

# WILEY



---

Progressive Taxation in Holland

Author(s): A. J. Cohen Stuart

Source: *The Economic Journal*, Vol. 8, No. 31 (Sep., 1898), pp. 325-332

Published by: Wiley on behalf of the Royal Economic Society

Stable URL: <http://www.jstor.org/stable/2956534>

Accessed: 27-06-2016 13:41 UTC

---

Your use of the JSTOR archive indicates your acceptance of the Terms & Conditions of Use, available at  
<http://about.jstor.org/terms>

JSTOR is a not-for-profit service that helps scholars, researchers, and students discover, use, and build upon a wide range of content in a trusted digital archive. We use information technology and tools to increase productivity and facilitate new forms of scholarship. For more information about JSTOR, please contact [support@jstor.org](mailto:support@jstor.org).



*Wiley, Royal Economic Society* are collaborating with JSTOR to digitize, preserve and extend access to  
*The Economic Journal*

## PROGRESSIVE TAXATION IN HOLLAND.

PERHAPS the moment may not be thought improper to say something about progressive taxation as prevailing at present in Holland, as this country is just now bound to abolish the greater part of existing progressive taxes.

Of the four bodies entitled to levy taxes, viz., State, Province, *Gemeenten* (Commune), and *Waterschap* (polder-district), only two, the State and the Commune, deserve our attention in connexion with progressive taxation. The provinces derive their revenues mainly from additional percentages on direct state-taxes, also for a small part from tolls on roads and canals, and from some special taxes which afford no scope for progression. The latter is also the case with the taxes levied by the waterschappen or polders.

A few years ago we could not have said much more about progressive taxation by the State itself. Until the year 1892 we had no income-tax in Holland, and about the only instance of progressive taxation was to be found in the poll-tax, which was levied on furniture, fire-places, horses and servants at a progressive rate.

In 1892, however, Mr. Pierson, then Minister of Finance, succeeded in establishing an estate-tax which, together with a tax on business and other incomes passed in 1893, now forms our income-tax.

Several years before, a great many communes levied already income-taxes, some of which had adopted the system of progression. It is the application of the principle of progression by the communes which has been overdone here and there, and has led to a reaction that in its turn seems to have gone too far.

It is my intention in this article, first to show how the principle of progression has been laid down in the two State-taxes which together form our income-tax. I shall then say a few words about the application the communes have given to the principle of progression, and point out the reasons why the

central power has thought fit to put a check on the progressive tendencies of some of the communal authorities.

*Estate-tax.*—Though meant as part of an income-tax, this tax is calculated not from the income itself, but from property, the fiction being adopted that the normal yield of income out of property is 4 per cent. This method of calculation was thought to be the most equitable and the most practical at the same time; and one of the reasons for dividing the income-tax into an estate-tax and a tax on other incomes, was to render the application of this method possible. Another reason for dividing the tax into two different taxes, lay in the desire to charge income from property at a higher rate than income from business, which however, apparently could have been realised as well with a single income-tax by deducting a proportional part of all income from business.

The system of progression applied to the estate-tax may be called a modified Benthamic one.

The amount of the tax is 1.25 florins for every thousand guilders of property, after deduction of ten thousand guilders (corresponding in the above-named fiction to  $3\frac{1}{8}$  per cent. of the income after deduction of f. 400). If the total estate, however, exceeds f. 200,000 the excess is taxed at the rate of f. 2 for every thousand guilders (corresponding as above to 5 per cent. of the income).

For small estates the scale of taxation has been lopped off so to say. Until the estate amounts to f. 13,000 no tax has to be paid. Of f. 13,000 is levied only f. 2 (instead of f. 3.75); of f. 14,000 only f. 4 (instead of f. 5). From f. 15,000, value of estate, the system, as sketched above, is carried through.

Now, if we draw the curve of percentages, the incomes as supposed to be 4 per cent. of the property forming the abscissa and the percentages levied from the incomes so construed forming the ordinates, the result of the system adopted by our estate-tax is this.

