Environmental tax reform (ETR): some proposals and intentions in the Netherlands for 2018 and beyond (v.1)

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Notable elements in the new Government Accord

- A more ambitious CO_2 reduction target for 2030, minus 49%, has been set
- A minimum price will be set for CO_2 emissions from the electricity sector
- The five remaining coal-fired power plants will be closed
- CO_2 storage should have a significant role in achieving CO_2 reduction
- An air traffic tax will be introduced in case of insufficient aviation climate performance
- A "Maut" will be introduced for lorries

Introduction

"The major overhaul of the Dutch fiscal system as expected to commence since 2013[1], has not made much progress during 2016. The preparations will not start before March 2017 (national elections), although intentions may feature in the election programmes of several political parties."

This was the opening of my note on the fiscal plan for 2017[2]. After a record-long formation period of almost 7 months a new Government Accord[3] has been presented on 10 October.

Hopes of a (green) fiscal revision were up when negotiations started in the Spring between 4 parties, including Green Left, who are very much in favour of ETR. They failed reaching an agreement however, not over fiscal reform but over immigration policy. Deliberations continued and a coalition was finally forged between VVD (conservatives), CDA (christian democrats), D'66 (liberal democrats) and CU (christian social-democrats). This coalition leans to the right, but has a couple of green characteristics, represented in particular by CU and D'66.

The Accord presents a "modernisation of the tax system". Earlier in the 2012 Fiscal Plan three principles have been formulated for a good fiscal practice: simplicity, robustness and fraud resistance. The 2016 Fiscal Plan formulated three "packages" for developing a new system. Package 1 included reducing income taxes and increasing allowances. Package 2 contained improvements within the current system, including a substantial reduction of the

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[1] See my note Environmental tax reform: some developments in the Netherlands and the 2016 Fiscal Plan (21 March 2015).
[2] Environmental tax reform in the Netherlands 2017.
[3] Regeerakkoord "Vertrouwen in de toekomst"; also available in English, French and German: https://www.kabinetsformatie2017.nl/documenten/publicaties/2017/10/10/regeerakkoord-vertrouwen-in-de-toekomst.

number of products under the low VAT-tariff and Package 3 should revise the system itself, including reducing the large number of brackets, exceptions, thresholds and other special arrangements that had grown into the system as political compromises after the previous major overhaul of 2001. This would also include a refreshed look at greening the fiscal system.

In 2017 and 2018 alongside the strong growth of the Dutch economy considerable reductions of the tax burden have been and will be granted (package 1).

Two major measures in the new Government Accord under packaging 2 are an increase of the low VAT tariff – levied roughly on basic needs – from 6% to 9% by 2019 and a reduction of the number of income tax brackets from four to two (by 2018)[4]. As regards packaging 3 a full revision is not imminent. Some initiatives have been announced, e.g. tackling tax evasion by multi-nationals. This note will be limited to its main topic: green tax reform. Extending the concept of ETR to consumption, the increase of the low VAT tariff is included below, even though the distinction of products and services under the low tariff ("basic needs") and the regular tariff of 21% ("luxury goods") is far from similar to the environmental impact of both categories.

Green tax reform

Assessing the balance of increasing the tax burden on environment and consumption and reducing the tax on income requires a two-step approach. The original 2018 Fiscal Plan was presented on 19 September 2017 at the Opening of the Parliamentary Year. The Budget as made public by the Accord of 10 October is a corrective add-on.

Due to its demissionary status the outgoing Cabinet maintained a caretaker attitude that is reflected in the 2018 Budget. The only noteworthy change as relevant to ETR is an increase of the energy tax of € 200 million. This is a temporary increase for 2018 and 2019, and serves as a financer for energy-saving efforts in the corporate housing rental sector.

The Accord presents a couple of measures with various introduction dates. A complete picture can only be presented for 2021. By then, the total increase of the tax burden on environment and consumption is estimated at € 4 billion, of which € 1,400 million will come from environmental taxes (on energy, waste and air traffic; see table 1). This is sizeable, if compared to the total proceeds of environmental taxes of € 20 billion (2015).

Table 1 Tax measures in the Accord and their financial effect by 2021

Environment	**Effect by 2021** (€ mln)
Reduction tax-free threshold energy consumption	400
Termination of pay-back small-scale electricity generation	300
Minimum CO_2 price level in electricity generation	300
Air traffic tax	200

[4] The plea for a flat-rate income tax gets stronger in the NL, but is too inequitable under the current tax regime.

