

[courtesy translation]

## Budget Agreement 2014

Madam Speaker,

Also on behalf of the prime minister and the deputy prime minister, I present you the agreement the government reached with D66, ChristenUnie and SGP and the political parties of the coalition. The agreement facilitates the realisation of the common ambitions for economic growth and employment, sound public finances and a balanced income distribution. From the perspectives of all the parties concerned, the package contains elements which are important for the future of the Netherlands. A future with more jobs, better education and a sustainable economy. Special attention is devoted to the position of families with children.

This package is a continuation of budgets presented at an earlier stage and/or related legislation and regulations including the Tax Plan 2014 (appendix 1). It contains a reduction of the burden of income taxes and social contributions, improving employment and short-term purchasing power. Furthermore, the marginal tax rate is reduced structurally. These income tax reductions are mainly covered by a number of environmental measures. Spending on education and innovation and income support for families with children is stepped up. In order to enable this, the public sector services price development correction in 2014 will be withheld and social security and health care expenditure will be additionally curbed.

The ambitions with regard to employment are also apparent from the agreement reached by the parties concerning the implementation of the so called "Social Accord" (appendix 2). The Social Accord still forms the basis. The ambitions for employment growth are stepped up and is reflected in accelerating a number of measures. Tackling youth unemployment will get even more priority, which is expressed in the sector plans. In education faster and more effective programmes will be implemented as well. It will be made more attractive for the elderly to continue working after reaching state pension age. For 2014 the efforts to employ people with an impairment will be doubled in the market sector. Additionally, the measures relating to flexible work and the dismissal procedures of employees (Labour and Security Act) will come into effect six months earlier. With regard to unemployment benefit reforms the broadening of the concept of suitable work and the income adjustment will be implemented a year earlier.

These and other adjustments help people to find a job faster, guaranteeing that work always pays off. The ambition is that employment rises by 0.8% or more than 50 thousand jobs eventually. These measures exceed the employment outcomes of the Coalition Agreement.

On balance the Budget Agreement 2014 contains a higher reduction of the tax and social security burden and more expenditure cuts. At the same time environmental taxes are increased, enabling a reduction of income taxes and social contribution burden on labour. Furthermore, the marginal tax rate is reduced while maintaining a balanced income distribution (appendix 3).

With regard to budget expenditures: investment in education and further support of families with children will be increased (partly on a short term basis). Earlier intended curbing with regard to the Surviving Dependents Act (*ANW*) is scrapped. Extra funds will be made available for military personnel and there will be long-term funding for regional employment policies. This is balanced by cutbacks in various ministries, in the social sector and in health care.

As soon as possible the budget changes resulting from this agreement will be submitted to Parliament for each budget separately by means of a Memorandum of Amendment prior to the relevant budget debate. The tax measures - to be implemented on 1 January 2014 as a result of this agreement - are included in a Memorandum of Amendment to the Tax Plan 2014 bill, which will be sent to Parliament as soon as possible.

As a consequence of the budgetary processing of the measures the budgetary frameworks will be re-established.

Your sincerely,

the Minister of Finance,  
Jeroen Dijsselbloem

**Annex 1: Budgetary agreement**

<b>-/- improves EMU balance</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>Struc.</b>
<b>Revenues</b>					
<b>Reducing tax burden</b>	<b>1030</b>	<b>1779</b>	<b>1768</b>	<b>1630</b>	<b>1596</b>
Cancelling cutbacks on the self-employed person's tax reduction		300	300	300	300
The Chronically Ill and Disabled Persons Allowances (including the 'Compensation of specific health care expenses Act')		438	438	438	438
Reduction income tax rate box 2	-1018	-269	105	169	0
Reduced VAT rate on the rebuilding, renovation and repair of owner-occupied dwellings (including the expenses of architects and gardeners)	213				
<i>Reducing tax burden on labour</i>	<i>1835</i>	<i>1337</i>	<i>925</i>	<i>723</i>	<i>858</i>
Cancellation of the general levy rebate phase out for incomes falling in the top bracket		480	480	480	480
Contributions reduction for businesses	218	657	445	243	378
Improving job opportunities for youth	100	200			
Reduction of the tax rate of the first bracket	1517				
<b>Increasing tax burden</b>	<b>-480</b>	<b>-1168</b>	<b>-1188</b>	<b>-1201</b>	<b>-1215</b>
Motor Vehicle Tax	-250	-250	-250	-250	-250
Decreasing the CO2-threshold motor vehicle tax		-200	-200	-200	-200
Tap water tax	-205	-205	-205	-205	-205
Tax on dumping waste	-25	-100	-100	-100	-100
Box 2: Smaller deviation 'deemed salary'		-150	-150	-150	-150
Working bonus		-163	-183	-196	-210
Combating artificial arrangements		-100	-100	-100	-100
<b>Increase in expenditures</b>	<b>10</b>	<b>1070</b>	<b>1228</b>	<b>1396</b>	<b>1437</b>

