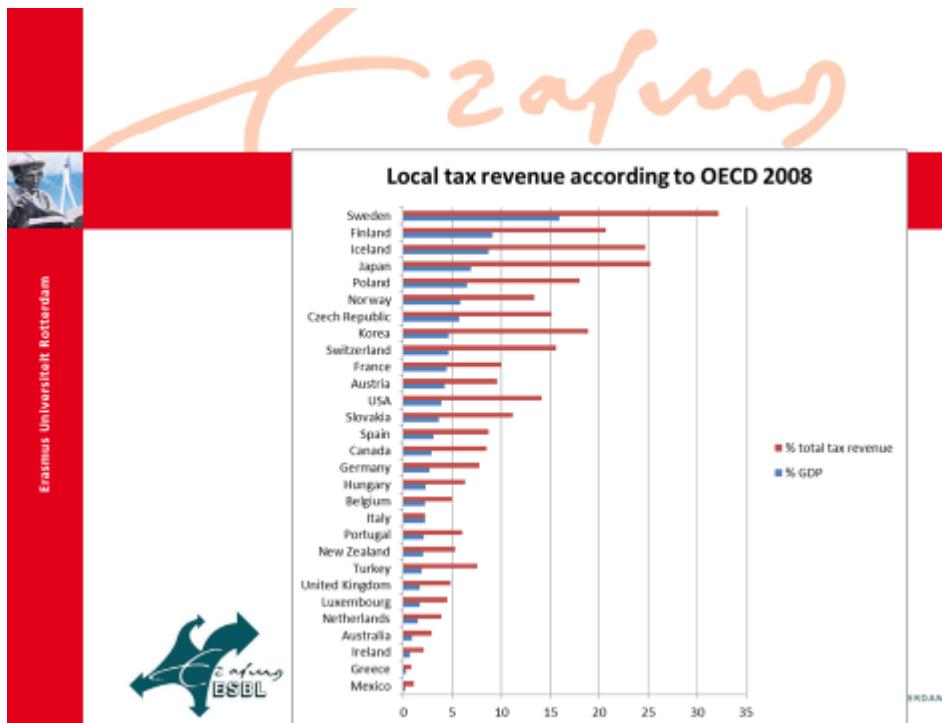


Apart from the property tax, environmental/cleaning related taxes are important, as well as the parking fees. The tax revenue of municipalities, including fees for services, account for about 8,5 million euro's.

So, in The Netherlands, the property tax income in perspective to the total tax income of municipalities is big (41%)



In perspective of the total tax income of all layers of government, the municipal tax income is not so important though. As you can see, only 6% of the tax income is levied by municipalities, fees for services included. The main part is levied by the central government.



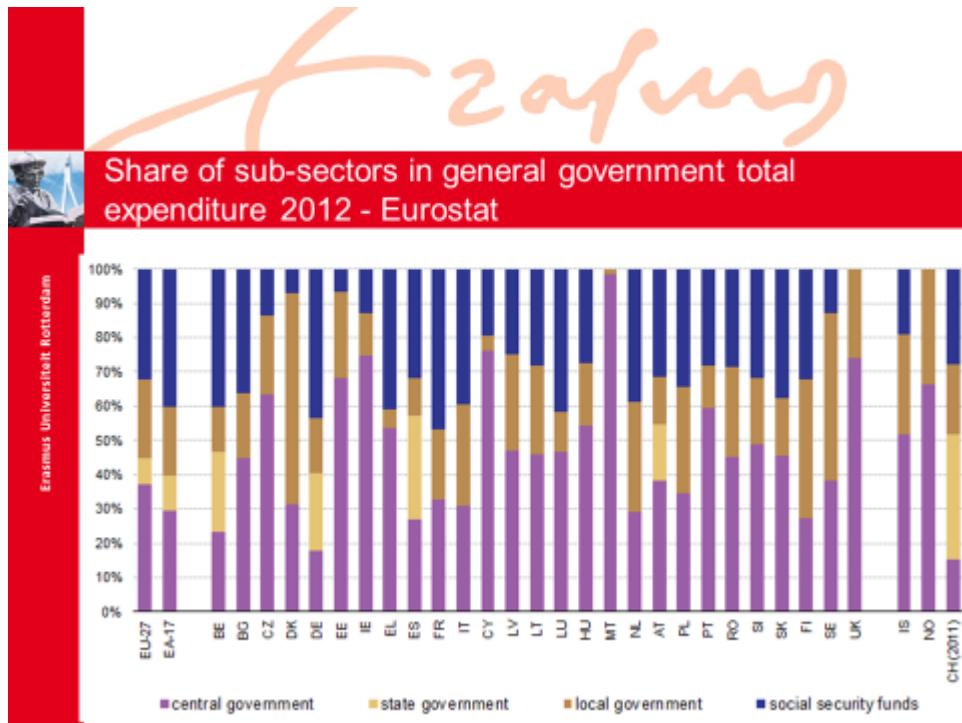
In international perspective, the Dutch percentage of municipal tax income is very low, as you can see on this picture, derived from OECD data of 2008. In Scandinavian countries and also in Asian countries for example, the division of tax income over the several layers of government is more in favour to the municipalities.



