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1991

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MPRA Paper No. 6131, posted 07 Dec 2007 14:32 UTC

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Provincial governments in the Netherlands have only one general tax at their disposal. However, it has become an insufficient source of revenue for this level of government in the Dutch system. To increase the revenue raising capacity of the provincial governments, thirteen broad-based general tax proposals not used at the local level were examined. The objective was to find a fair and equitable tax that could easily be collected and would result in fl. 200 million in additional revenue for the provincial governments.

The Netherlands is a unitary state with three levels of government: central government, twelve provinces, and approximately 700 municipalities.[1] Each level of government has its own specific role and responsibilities. Following Musgrave and Musgrave[2] we can identify three basic functions of budgetary policy: allocation, distribution, and stabilization. Obviously, the stabilization function can be exercised appropriately only on the national level. Lower levels of government cannot successfully pursue a stabilization policy because they lack sufficient taxing and spending power. Moreover, their fiscal policy would be largely nullified by import leakages leading to very small, if any, multiplier effects. This is particularly true in a small economy like that of the Netherlands. Therefore, the stabilization function should be assigned exclusively to central government.

By and large, the same holds true for the distribution function. Redistribution policies, which aim at influencing the distribution of incomes among individuals, must be uniform within an area where the factors of production are most mobile, i.e., within national boundaries. Only minor changes in the income distribution will not effect the choice of location for both individuals and companies. In addition, both horizontal and vertical equity could easily be violated if each local governmental conducted its own distribution policy. Consequently, income distribution or redistribution policies must be pursued on a nationwide basis.

It will be clear that the allocation function is the most important one for lower-level governments. Allocation theory suggests that public services should be provided in line

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TABLE 1
Relative Size of Local Taxes in Unitary States, 1987

	Local Taxes as Percentage of Total Tax Revenues (Including Social Security)	Local Taxes as Percentage of GDP
Greece	0.9	0.3
Italy	1.1	0.4
Netherlands	2.2	1.1
Ireland	2.3	0.9
Belgium	5.0	2.3
Portugal	5.6	1.8
New Zealand	5.8	2.2
France	8.7	3.9
Turkey	9.8	2.4
Spain	10.6	3.4
United Kingdom	10.8	4.1
Luxemburg	11.7	5.1
Norway	19.8	9.7
Japan	25.9	7.7
Finland	26.4	9.5
Sweden	26.9	15.2
Denmark	28.8	14.9
Unweighted average	12.0	5.5

Source: OECD, *Revenue Statistics of OECD Member Countries* (Paris: OECD, 1989), tables 119 and 124.

with the preferences of the residents, while the costs should be shared in line with the relevant benefit region. Services with a nationwide benefit incidence should be provided for by central government, whereas services with local benefits should be provided for by local governments.[3] Thus, the allocation function is relevant for all levels of government.

Although each level of government imposes taxes, local taxes are often more visible than central government taxes.[4] Therefore, they raise more sensitive political issues. The distribution of taxation between different levels of government is often referred to as the tax assignment problem. As Brosio and Pola [5] point out, the "conventional" literature would agree on general principles of tax assignments leading to (among others) the following practical recommendations:

- The personal income tax and the corporate income tax should be assigned to the central government.
- Land and property taxes are the most suitable taxes for lower tiers of government.

Though the distribution of taxation satisfies both requirements in the Netherlands, the autonomous financial resources of lower-level governments are relatively low in comparison with the situation in other unitary states within the OECD-area. As Table 1 reflects, the Netherlands belongs to those countries where local taxes are very low, both as a percentage of total tax revenues and as a percentage of GDP. This holds true even if the Scandinavian countries and Japan, where local taxes are much more important, are left out of consideration.

One should be cautious, however, in interpreting these figures. A large share of local taxes in total tax revenues does not necessarily imply that lower-level governments are to a great extent financially autonomous. In most countries central governments set limitations on both the base and the rates of local taxes. Moreover, local tax revenues might be earmarked by central government for provisions to be supplied by lower-level governments. In addition, the number of duties assigned to local governments that are financed by local taxes may differ across countries. Consequently, high local taxes may be coupled with a low degree of financial autonomy if local governments lack latitude to choose their own pattern of duties. They simply have to tax their citizens accordingly.