Education quality and innovation	650 <sup>1</sup>	650	600	600	600
Free schoolbooks (abolition is cancelled)		247	187	187	185
Public broadcasting services			50	50	50
<i>Child regulations</i>					
General child benefit (differentiation of benefits by child's age is maintained)	47	236	422	560	560
Child supplement for low income families (the planned increase in the child budget for first and second child is halved)	-18	-149	-150	-149	-147
Purchasing power envelope	-69	-64	-56	-49	-49
Allowance for child care	(100)	(100)	(100)	(100)	(100)
Defense	50	90	90	90	90
Regional employment		50	50	50	50
Reversal of reductions in the National Survivor Benefits Act (Anw)		8	23	35	74
Others (General Intelligence and Security Service ; TOG care allowance for disabled children living at home; caregivers to dependents)		2	12	22	24
<b>Reduction in expenditures</b>	<b>-560</b>	<b>-1681</b>	<b>-1808</b>	<b>-1825</b>	<b>-1818</b>
Reduction in price compensation 2014	-480	-480	-480	-480	-480
Limitation of the special facility (for chronically ill)		-438	-438	-438	-438
Redistribution of subsidies		-55	-110	-110	-110
<i>Social security</i>					
General household allowance – higher reduction rate beyond income threshold		-150	-159	-166	-166
Purchasing power envelope		-120	-128	-135	-135
Increasing incentives in income part of Work and Social Assistance Act / stricter alimony rules		-140	-180	-180	-180
Retention of price and wage adjustment 2014 for UWV/SVB (premium part)		-30	-30	-30	-30

<sup>1</sup> The lump sum of 650 million euro will be fully credited in 2013.

<i>Care/cure</i>					
Adjustment of forecast for medicines		-75	-75	-75	-75
Ceiling academic component		-36	-57	-80	-73
Tariff instrument for medical devices		-145	-145	-145	-145
Budget MEE-organisations		-25	-25	-25	-25
Transition reform of long-term care		-75	-85	-95	-95
More effective procurement of care in Exceptional Medical Expenses Act		-30	-30	-30	-30
Ex ante effect Municipalities Fund / Provinces Fund	-80	118	134	164	164
<b>Total</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>

## **Reduction of tax burden**

### Canceling cutbacks on the self-employed person's tax reduction

In the amendment on the Budget the planned reduction of the self-employed person's tax reduction will be canceled. (300 million)

### The Chronically III and Disabled Persons Allowances (including the 'Compensation of specific health care expenses Act')

Besides the remaining personal customized services provided for by the municipalities, the disabled persons allowance based on the Chronically III and Disabled Persons Allowances Act will be maintained in adapted form for the years 2014 and further, with a view to a more strict application of this measure. Expenditures which are covered by the provisions of the "Social Support Act" (among others investments in alterations to homes) are excluded from tax deduction.

### Reduction income tax rate box 2

The tax rate for income from shares forming a substantial shareholding (Box 2 income) will be in 2014 incidentally reduced from 25% to 22% resulting in extra cash revenue on the short term and in lower tax yields on the longer run.

### Reduced VAT rate on the rebuilding, renovation and repair of owner-occupied dwellings (including the expenses of architects and gardeners)

The application of the reduced VAT rate of 6% on the rebuilding, renovation and repair of owner-occupied dwellings (including the expenses of architects, gardeners) will be extended to 31 December 2014 (originally 1 March 2014).

### Cancellation of the general levy rebate phase out for incomes falling in the top bracket

Under the original Budget for 2014, the general levy rebate was to be phased out for income falling in the top bracket which meant an increase of the marginal tax burden. Under the amended Budget, the phasing out has been canceled resulting in a reduction of the tax burden of 480 million and a decrease of the marginal tax burden.

### Contributions reduction for businesses

The reduction of the tax burden will be partially provided for by decreasing contributions at the level of the employer. The contributions due by the employer for the unemployment insurance and the disability fund will be reduced resulting in lower burden on labour.