Shift energy tax from electricity to natural gas	200
Waste disposal and incineration tax	100
Corporate housing tax reduction	-100
Consumption	
Increase low VAT tariff	2600
Total	4000

The explicit ETR-type tax burden reduction on income is less easy to identify, as it is part of a far wider set of tax measures and measures to improving functioning of the labour market directed at the business sector. Even though a similar amount of money (roughly € 4 bln) will be made available from the state budget for a climate and energy transition, most of it will not be used for reducing the cost of labour, but for financing direct measures, such as developing renewable energy generation (e.g. off-shore wind parks), CO_2 storage and emission reduction technologies.

One measure has been explicitly labelled as environmental tax compensation, a reduction of the labour incapacitation premium for employers of € 200 mln (by 2020). Hence a sizeable increase of energy taxation, but a very modest ETR *sensu stricto*.

Specific taxes are dealt with in some more detail below, after a short note on the ambitious climate aspirations of the new Dutch cabinet.

Climate aspirations for 2030

The EU target of reducing CO_2 emissions by 40% by 2030 is not enough to keep global temperature increase below 2 degrees. The Dutch Government adopts a national, stricter target of 49% reduction by 2030[5] in any case[6] and will lobby for a combined EU wide target of minus 55%. If that would fail, a combined action with neighbouring countries will be made for an extra reduction above and beyond the current EU wide target.

Apart from the intended international efforts, the Accord presents a domestic, indicative sector-sharing task to realise the additional reduction (of 56 Mt CO_2) necessary to reach the 49% target.

Table 2 Indicative sector sharing under the additional reduction of CO_2 emissions by 2030

Sectors	**Indicative share** (%)	**Measures**
Industry	39	Recycling; process efficiency; CO_2 storage **(32%)**
Transport	6	Saving tyres; European standards; el-cars
Built environment	13	Energy use offices; insulation; heat networks and pumps; saving new houses

[5] The exact wording is"... measures that prepare us for a reduction of 49% by 2030."
[6] Though dependent on the outcome of EU negotiations in 2019 in preparation of the first 5-year follow-up of the Paris Agreement.

Electricity	36	Saving lighting; closing coal-fired power plants **(21%)**; CO_2 storage; extra off-shore wind energy; extra solar energy
Land use and agriculture	6	Smarter land use; less methane emissions; warehouses as energy source

Half of the efforts should be delivered by two measures: CO_2 storage in industry (32%) and closing the remaining five coal-fired power plants (21%). This will require massive subsidies.

Energy taxes[7]

A measure widely advocated in academic and green lobby circles is setting a minimum price on the emission of CO_2. The two traditional tools of energy taxation and the EU-ETS are ineffective due to insufficient internalisation of the cost of climate change in the price of fossil fuels, and to lack of scarcity of permits.

The Netherlands will adopt now such a minimum price in the electricity generation sector, of € 18 by 2020, up to € 43 by 2030 per tonne of CO_2.

Energy taxation on natural gas and electricity by households and small business will change. Tax on gas will increase by €0.03 per m3. Tax on electricity will decrease by € 0.0072 per kWh. This reflects better the carbon content of these two energy carriers.

The general energy taxation rebate will be reduced from € 308 to € 257 per installation.

Balancing the bill for small-scale sustainable energy generated locally by (associations of) households – the amount of electricity drawn from the grid minus the amount delivered back - will stop and will be replaced by a subsidy arrangement.

Air traffic tax

A tax on air passengers will be introduced by 2021 for persons older than 2 years of age. The tax will have a tariff of € 7, € 22, or € 40, depending on the destination. The tax will be conditional on progress in EU wide negotiations on climate targets for the aviation sector.

Waste disposal and incineration tax

The tax base will be widened to including navigation sludge and waste from bio mass energy plants. The tax will also be valid for waste destined for export. The tariffs for dumping and incineration will stay the same.

Transport taxes

[7] As usual, exact (2018) tax rates will be specified by December, based on intended policy changes and on the rate of inflation in the last year

Car Letter II,[8] the government's tax regime for passenger cars and vans for the period 2017-2020 will enter its second year.

Two main goals of this policy are 1) to ensure a constant income for government from car taxation, and 2) to support climate and air quality targets by well-tuned fiscal stimuli. The document also refers to earlier formulated principle goals of tax revision, 1) to make tax income more robust, and 2) to make the tax system simpler.