Up to an income of f. 8,000 (corresponding with a property of f. 200,000) the curve is the Benthamic one, with a deduction of f. 400 and a percentage of the surplus of  $3\frac{1}{8}$  per cent., only lopped off as it were at the lower end, beginning, in fact, at an income of f. 520, instead of at one of f. 400, the curve soon resuming its normal course, at an income of f. 600, corresponding with a property of f. 15,000.

Passing the income of f. 8,000, the first Benthamic curve comes to a stop; the curve of percentages suddenly begins to rise

quicker. In fact, at that point we enter into a second Benthamic curve, formed by deducting f. 3,250 from the income, and taxing the surplus at the rate of 5 per cent.

Though appearing somewhat artificial at first, the system appears to me not to be without some theoretical and practical merits. Theoretically, it can be said to correspond with a division of the wants of the individual owner in to (1st) those of existence, which ought not to be taxed at all, (2nd) those of comfort, &c., which ought to be taxed moderately, and (3rd) those of luxury which ought to be taxed at a higher rate. The Netherlands Estate Tax then seems to consider the minimum of existence as corresponding to an income of about f. 400, and the wants of comfort as being satisfied by an income of f. 8,000, above which what is spent is considered as luxury.

Practically the system, arbitrary though the limits so adopted may be, gives a not unsatisfactory rate of progression.

*Tax on Business and other Incomes.*—Let us now consider the other part of the divided income tax. The principle of progression is essentially the same as that of the tax on property, viz. :—a Benthamic progression up to a certain income with a second Benthamic progression from that income upward.

Besides the percentage amounting only to about two-thirds (64 per cent.) of that levied by the estate-tax, the system has been slightly modified in details. In conformity with the deduction of f. 10,000 in the estate-tax, which in the adopted fiction yields an income of f. 400, this sum should have been deducted from the business income to get to the taxable income. Considering, however, that the minimum of existence must be represented by a larger income, if derived from labour than if derived from capital, the deduction was initially fixed at f. 600. The progression resulting therefrom was, however, objected to by the Second Chamber as bearing too heavily upon small incomes. The deduction was then fixed at f. 800, but in order to be able to tax smaller incomes, and further, to correct the too rapid rate of progression for incomes little higher than the deducted sum, the Benthamic curve, instead of being lopped off as in the case of the estate-tax, was distended at its base. In fact, the curve beginning with a tax of f. 1 for an income of f. 650—instead of f. 850—resumes its normal course only at an income of f. 1,500—all incomes between f. 650 and f. 1,500 paying somewhat more than would correspond with the said curve. For an income of f. 1,500 a tax has to be paid of f. 14,

corresponding with a two per cent. base after deducting f. 800 from the total income. The tax then continues at this two per cent. rate, until the income has reached f. 8,200, paying accordingly a tax of f. 148. The further excess is then taxed at the rate of 3·2 per cent.; the proportion between the tax above and below an income of f. 8,200 being exactly the same as with the estate-tax, viz. : of 8 to 5.

A special arrangement had to be made for mixed incomes derived in part from property and in part from labour. The arrangement has been made thus, that the estate tax is calculated without any reference to the business income. If the estate exceeds f. 200,000, the whole income out of business (with a deduction of f. 200) is taxed at the highest rate, viz., 3·2 per cent. If the estate is below f. 200,000, the income out of business (with a deduction of f. 400) is taxed at the rate of 2 per cent., in so far as added to the income out of property (calculated according to the fiction that it yields 4 per cent. interest) it does not surpass a total sum of f. 8,200, the excess being taxed at the 3·2 per cent. rate. We can leave out of consideration some minor deviations which, as a consequence of the deviations of the two scales at their base, had to be introduced to effect a proper gradation in the case in which the income both from estate and from labour is small.

Let us now consider the communal income-taxes.

The field for communal taxation, as described by the organic act relating to those bodies of the year 1851, has since been more and more restricted. In the year 1865 the communal excises were abolished, and several years later the part of four-fifths of the State poll-tax, till then at the disposition of the communes, was fixed at the mean of the five preceding years, by which measure the communes were deprived of any increase in the produce of the said tax.