### Improving job opportunities for youth

The measure regarding a reduction of social contributions due for recipients of benefits will be altered with a view to improving job opportunities for youth.

### Reduction of the income tax rate of the first bracket

With a view to encouraging domestic consumption on the short term the income tax rate of the first bracket will be reduced in 2014.

## **Increase of the tax burden**

### Motor vehicle tax

The planned reduction in the motor vehicle tax will not be implemented.

### Decreasing the CO2-threshold motor vehicle tax

In the BPM the CO2 tax exempt threshold will be further decreased. As a result of this decrease in the tax legislation the tax revenue will yield 200 million.

### Tap water tax

The tax rate on the usage of tap water will be increased. Furthermore, the tax ceiling preventing taxation on the usage of tap water above 300m<sup>3</sup> will be abolished.

### Tax on dumping waste

A tax on the dumping of waste will be reintroduced.

### Box 2: Smaller deviation 'deemed salary'

The amount of salary earned by a substantial shareholder is calculated through the use of the 'deemed salary' principle: the wages that would normally be earned based on the difficulty and duration of the provided labor. Under conditions, the

deemed salary may deviate by up to 30% from what is considered a "normal salary". The amended Budget provides for the adjustment of this percentage from 2015 with a view of saving 150 million.

Working bonus

The working bonus, an income tax credit granted to working individuals aged 61-64, will be abolished for new cases as from 1 January 2015. For the existing cases the working bonus will remain at the current level. As from 2018 the working bonus will be completely abolished. This austerity measure will yield a structural saving of 210 million.

Combating artificial arrangements

By combating improper use of the facilities for businesses (among others artificial arrangements) 100 million will be saved.

**Increase in expenditures**

Education quality and innovation

		2014	2015	2016	2017	Struc
1	Better teachers and school leaders		80	80	100	100
2	Janitors and class assistants		50	50	50	50
3	Inclusive education (execution resolution Voordewind-Ypma)		15	50	50	50
4	Extra education time Primary Education, Secondary Education , Secondary Vocational Education (Summer schools, bridge classes)		25	25	25	25
5	Secondary Vocational Education, practical and technical		100	100	100	100
6	Research and Innovation		100	100	100	100
7	Small schools		20	20		
8	Lumpsum (Primary Education, Secondary Education, Secondary Vocational Education, Higher Education)	650 <sup>2</sup>	260	175	175	175
	<b>TOTAL</b>	<b>650</b>	<b>650</b>	<b>600</b>	<b>600</b>	<b>600</b>

1. Better teachers and school leaders motivate youngsters more, restricts the number of repeaters and contribute to faster movement towards the right level of education and the right type of education. This stimulates the quality of education.
2. Janitors and class assistants ease the burden on teachers so that they can spend more time on education.
3. Means directed towards the accommodation of the "Supportive Education Track" and "Practical education" into inclusive education.
4. Extra education time through – amongst others – summer schools and bridge classes. This prevents repeating.
5. Better technical practical education solves bottlenecks in the labour market.
6. Money is available for – amongst others – open competitive programs of NWO. At least half of the money will be spend on the central governments co-financing of Horizon 2020.
7. For 2015 and 2016 20 million euro is made available for improving the quality of small schools.
8. For the improvement of education quality in the short term a lump sum budget of 650 million is made available in 2013. In structural terms, 175 million euro is available.

Free school books (abolition is cancelled)

Reversal of the coalition agreement measure "abolishment of free schoolbooks".

Public broadcasting services

50 Million euro is made available for public broadcasting services from 2016.

General child benefit (maintaining age differentiation)

The measure that would abolish age differentiation in the child benefits is fully reversed.

Child supplements (the planned increase in the child budget for first and second child is halved)

The increased amounts for first and second children in child supplements are halved. For households benefitting from child supplements consisting of two children between the ages 6 and 11 the positive outcome comes to 60 euro. The planned topping for single parents remains in place.

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2 The lump sum of 650 million euro will be fully credited in 2013.

#### Purchasing power envelope

Appropriation of part of the purchasing power envelope.

#### *Child regulations*

#### Allowance for child care

100 Million euro is made available for readjustment of the child care allowance scheme so as to reduce the marginal costs for lower- and middle income families.

#### Defense

50 Million euro in 2014 and 90 million euro in 2015 is made available for Defense.

#### Regional employment

Beginning in 2015, a structural budget of 50 million euro is made available for regional employment. With these means the Johan Willem Friso Barracks in Assen and the "45 Pantserinfanteriebataljon" of the Mechanised Infantry of the Royal Netherlands Army will remain in service. In addition, the Penitentiary Detention Centre Veldzicht will remain open.