This article deals with one level of government only: the provinces, whose fiscal capacity is considered to be too small. Consequently, the Dutch government deems it desirable to look for alternative provincial revenue sources.[6] This stated desire is based on three considerations. First, Dutch provinces have only one general tax at their current disposal, which is felt to be a disadvantage. Second, and related to this, the provincial tax is not optimally distributed over the population. Finally, a more general consideration concerning the funding of local governments is that a certain order of preference exists with regard to revenue sources. The first priority is assigned to local revenue, less preferable are deemed block grants, while the lowest priority is assigned to specific grants.

Taking these considerations as given, this article[7] deals with the problem of finding alternative provincial revenue sources. It is organized as follows. The next section describes the funding of provincial expenditure. The third section reviews the criteria used to judge alternative provincial taxes and summarizes the taxes that have been examined. In the fourth section it is judged whether the alternatives seem feasible or not. Finally, the fifth section presents a summary and the conclusions.

FUNDING PROVINCIAL EXPENDITURE

In 1970 provincial governments lost the ability to impose a surtax on both the land tax and the inhabited house duty. Although later this was replaced by the introduction of the ability to levy a surtax on the road-tax, the surtax was considered insufficient for enabling the provinces to function appropriately. Provincial tax power should be increased in order to strengthen the allocation function of provincial budgets.[8] Consequently, proposals for new (general) provincial taxes have been put forward, including real estate taxes and a building site tax. These proposals, however, encountered difficulties in Parliament, because some of the proposed taxes are also levied by municipalities. Parliament appeared to consider it undesirable that two different levels of government tax the same objects. Obviously, alternative provincial taxes are believed necessary.

Local governments have four revenue sources at their disposal: block grants, specific grants, local taxes, and other revenues. Table 2 exhibits the revenue structure of Dutch provinces in 1986. It appears that provincial governments rely for over two-thirds of

TABLE 2
Revenues of Provincial Governments, 1989

	Billion Guilders	%
Taxes and other levies	0.4	7
Other revenues	0.4	6
Block grants	4.0	69
Specific grants	1.0	17
Total	5.8	100

their revenues on central government grants, mainly in the form of specific grants.[9] The revenue structure of provincial governments, therefore, does not fit the alleged preference structure as described earlier. To a certain extent this seems a contradiction in Dutch politics.

From the viewpoint of lower-level governments specific grants have two main disadvantages:

- They limit the latitude of local governments to pursue their own policies. By their very nature, specific grants may only be used for financing specific and well described purposes.
- Specific grants do not necessarily cover all costs involved in carrying out the tasks they are supplied for. This limits the financial latitude of local governments further, because the "deficit" should be made up by falling back upon the general means.

Therefore, the Dutch government aims at lessening the number of specific grants. These have been diminished from over 500 in 1982 to 243 in 1989. The sum that is involved initially continued to increase. Since 1985, however, this sum also shows a tendency to decline.

According to the Province Act there is a Province Fund providing rules that govern both the revenues of the fund and the distribution of these revenues over provinces. The fund pays each province an annual block grant, that is fixed by a number of objective criteria:

- 42 percent in equal portions;
- 35 percent in proportion to the population;
- 17 percent in proportion to the land area; and,
- 6 percent in proportion to the length of the waterways.

Provincial governments are, in principle, free to spend block grants at their own discretion. In fact, block grants replace provincial tax power. Thus, they belong to the general means of provinces, thereby reinforcing the allocation function of the provincial budget.

According to the Constitution, law determines which taxes may be imposed by local governments. For provincial governments this has been carried into effect by a regulation in the Province Act ruling that provincial governments may levy:

- taxes based on specific laws;

- a surtax on the road-tax;
- legal charges (e.g., passport fees, nuisance license fees, etc.); and,
- a surtax on the radio and TV license fee.

One of these taxes, i.e., the surtax on the road-tax, yields over 50 percent of all taxes imposed by provincial governments. It is the only tax that can be considered to belong to the general means. Revenues of the other levies are earmarked for specific purposes. These levies thus enable provincial governments to finance specified spending programs. However, they do not strengthen the allocation function of provincial budgets, because they do not contribute to the latitude of provincial governments to purse their own policy.