The policy has six concrete measures.

1) Reducing car registration taxes by 14.7% by 2020; this tax will be decoupled from the car's CO_2 emission in order to ensure a robust tax income.
2) Reducing annual road taxes by 2% for all passenger vehicles
3) Increasing annual road taxes for polluting diesel passenger cars and vans as of 2019
4) Reducing the number of brackets for income tax addition for company car drivers from 4 to 2
5) Reducing the general income tax addition from 25 to 22%
6) Reinforce fiscal stimulation of electrical vehicles (EVs)

One major new measure is the reduction of the number of brackets for income tax addition for company car drivers, from 4 to 2 by 2019. EV drivers will see 4% of the catalogue value of their car added to taxable income every year. For PHEVs and other cars this will be 17 % and 22%.

The **income tax addition** brackets for 2018 are:

0 gr/km : 4%
1-50 gr/km : 17%
Over 50 gr/km : 22%

The **registration tax** brackets for 2018 will be further sharpened. The standard component in the tax will be increased from € 175 to € 350. Tariffs will be reduced by 3.7 %, overall. Tariffs are lower for PHEVs than for regular cars. To diesel cars, a surcharge applies.

The **annual road tax**: 100% reduction for zero-emission cars; a 50% reduction for PHEV's with a CO_2 emission of less than 50 gr/km.

Up to and including for 2020, no registration tax, nor annual road tax, is due for EVs.

A "Maut" will be introduced for lorries "as soon as possible". The registration and payment system of the kilometre charge will be similar to that of neighbouring countries. The proceeds will be returned to the transport sector through a reduction of the annual road tax and subsidies for innovation and sustainability.

[8] Autobrief II, Ministry of Finance, 19 June 2015.

Assessment

In terms of a shift from labour taxes to taxes on an environmental basis, ETR is small. The foreseen increase of environmental tax revenues with 7 % is sizeable.

The new Government Accord steps up efforts to reach ambitious targets in terms of CO_2 reduction and the increasing share of renewable energy. However, many of the measures are programmed for the mid to long term, aiming at 2030.

The new policy package has not (yet) been assessed in terms of their impact on environmental goals.

The National Energy Review 2017[9] indicates that national targets set for CO_2 emission reduction (25%)[10] and the share of renewable energy (14%) by 2020 will not be met. The new policy measures designed by the new government have not been included in that review. They will probably not bring the targets closer, since many of the measures will only become effective by 2020 or later.

This policy package has a breath of postponement and seems to underestimate the sense of urgency of the climate problem that is widely felt.

An excellent article in the Dutch online magazine *De Correspondent*[11] points at a change of horizon. In its 2012 Accord, the previous government stated to aim for a fully sustainable energy generation by 2050. The present Accord formulates stricter climate targets for 2030, but expresses no ambitions for 2050.

Another feature of the Accord is that important targets are conditional on the efforts of other countries and of societal parties in the Netherlands. A bold, 55% target for CO_2 reduction by 2030 will be advocated EU-wide; if not followed internationally the Netherlands will adopt a 49% reduction which may be adapted on the basis of the outcome of negotiations EU-wide in preparations of the 2020 climate summit.

An important role is set for CO_2 storage, to be implemented by industry and energy generation sectors. Will they (be able to) comply, even under financial support by the State?

Introduction of an air traffic tax will depend on negotiations on the climate performance by the aviation sector.

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[9] Nationale Energieverkennning 2017 – ECN, PBL, CBS, RON, 2017.
[10] This target was set in a court case of an environmental lobby against the Dutch State; see my note Environmental tax reform: some proposals and intentions in the Netherlands for 2017, October 2016
[11] De Correspondent – Dit zijn de zes grootste missers in het klimaatbeleid van het Rutte III, by Jelmer Mommers (https://decorrespondent.nl/7446/dit-zijn-de-zes-grootste-missers-in-het-klimaatbeleid-van-rutte-iii/820616214-b51ea1ca).

Principal issues of the new policy package will be laid down in a Law on Climate and implemented by a new Climate and Energy Accord with societal partners. Neither the setting of targets at the proposed level, nor the potential of intended policy measures to achieve those targets seems assured. In the light of the ambitious targets, the concrete policy package seems weak. Success will anyhow depend on the availability of state funding, rather than on a substantial change of behaviour by social partners forced by appropriate internalisation of external costs.

Carrots are available, sticks do not seem very strong.