#### Reversal of reductions in the National Survivor Benefits Act (Anw)

This is the reversal of the coalition agreement measure "National Survivor Benefits Act (Anw) to a maximum of 1 year".

#### Others (General Intelligence and Security Service ; TOG care allowance for disabled children living at home; caregivers to dependents)

	2014	2015	2016	2017	Struc.
General Intelligence and Security Service (tranche 2014 covered in budget Home Affairs)	10	12	22	32	34
Caregivers to dependents (covered in budget Health Care)	11	11	11	11	11
TOG Care Allowance for disabled children living at home (covered in budget Social Affairs)	0	4	4	4	4
<b>TOTAL</b>	<b>21</b>	<b>27</b>	<b>37</b>	<b>47</b>	<b>49</b>
Part to be financed:	0	2	12	22	24

#### **Reduction in expenditures**

#### Price adjustment restraint for the public sector

Reduction of the public sector services price development correction in 2014.

#### Limitation special facility for chronically ill

As a result of maintaining the fiscal support for chronically ill, the special expenditure facility for chronically ill will be limited. The remaining budget for the special expenditure facility remains available for municipalities.

#### Redistribution of subsidies

Subsidies for businesses are redistributed from 2015 onwards and reduced throughout the government service.

#### General household allowance

The phasing out of the general household allowance is adjusted from 10.5% to circa 11%.

#### Purchasing power envelope

Appropriation of part of the purchasing power envelope.

#### Increasing incentives in income part of Work and Social Assistance Act & stricter alimony regulations

Through improved incentives of the Work and Social Assistance Act, expenditures decrease from 2015 onwards as municipalities more actively try to reduce the number of persons on social benefits. In addition, alimony regulations are adjusted so that social benefit expenditures decrease. This is a decrease in the macro-budget for social benefits of municipalities.

#### Retention of price and wage adjustment 2014 for UWV/SVB (premium part)

Price and wage restraint for executive costs in 2014 for government agencies UWV and SVB.

#### *Care*

#### Medicines

Readjustment of the budget for medicines. This is the result of successful policy on preferential policy of medical insurance companies (agreement on the prescription of medicines).



Ceiling academic component

Reduction of the ceiling for the academic component. Academic hospitals can achieve this reduction of the ceiling by increasing their efficiency, without limiting their services on healthcare.

Tariff instrument for medical devices

Savings will be realised on the medical devices budget in 2015 resulting from agreements on the tariff scheme between medical insurance companies and patient organizations. The tariff instrument can be used.

Budget MEE-organisations

Restriction of tasks of MEE organizations (organization supporting disabled people).

Transition reform of long-term care

This budget is available as a result of the EMEA reforms in the regulation infrastructure (25million euro), executive costs (25million euro) and the allowance for inventory costs for health care institutions (up to 45million euro).

More effective procurement of care in EMEA

Growth restriction of 30 million euro from 2015 onwards in the EMEA budget for better health care procurement. The budget for contracting will be adjusted.

Ex ante effect Municipalities Fund / Provinces Fund

Adjustment of the Municipalities Fund and the Provinces Fund resulting from the methodology that relates the development of both funds to the development of net central government expenditure.

## Appendix 2: More employment

The concerning political parties recognize the importance of support from the civil society. In the current fragile economic conditions support is crucial in order to durably implement the necessary structural reforms in the labour market and in the social security system. The following measures are an accelerated implementation and complementation of the social accord, with a maximum focus on job creation. The limitations with regards to implementation of the measures are naturally taken into account. In the short run, it is especially important to stimulate the demand for labour. In the medium and long run, employment will be stimulated by improving the functioning of the job market and by increasing the supply of labour.

The social accord spearheads a more active approach to prevent unemployment and to help people flow directly from one job to another, preferably before they enter the unemployment benefit insurance scheme. The parties that have agreed on the 2014 budget, concur that providing job security and preventing unemployment is most important. The goal is to limit the use of the unemployment benefit insurance scheme as much as possible. This benefits both employees, employers and society as a whole, while improving public finances.

Certainty and clarity are important for the proper functioning of the labour market. It is therefore decided to implement several measures from the social accord swiftly and irreversibly. These measures will contribute to the necessary restoration of confidence.

The following measures ensure that the (increasing) unemployment diminishes in the short term, while the structural employment is growing faster than was expected in the coalition agreement of 2012. In the long run, the ambition is for the employment to rise by 0.8%, or more than 50 thousand jobs. This exceeds the employment effects of the coalition agreement.