SEARCHING FOR NEW PROVINCIAL TAXES

In judging alternative provincial taxes the possibility of provincial differentiation is deemed crucial. Each provincial government should be free in deciding whether or not to implement a new provincial tax. Moreover, provinces should be free to set their own rate. Given these premises five criteria are used to judge alternative provincial taxes:

- It must be a general tax rather than a specific tax. Thus, the revenues should not be earmarked.
- Liability to the provincial tax should not occur on the same grounds as liability to existing taxes of lower-level governments.
- The tax should yield reasonable and stable revenues (net of the cost of collection), should have as broad a basis as possible, and should have an acceptable distribution over provinces.
- The tax should be workable, whilst the cost of collection should be as low as possible (not exceeding 5 to 10 percent of the gross yield).
- Tax payers should identify the tax as a provincial levy.

Just for the purpose of illustration it is assumed that each provincial government would introduce the new provincial tax and that the total revenue would amount to fl. 200 million.

With the above mentioned premises and assumptions as starting points, thirteen alternative provincial taxes have been examined, some of them in different variants:

1. a provincial electricity tax in two variants:
   a. a tax on the purchase of electricity;
   b. a tax on the distribution of electricity;
2. a provincial community charge in six variants:
   a. a separate levy;
   b. a surtax on the personal income tax;
   c. a surtax on the water pollution tax;
   d. a tax on being connected to the electricity system;
   e. a tax on being connected to the water system;
   f. a tax on being connected to the telephone system;
3. a provincial tax;
4. a provincial surtax on the personal income tax;

5. a provincial surtax on the corporate income tax;
6. a combination of a provincial surtax on both the personal and the corporate income tax;
7. a provincial tax on construction costs;
8. a provincial tax on pleasure boats;
9. a provincial tax on jobs;
10. a provincial tax on bicycles;
11. a provincial tax on mopeds;
12. a provincial horse tax;
13. a provincial municipality tax.

JUDGING THE ALTERNATIVES

Alternative 1a: A Provincial Tax on the Purchase of Electricity

This tax can be imposed in three variants:

- a fixed amount per client;
- a surtax on the price of electricity;
- a fixed basic sum plus an amount increasing commensurately with the quantity of electricity purchased.

An apparent disadvantage of the first variant is that the quantity of electricity purchased does not play any role. Therefore, this variant implies that a single person pays the same amount as a large company. The second variant avoids this disadvantage because the tax is paid in proportion to the quantity of electricity purchased. However, large companies purchasing large quantities of electricity would have to buy huge amounts. The third variant avoids both drawbacks by steering a middle course. A common disadvantage of all three variants, however, is the high level of collection charges. As the number of connections to the electricity system amounts to six million, a revenue of fl. 200 million would require a rate of fl. 33 per tax payer in the first variant. Some evidence indicates that the cost of collection would be in the order of fl. 7 per assessment. Thus, these costs would amount to over 17 percent of the gross revenue, well exceeding the 5 to 10 percent which is deemed reasonable. The variants second and third are more complicated compared with the first. Therefore, the collection charges required by these variants would be even higher. Consequently, a provincial tax on the purchase of electricity does not seem feasible.

Alternative 1b: A Provincial Tax on the Distribution of Electricity

This alternative was developed in order to ease the practicability of a provincial electricity tax by lowing the costs of collection. These costs amount to approximately 2 percent if several tens of electricity distributors would be liable to taxation rather than six million electricity users. Though this alternative designates suppliers rather than consumers of electricity as liable to taxation, materially it corresponds to a tax on the purchase of electricity if the distributors are obliged to pass the tax on to the consumers. This tax can be imposed in the same three variants as a tax on the purchase of electricity. The same arguments apply, except the costs of collection argument. Therefore, a provincial tax on the distribution of electricity in the form of a fixed sum per connection plus an amount increasing proportionally with the quantity of electricity delivered per connection seems, in principle, a feasible alternative.

Alternative 2a: A Provincial Community Charge as a Separate Levy

This alternative resembles the community charge that was introduced in Scotland in 1989 and in England and Wales in 1990.[10] The most important question concerning this alternative is to decide who are and who are not liable to taxation. One can think of several options:

- all individuals regardless their age;
- all individuals over 17;
- all individuals between 18 and 65.

As a matter of course both the number of taxpayers and the rate heavily depend on the option chosen. The number of taxpayers amounts to 14.6 million in the first option, 10.6 million in the second, and 8.9 million in the third option. On the premise of a total revenue of fl. 200 million the corresponding rates would be nearly fl. 14, almost fl. 19, and over fl. 22 respectively.