But the municipal tax income is not only low in perspective of the total tax income in the Netherlands, it is also low in perspective of all municipal income.

As you can see on the next picture, most of the Dutch tax income of municipalities is derived from transfers by the central government. Almost 70% of all municipal income exists of those transfers. In

the figures of OECD 2008, a division is made between earmarked and non-earmarked transfers. The non-earmarked transfers are to be preferred over earmarked transfers in sense of local autonomy, because municipalities have more control over spending this kind of transfer. As you can see, The Netherlands is last in row concerning autonomous taxes. I believe only Malta has even worse figures.



But not only the income part is relevant, also the expenditure part is. Because relatively low own or autonomous income isn't that bad if municipalities also don't spend so much or haven't that much autonomous public tasks.

Therefore, in this picture, you can see the distribution of public expenditure over the layers of government. The figures are derived from Eurostat and account for the European countries.

The Scandinavian countries have a lot of local government expenditure, so it's no wonder they also have a lot of own (tax) income. Instead, Italy for example has a low level of own tax income, but also has a low level of public expenditure.

In the mentioned countries, own tax income and public expenditure correspond more or less. But for other countries, including The Netherlands, that is not the case.



Table IV.3.5: Coverage of subnational governments' expenditure by subnational tax revenues

	1995	2010	Change in the coverage (in points of %)
AT	42,2	48,6	6,4
BE	15,1	19,9	4,8
BG	32,4	8,7	-23,7
CY	28,6	22,7	-5,8
CZ	41,2	40,3	-0,8
DE	50,9	51,7	0,7
DK	48,6	34,1	-14,5
EE	43,6	46,0	2,4
EL	10,0	7,1	-2,9
ES	26,9	37,0	10,2
FI	49,8	45,8	-4,0
FR	45,5	36,4	-9,0
HU	20,6	18,9	-1,7
IE	6,3	13,0	6,8
IT	24,0	38,9	14,8
LT	61,4	28,3	-33,1
LU	39,0	30,2	-8,8
LV	75,6	47,5	-28,1
MT	0,0	0,0	0,0
NL	5,2	8,1	2,9
PL	42,7	26,7	-16,1
PT	33,3	30,6	-2,8
RO	59,5	11,2	-48,3
SE	57,5	62,5	5,0
SI	31,2	39,2	8,0
SK	25,0	37,0	12,0
UK	11,0	12,9	1,8
EU27	—	28,0	—

Source: own calculations from Eurostat.

On this sheet you can see the coverage of local public expenditure by own tax income. The percentage varies a lot between the European countries.

Figures/data of the pictures on sheet 8&9 are derived from a paper by the European Committee, 'Fiscal decentralisation in the EU – main characteristics and implications for fiscal outcomes', which was presented on a workshop on fiscal decentralisation, source: internet:
http://ec.europa.eu/economy_finance/events/2012/2012-11-27-workshop/pdf/fiscal_decentralisation_en.pdf



Importance local taxes - NL

- Economic insights: tasks on local level
more efficient/beneficient, flypaper effect, etc.
- Legal insights: democratic benefits

Decentralisations (2015)
on social care increase
expenditure by 8 bln/4%
→ Income mix?



Are low coverage percentages bad?

- From an economic point of view benefits of a substantial local tax income are for example
 - o Adapting local provisions to local preferences → cost efficiency
 - o Buffer function of autonomous taxes
 - o Flypaper effect: municipality acts more cost efficient when 'own' money is concerned
- From a democratic point of view they are benefits too:
 - o Selection of local services, conditions and way of provision can be balanced against the costs at local level in the city council; voters can approve or disapprove the policy conducted at the local elections
 - o Yardstick competition (limited in NL)

NL: Since January of this year, several tasks in the field of social care have been decentralised from the central government to the municipalities. Those tasks include for example the youth care, care for disabled and domestic help to those who aren't able to do it themselves, like the elderly. Although the municipal tasks are thus increasing (by 8 bln euro's, which accounts for 4% of the municipal expenditure), municipalities aren't granted more autonomous tax income, but are only partly compensated by the transfer of governmental grants.