What with increasing population, and increasing expenditure on police, on relief of the poor, and on public instruction, it is not to be wondered at that many communes had to avail themselves of the faculty left to them by the organic law in raising a capital-tax. This capital-tax in many communes soon took the shape of an income-tax. In the more liberal and democratic, and partly at the same time poorer communes of the northern provinces, Groningen and Friesland, the principle of progression was then hailed as an expedient to earn a gratifying amount out of the income-tax without charging the poorer classes too high.

The progression adopted in some instances led to very wrong results. In some cases incomes were exempted from taxation which could very well have borne their part, causing thus the charge for all higher incomes, larger than the exempted, to become too onerous. Or the progression itself for the dutiable incomes was made too rigorous so that smaller incomes were charged too low in proportion to large incomes, and, in order to get the produce wanted, the whole tax had to be raised so as to charge large incomes at a rate of 10 or even 13 per cent.

This system resulted not only in urgent complaints from those persons who found themselves taxed at an almost yearly increasing and well-nigh intolerable rate, but also in serious consequences to the involved commune itself. Comparatively rich persons, who were not absolutely bound to dwell in such a commune, left it, and so caused new damage to the communal finances.

The former Government, proposing a bill containing new rules for payments out of the national exchequer to the communes, used the occasion thereby given to propose new rules for communal taxation which should put a check to those too progressive taxes. The measure proposed was very drastic, as it tended to prohibit every kind of progression except the pure Benthamic one. It was energetically opposed by the more democratic members of the Second Chamber, among whom stood foremost Mr. Goeman Borgesius, now Minister for the Interior. In accordance with the views since expressed in *De Economist* (1897, April) by Mr. Rahusen, then professor in mathematics at the polytechnic school, Delft, he proposed the following system. The progression should be a Benthamic one, in so far as an equal sum would be deducted from every income. The excess, *i.e.* the dutiable income, however, could be taxed at a progressive rate, provided the highest percentage taken of the dutiable income did not exceed twice the lowest percentage. So, if a commune would tax a millionaire 10 per cent. on his dutiable income, it would be bound to tax the first f. 100 above the minimum of existence at the rate at least of 5 per cent.

Besides, the amendment stipulated that for every f. 100 by which the dutiable income increased, the increments of the tax should be at least as high as, and at the same time not higher than double the increments for any former f. 100 of dutiable income.

Energetically though the amendment was defended by Mr. Goeman Borgesius and his friends, they did not succeed in carrying it through; it was lost by 47 votes against 36, and the system of the Government was adopted by the Chamber.

Accordingly, the act regulating this matter, of May 24, 1897, now contains a paragraph stipulating the following:—

“In levying a capitation or other direct income-tax, no revenues may be left out of calculation, nor be calculated or estimated under their real amount, except in so far as in the case of variable incomes a mean value out of two or more years may be computed.

“The amount of the tax must be the same percentage for all incomes, after deduction from all incomes of a sum necessary for livelihood, equal for all incomes or varying only according to the construction of the family. Deviation from this rule is permitted if existing regulations or special circumstances make such deviation desirable, and on condition that the distribution of charges do not vary considerably from that which would be obtained by adhering to the said rule.”

This legislative product appears highly unsatisfactory. The Benthamic progression is not fit to give the solution of the very difficult problem that was laid before the Government, especially as concerning small and poor communes. Either the deducted income will be taken too large, and the pressure upon all other incomes will in consequence be too heavy, or the deducted income will be taken small enough to allow the communal fiscus to get at the greater part of the citizens, but then the progression, coming practically to an end at a point not very remote from the minimum of existence, will leave the smaller incomes taxed too heavily in proportion to larger ones. In both directions the dangers and difficulties are much greater than they were in the case of the State income-tax, and even here the pure Benthamic progression, though, as may be supposed, not without attraction for the statesman who proposed that tax, had to be abandoned for a more effective progression.

We have every hope, however, that the fault will be remedied before its evil consequences show themselves. According to a clause under article 14 of the act of 24th May, 1897, the existing local taxes will cease to be in force only on 1st January, 1901. So there are more than two years left in which a better system can be substituted for the defective one by changing the relative paragraph in the act.