This alternative is characterized by the same drawback as the electricity tax. The costs of collection relative to the tax rate are high and range from 24 to 34 percent of the gross revenue. Thus, these costs well exceed what is considered to be reasonable. Consequently, this alternative—though an attractive levy in itself—is deemed not feasible, unless the costs of collection could be lowered. This would require the rejection of the idea of a separate levy and to combine the community charge with some other levy. Therefore, Alternatives 2b through 2f were examined.

Alternative 2b: A Surtax on the Personal Income Tax

A lump sum per wage and/or income taxpayer is relatively simple, though some complications can occur. One complication arises from the fact that the wage tax serves as an advance levy to the income tax, while some technical differences emerge in the way both taxes are imposed. Another complication occurs if one is not employed in the province of residence. These complications can be solved, though that would raise the collection charges. Nonetheless, it is an important advantage that the costs of collection are limited.[11] They could be imputed to the two taxes in proportion to their respective revenues.

As in the Netherlands roughly 10 million people are liable to the wage and/or income tax, a total revenue of fl. 200 million would require an average rate of fl. 20 per taxpayer. However, this alternative would encounter political difficulties, because the distribution function belongs to the domain of central government. As stated earlier distribution or redistribution policies must be uniform in all provinces. This requirement is not met by a surtax on the wage and income tax with a rate that can be fixed by each provincial government and, consequently, can differ across provinces. Therefore, this alternative does not seem feasible. Provincial governments, however, have already indicated that they favor a surtax on the personal income tax. Though they agree with the principle distributive argument against this alternative, they emphasize that in practice it can hardly play a serious role because the quantitative impact is only marginal.

Alternative 2c: A Surtax on the Water Pollution Tax

The costs of collection can be limited by combining the community charge with the water pollution tax. The latter is levied by central government, three provincial governments, and twenty-seven local polder governments depending on the jurisdiction under which the water falls. However, the water pollution tax is imposed on households rather than individuals. Moreover, in 50 percent of all cases the water pollution tax itself is combined with other levies and often appears on the bills of power companies.

The practicability would be hampered further if the surtax would vary across provinces, because provincial jurisdiction does not always coincide with the jurisdiction of local polder governments. Furthermore, local polder governments will not voluntarily cooperate in collecting the community charge. For all these reasons this alternative does not seem feasible.

Alternative 2d: A Tax on Being Connected to the Electricity System

In this alternative, liability to taxation occurs if two conditions are met: both residing in a province and being connected to the electricity system.[12] In the Netherlands there are roughly six million small electricity users. A total revenue of fl. 200 million would thus require a rate of over fl. 33 (excluding the costs of collection). However, this tax is imposed on households and small companies rather than individuals.[13] It is possible to leave companies out of the levy, but that would raise both the rate and the collecting charges.

The practicability of this alternative seems limited for a number of reasons. Many electricity distributors are privatized and will not voluntarily cooperate in collecting the tax, while their markets do not always correspond to provincial jurisdictions. Moreover, it is not always possible to decide whether a connection concerns a household or a company. Furthermore, the costs of collection would amount to approximately fl. 5 per assessment, being over 13 percent of the gross revenue and thus still exceeding the upper limit of what is considered to be reasonable. Therefore, this alternative does not seem feasible.

Alternative 2e: A Tax on Being Connected to the Water System

In this variant, liability to taxation emerges if two requirements are fulfilled: both residing in a province and being connected to the water system. As the number of connections amounts to some 5.5 million, a total revenue of fl. 200 million would require a rate of fl. 36 (net of the costs of collection). The practicability of this alternative is also limited. Roughly 800,000 connections cannot be approached directly, because they lack an individual water meter.[14] Moreover, the water companies will not voluntarily cooperate in collecting the tax. Furthermore, markets of water companies do not always correspond to provincial jurisdictions. Finally, the collecting charges will be high because of the need to decide whether a connection concerns a household or a business. Therefore, this alternative does not seem feasible.