Municipal tax increase in NL?

- Long term call for more local tax revenue
- More urgent due to decentralisations
- Government=pro, conditions:
 - Substantial (revenue) own tax
 - No increase labour costs
 - No big changes tax burden
 - Easy to levy, low collection costs

→ increase local tax,
decrease nat. tax/grants



In the Netherlands, there has been a call for increasing municipal taxes and tax mix for a long time, but in the past decennia, this call never has led to amendments of the laws involved.

Due to the grand decentralisations, the call for more own tax income for municipalities has become more urgent. The coverage of local public expenditure by local taxes has decreased even more, where this coverage already was very low in the Netherlands.

The current government has acknowledged this problem. The State Secretary of Finance informed the House of Representatives about the government's plan to investigate the way local taxes can be increased under conditions set by the government. Those conditions are mainly:

- Substantial (revenue) own tax

- No increase labour costs
- No big changes tax burden
- Easy to levy, low collection costs

In fact, the government wants to increase the municipal tax and simultaneously decrease the national tax on labour. In this way, the government wants to stimulate the Dutch economy.



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Deeds, not words!

- Several reports
- Main advice: reintroduce property tax for house users (rental) + introduce a residents tax
- From scientific point of view enlargement of municipal taxes is wise
→ deeds, not words
(geen woorden maar daden!)

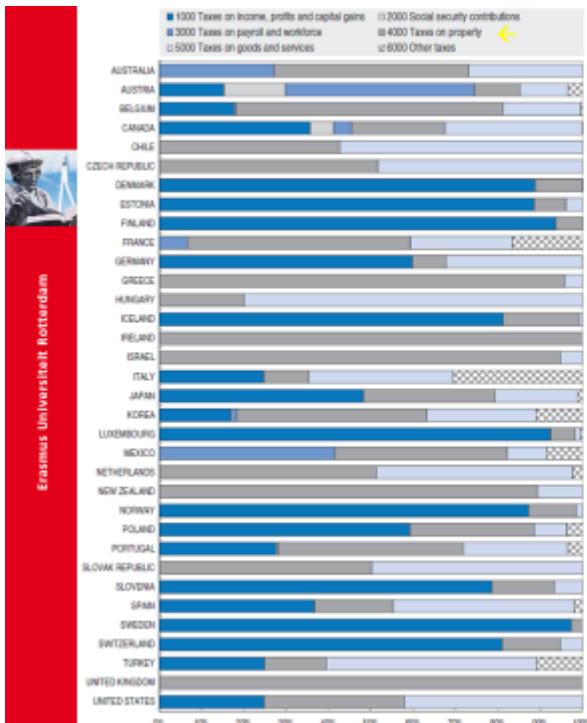


Since the letter of the State Secretary, several new reports have been published about increasing municipal taxes, building on previous reports and parliamentary committee advices. Main theme in the reports is the reintroduction of the property tax levied from the user of houses (tenants, but also house owners who live in their own house) and the introduction of a residents tax from every inhabitant of the municipality above the age of 18. Calculations figure out these suggestions fit into the conditions set by the government.

Question is, whether these plans will effectively be introduced by amending the law. As said, previous plans never has been, but there seems to be governmental accordance. Because of the scientific proven benefits of a better balance between local income and local expenditure, I'd say after a Rotterdam's proverb: Deeds, no words!

THANK YOU FOR YOUR ATTENTION

Extra sheets:



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OECD (2013), Part
IV: Tax revenues by
subsectors of
general government,
chart 6, data of 2011

Property tax = dark
grey one

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Local tax mix

- Most countries have a subnational property tax
- Smaller revenue: taxes on vehicles, donations/inheritances, gambling, subnational economic activities and (sometimes) corporate income/business taxes
- Almost no own taxes on personal income / VAT (national)
- Surtaxes/sharing revenues (important source of revenue)
- [Charges/fees on services (smaller revenue)]

Matteo Gavorrani (DG Ecfin): "Fiscal decentralisation in the EU – main characteristics and implications for fiscal outcomes", downloaded from http://ec.europa.eu/economy_finance/events/2012/2012-11-27-workshop/index_en.htm, on 12-05-2015.



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