Now, as has been said, the system of the Ministers of the Interior and of Finance who defended the act, was most fiercely opposed by Mr. Goeman Borgesius who, perceiving that he would not gain his cause, prophesied a very short life-time to the adopted stipulation. Having since become Minister of the Interior in his turn, Mr. Goeman Borgesius may be expected to try to make his prophecy prove a true one, and seconded as he is by such a financier as Mr. Pierson, who introduced a much more

satisfactory system in his taxes on estate and on business-incomes, he will apparently not have to encounter great resistance from his colleagues in the Cabinet.

It cannot be denied, however, that the problem is not an easy one to solve.

I doubt even if the idea promoted by Professor Rahusen and at the time adopted by Mr. Goeman Borgesius will prove as efficacious as it appeared to them.

Indeed, the difficulty lies for the greatest part not so much in a too rigorous progression from a theoretical point of view, but rather in the peculiar distribution of wealth or income in those communes where progressive taxation has given cause for the loudest complaints. Not that I would undertake to defend some of the systems put into operation, and of which Mr. J. Bs. Westerdyk in his article in "*De Economist*" of March, 1897, illustrated by a graphical representation, has given some striking instances. But, if we consider some of the scales of progression adopted by those communes which are cited as the worst examples, we must confess that, in themselves, the curves they show are not so bad.

It would take us too far to analyse many of the communal taxes under consideration. But let us take, to illustrate the point, the taxation of the Friesian commune, Doniawerstal. There the progression is not found by deducting a minimum of existence, but by considering an increasing percentage as dutiable income; in fact, showing what is often called degression. Below f. 200 of income no tax is levied. As dutiable income is further considered the percentage of the real total income, as shown hereunder:—

Income.	Percentage representing the dutiable income.	Income.	Percentage representing the dutiable income.
f. 200 ...	... 15%	f. 1,000	... 60%
„ 250 ...	... 20 „	„ 1,200	... 65 „
„ 300 ..	... 25 „	„ 1,400	... 70 „
„ 400 ...	... 30 „	„ 1,600	... 75 „
„ 500 ...	... 35 „	„ 1,800	... 80 „
„ 600 ...	... 40 „	„ 2,100	... 85 „
„ 700 ...	... 45 „	„ 2,400	... 90 „
„ 800 ...	... 50 „	„ 2,700	... 95 „
„ 900 ...	... 55 „	„ 3,000 and upwards	100 „

Now, the distribution of income among the population of Doniawerstal in the year 1897 was thus, that the highest income was between f. 8,000 and f. 9,000, owned by one person. Further,



the following numbers of persons owned incomes as given hereunder :—

Number of Persons owning a dutiable Income.			Incomes.		
1	between	f. 8,000	and	f. 9,000	
1	...	„ 4,000	...	„ 5,000	
6	..	„ 3,000	...	„ 4,000	
7	..	„ 2,500	...	„ 3,000	
19	...	„ 2,000	..	„ 2,500	
31	..	„ 1,500	...	„ 2,000	
86	..	„ 1,000	...	„ 1,500	
172	...	„ 500	...	„ 1,000	
496	...	below „ 500			

Now, the real crux, even if the system, referred to above, were adopted, is that with such a distribution of wealth, the effect of the tax very much depends upon the way in which the system is applied. By slightly raising the figure for the minimum of existence the tax all at once can be made to bear too heavily on all incomes above that figure.

Further, taxing the dutiable income immediately above the deducted one, say at  $n$  per cent., the local authority would be absolutely free in the point at which the  $2n$  per cent. rate is reached.

So the tax, only a little too high for incomes between f. 500 and f. 1,000, yielding perhaps the majority of local electors, might be made to bear almost intolerably upon the higher incomes, especially on those of f. 5,000 and f. 8,000.

Where the distribution is such as in the example cited above, I doubt whether the system proposed by Professor Rahusen would prove practical at all.

As it appears to me, the said system could be admitted only on condition, that the limits of progressive taxation be prescribed in details for each commune. According to local circumstances a table should be made up, fixing for each commune wishing to adopt a progressive scale, the minimum of existence, and also the point at which the highest rate of taxation should be reached. Perhaps this would be deemed too much intruding upon the autonomy of the communes.

In my opinion, however, it would be better than the alternative, given by the newly issued act, of no progression at all, or a progression so unsatisfactory and unpractical as the Benthamic one, “pure and simple.”

A. J. COHEN STUART