Alternative 2f: A Tax on Being Connected to the Telephone System

In this alternative, liability to taxation occurs if the following two conditions are met: residing in a province and being connected to the telephone system. As the number of connections amounts to roughly 6.5 million a total yield of fl. 200 million would require a rate of fl. 31 (excluding the collecting charges). The practicability of this alternative is limited for reasons similar to those of Alternatives 2c, 2d, and 2e. The telephone company does not always know whether a connection concerns a household or a business. Though it is possible to ascertain all residents of a province who are connected to the telephone system, that would raise the collecting charges considerably. Moreover, rate differentiation across provinces would be hampered because telephone districts do not generally coincide with provincial boundaries. Furthermore, the (privatized) telephone company will not voluntarily cooperate in collecting the tax. For all these reasons this alternative does not seem feasible.

Alternative 3: A Provincial Commuter Tax

This alternative shows some similarity with the conurbation tax that is levied by some regions in France. One can think of several variants: levying a fixed amount from companies employing more than nine commuters, levying a certain amount from any company employing one or more commuters, etc. Crucial, of course, is the definition of commuter. A workable definition seems a person whose place of residence is situated a minimum distance from his or her place of employment. If desired, one can add a regulatory characteristic to the tax both by setting a certain minimum distance and by setting differential rates in proportion to the distance. An example of such a distance related variant is elaborated in Table 3 on the premise that the total revenue amounts to approximately fl. 200 million.

The feasibility of this variant of a commuter tax is positively affected by the current political climate, favoring environmental policies. Moreover, it seems possible to keep the costs of collection within the limit of what is deemed reasonable. Although many aspects should be studied in more detail a commuter tax seems, in principle, a feasible alternative in the long term.

TABLE 3
Rates of a Distance Related Commuter Tax

Distance in km.	Number of Commuters (x 1,000)	Rate (x fl. 1)	Revenue (x fl. 1 million)
<10	3,100	0	0
10–20	1,300	40	52
20–30	500	80	40
30–40	200	120	24
40–50	200	160	32
>50	300	200	60
			208

Alternative 4: A Provincial surtax on the Personal Income Tax

Several variants of this alternative are possible. The main variants are a fixed percentage of the amount of wage and/or income tax paid, an increase of the wage and income tax rates and a lump sum per taxpayer. The first two variants affect the income distribution by increasing income differentials, whereas the latter variant has an opposite effect. Though some complications occur (as already mentioned under Alternative 2b) this alternative seems reasonably practicable, while the costs of collection are relatively low. A disadvantage, however, is the sensitivity of the income tax to the economic situation. In the 1977–1987 period total revenues of the personal income tax decreased four times, while the annual changes ranged from −5 to +10 percent. Moreover, this alternative would encounter political difficulties, because the distribution function belongs to the domain of central government. Therefore, a provincial surtax on the income tax does not, in principle, seem feasible. Nonetheless, as already noted under Alternative 2b, provincial governments favor this alternative because it would no more than marginally affect the income distribution.

Alternative 5: A Provincial Surtax on the Corporate Income Tax

This alternative can take the shape of either a fixed percentage of the amount of tax paid or a lump sum per corporation. A total yield of fl. 200 million would require an increase of the tax rates by 1.2 percentage points or a lump sum of fl. 1,100 per corporation. A drawback of this alternative is its sensitivity to the economic situation. In the 1977–1987 period, the yield of the corporate income tax showed three annual declines, while the annual changes varied between −5 and +27 percent. However, the practicability of this alternative seems reasonable, and the collecting charges are relatively low. The latter could be imputed to the two taxes in proportion to their respective revenues.

The entire burden of a provincial surtax on the corporation income tax would weigh upon trade and industry, while companies liable to the personal income tax would be left out. Obviously, this is an imbalance. Moreover, the corporate income tax is considered to be a policy instrument of central government. Therefore, this alternative does not seem feasible.

Alternative 6: A Combination of a Provincial Surtax on Both the Personal and the Corporate Income Tax

The combination of two taxes implies moderate rates. If both taxes would yield equal revenues, a total yield of fl. 200 million would require an average rate of fl. 10 per person and fl. 550 per corporation. This combination seems less sensitive to the economic situation than the separate alternatives. In the 1979–1989 period the combined revenues of the personal and the corporate income tax showed only two annual declines, whilst the annual changes ranged from -5 to $+15$ percent. For the rest the same arguments apply as to Alternatives 4 and 5, albeit that as a matter of course the costs of collection will be higher. As Alternatives 4 and 5 do not seem feasible, the same holds true for this alternative.

Alternative 7: A Provincial Tax on Construction Costs

A tax on construction costs shows some similarity to the real estate transfer tax. The difference is that the latter applies to any transfer of all real estate, whereas the former is confined to the first transfer of newly built real estate only. Obviously, investments in homes and buildings are sensitive to the economic situation. In the 1979–1987 period the total showed three annual declines, while the annual changes varied between -6 and $+12$ percent. As total investment in newly built real estate amounted to fl. 37 billion in 1987 a yield of fl. 200 million would require a modest tax rate of 0.54 percent (net of the costs of collection).

Though practicability seems reasonable, this alternative does not seem opportune. First, it would hamper mobility on labor and housing markets, whereas the policy of central government aims at stimulating mobility on these markets. Second, the introduction of a provincial tax on construction costs would contradict the intention of the coalition government that took office in 1989 to lower the real estate transfer tax. Therefore, this alternative does not seem feasible.

Alternative 8: A Provincial Tax on Pleasure Boats

In the Netherlands there are roughly 200,000 pleasure boats. Despite some complications a provincial tax on these boats seems reasonably practicable, though to a certain extent it also seems sensitive to fraud and evasion. A revenue of fl. 200 million would require a rate of fl. 1,000 per boat, which is considered to be unreasonably high. The burden of the tax would weigh upon less than two percent of the population, which seems hard to justify. Moreover, the distribution of the yield over provinces is very unequal as 72 percent of all pleasure boats are concentrated in only four provinces. Therefore, this alternative does not seem feasible.

Alternative 9: A Provincial Tax on Jobs

In this alternative liability to taxation occurs by the existence of employment contracts. An annual amount could be levied per job, whether or not in proportion to the length of the working week. As over five million people have a contract of employment the rate can be moderate. An amount of fl. 40 per person would yield a total of fl. 200 million.

Practicability depends on whether the tax will be imposed on employees or on employers. The former implies relatively high costs of collection of 15 percent of the gross revenue on the assumption that the total yield would amount to fl. 200 million. If the tax would be imposed on employers the collecting charges are likely to be lower, although some complications still occur.

Obviously, this alternative has two striking drawbacks. First, the tax would negatively affect total employment. Second, social acceptability can be expected to be very low. Thus, this alternative does not seem feasible for both economic and psychological reasons.

Alternative 10: A Provincial Tax on Bicycles

In the Netherlands there are over 11 million bicycles. A total revenue of fl. 200 million would thus require a rate of approximately fl. 17.50. As the costs of collection would amount to some fl. 10 the total rate would come to about fl. 27.50. This rate is high relative to the price of bicycles, particularly of second-hand bikes, whilst the costs of collection well exceed what is deemed reasonable. Furthermore, inspection is difficult and the tax seems very sensitive to fraud. Moreover, the tax contradicts the environmental based policy aimed at reducing motor traffic by stimulating the use of bicycles. For all these reasons this alternative does not seem feasible.

Alternative 11: A Provincial Tax on Mopeds

In the Netherlands there are over 500,000 mopeds. A provincial tax on mopeds yielding fl. 200 million would therefore require a rate of approximately fl. 410 per moped, which is considered to be unreasonable high. It can be expected that the tax is very sensitive to fraud. The entire burden of the tax would weigh upon less than 4 percent of the population, whilst these people are likely to belong to the lower income brackets. Because of several complications that occur practicability seems limited, while the collecting charges will be extremely high. Therefore, this alternative does not seem feasible.

Alternative 12: A Provincial Horse Tax

In the Netherlands there are roughly 65,000 horses. A tax yielding fl. 200 million would thus require a rate of over fl. 3,000 per horse, which is deemed unreasonably high. Practicability seems scanty. Registration and inspection would encounter many difficulties and would thus imply high collecting charges. The tax would be sensitive to fraud, while the entire burden of the tax would weigh upon less than 0.5 percent of the population. Moreover, the distribution over provinces would be imbalanced. Therefore, this alternative does not seem feasible.

Alternative 13: A Provincial Municipality Tax

The main problem with a provincial community charge (Alternative 2a) is the level of the costs of collection. For this reason a number of variants approaching the community charge were examined. Another indirect approach is based on the idea of tax sharing in a reversed direction. Municipalities could be designated as liable to a provincial tax with a rate that is established by municipal characteristics like population and surface area.[15]

Although a provincial municipality tax is theoretically a close substitute to a community charge, it is not likely to be recognized as such by the citizens. However, this alternative seems very practicable as very few complications are involved. The tax can yield reasonable and stable revenues, it has a broad basis and its distribution over provinces is acceptable. Moreover, the costs of collection are presumably very low. A prerequisite, of course, would be that municipalities are either able to increase their revenues accordingly or are compensated for the provincial municipality tax.

SUMMARY AND CONCLUSIONS

The Netherlands is a unitary state with three levels of government: central government, twelve provinces, and nearly 700 municipalities. The literature identifies three basic functions of budgetary policy: the allocation function, the distribution function, and the stabilization function. The latter two are most relevant for central government. For lower-level governments, however, they are of lesser importance or not important at all. Consequently, the allocation function is the most important for lower tiers of government.

The autonomous financial resources of lower-level governments are relatively low in the Netherlands. In particular, the fiscal capacity of provinces is considered to be too small. Consequently, the Dutch government deems it desirable to look for alternative provincial revenue sources. With several premises and assumptions as starting points, this paper examines thirteen alternative provincial taxes, some of them in different variants. These alternatives can be classified into three categories:

1. alternatives which could, in principle, be implemented;
2. alternatives which could encounter political difficulties and could therefore not be implemented; and
3. alternatives which do not meet the selection criteria used.

It is concluded that, in principle, Category 1 includes:

- a provincial tax on the distribution of electricity;

- a provincial commuter tax, at least on the longer term; and
- a provincial municipality tax.

Though a provincial surtax on the personal income tax could encounter political difficulties on the central level and thus belongs to Catagory 2, provincial governments have already indicated that they favor this alternative.

NOTES

1. In 1980 there were still over 800 municipalities. This number, however, has been diminished by municipal boundary reshuffling and—more in particular—by uniting small municipalities. During the 1980s the number of municipalities with a population of less than 5,000 declined by 56 percent, whereas the number of municipalities with a population between 20,000 and 50,000 increased by 61 percent. In contrast, the number of provinces is very stable. Until 1986 it numbered eleven, from 1986 it amounts to twelve.
2. Richard A. Musgrave and Peggy B. Musgrave, *Public Finance in Theory and Practice* (Tokyo: McGraw-Hill Kogakusha Ltd, 1976).
3. Compare also Dick Netzer, "State-Local Finance and Intergovernmental Fiscal Relations" in Alan S. Blinder, et al., *The Economics of Public Finance* (Washington, D.C.: The Brookings Institution, 1974), 361–421.
4. An inventory of taxes in countries of the European Communities is published on an irregular basis. See, for example, Commission of the European Communities, *Inventory of taxes: 1986 edition* (Brussels/Luxembourg, 1986).
5. Giorgio Brosio and Giancarlo Pola, "A Survey of Various Attempts to Explain the Distribution of Tax Revenues among Levels of Government," in Aldo Chiancone and Ken Messere, eds., *Changes in Revenue Structures* (Detroit: Wayne State University Press, 1989), 403–420.
6. This is not a unique Dutch phenomenon. In a number of countries there has been a search for new sources of revenue for lower-level governments. See Council of Europe, *Financial resources for local and regional authorities* (Strasbourg, 1985).
7. This article is largely based on a report that was presented to the Dutch government. See Werkgroep-Haks, *Rapport Werkgroep alternatieve provinciale belastingbronnen* (The Hague: Ministerie van Binnenlandse Zaken, 1990).
8. This fits into the trend towards decentralization of decision-making towards lower levels of government that has been observed in the industrial countries. See OECD, *Progress in Structural Reform*, Supplement to OECD Economic Outlook 47 (Paris: OECD, 1990).
9. The same holds true for municipal governments, whose revenues are, indeed, nearly ten times as high as total provincial revenues.
10. See Arthur Midwinter, "The Politics of Local Fiscal Reform," *Public Policy and Administration* 4 (Summer 1989): 2–9.
11. The costs of collection of the wage and income tax amount to 2 percent of the gross revenue.
12. Note that only one of these elements is relevant for the electricity tax (Alternatives 1a and 1b). Being connected to the electricity system alone suffices for being liable to the electricity tax.
13. Some 5 to 6 percent of the small users are businesses.
14. In those cases, one is often assessed in proportion to the surface of the premises.
15. This idea has been put forward by P.B. Boorsma, "Belastinghervorming in Nederland," *Economisch Statistische Berichten* 71 (Jan. 22, 1986): 80–85.