The following measures will increase the short-term demand for labour:

1. Substantial cuts in the tax burden in 2014. This will stimulate the demand for labour and it will support the restoration of domestic spending.
2. In 2014 and 2015, one third of the available budget for the so-called Sectoral Plans will be used to fight youth unemployment. This builds on the approach of the ambassador for youth employment.
3. With additional funds, the deductibility arrangement for social security contributions for beneficiaries will be adapted and modified in order to improve the position of young persons in the labour market.
4. Structurally, 50 million euros will be reserved for Regional Policy (shrinking regions). This will support the economic activity in these regions.
5. Employers in the private sector guarantee five thousand jobs for people with disabilities, as early as 2014. This will double the earlier commitment. The municipalities are encouraged to swiftly start the establishment of public employment services.
6. The reduced VAT rate for construction and renovation will be extended through 2014.

The following measures promote employment in the medium and long term:

7. The measures relating to flexible work and the dismissal procedures of employees (Labour and Security Act) will come into effect six months earlier, namely on 1 July 2014 and 1 July 2015, respectively. This will speed up three aspects of the measures: first, it will establish permanent contracts for flex workers sooner. Second, employees who lose their jobs will have faster access to the transition budget, and third, the measures will streamline the procedures for dismissal sooner. This contributes to a better balance between flexibility and security and a better functioning labour market.
8. The government is speeding up its efforts to establish a voluntary collective pension scheme for self-employed workers.
9. After six months, all work will be classified as 'appropriate' for people who receive unemployment benefits (that threshold is currently twelve months). This increases the importance of quickly finding a job on one's education level. The introduction of this section will be moved up a year to 1 January 2015. The enforcement will be enhanced as well, making sure that unemployment benefit claimants truly have a job faster. Moreover, the income adjustment will be moved up to 1 January 2015, guaranteeing that work always pays off.
10. To ensure the jobs for people with disabilities, the assessment whether or not the quota scheme needs to be put into effect will be moved up to late 2015.

11. On top of other measures aimed at cuts in the tax burden, starting in 2015 the phasing out of the general tax credit in the fourth tax bracket is cancelled. These and other forms of cuts in the tax burden also have a positive effect on employment.
12. Early retirement does not fit within an increasingly aging and increasingly active aging society. The funds for new sector plans will not be used to finance early retirement. The funds for the new Sectoral Plans will not be used to finance early retirement.
13. Working longer will be promoted - also after reaching the retirement age. The removal of barriers creates a lighter employment protection regime for old age pensioners, making it easier and more appealing to hire older employees, or to keep them employed. Simultaneously, the possible displacement of younger employees by old age pensioners will be resisted. The government will send the proposals to Parliament no later than November.
14. A study will be undertaken into the bottlenecks of sick pay, sickness and disability risks for employers, and into opportunities to increase solidarity among the SMEs, such as increasing insurance rates through private reinsurance or collective funds for SME employers.
15. The UWV (PES) will make a business case on how and for what groups the opportunities on the labour market for people with disabilities can be increased.
16. The Dutch education system is performing well, but it could perform even better. There is room within the education system for more effective and efficient forms of educational careers (less grade retention, better education choices, more flow to the next levels of education). In this way, each student can get more out of their education career, creating an opportunity for our labour market to profit. After all, roughly 200,000 young people achieve an intermediate vocational, college or university degree each year that offers them a good starting position for the labour market. If students finish their education a bit faster, the Dutch labour market will have more trained people at its disposal. In 2014, the Minister of Education will present proposals to ensure that students pass through the education system faster and more effectively.
17. The Minister of Social Affairs and Employment will examine whether and to what extent adaptation of working hours has beneficial effects on the structural employment and how that can be implemented.

### Appendix 3: Income effects Budget Agreement 2014

Table 1 shows some examples of the development of the purchasing power of households on the basis of the Macro Economic Prognosis (MEV) of the Netherlands Bureau for Economic Policy Analysis (CPB), and changes therein due to the Budget Agreement 2014. The table shows that the purchasing power significantly improves for all households. This is largely caused by the temporary reduction of the income tax rate in the first bracket by 0.75 percentage points. 2015 shows a mirror image in this respect. Also, families with children are benefited by reversing the reduction of child benefits for older children for the groups that have to deal with these specific measures.

Table 1: development of the purchasing power 2014<sup>3</sup>

Table 1 shows only changes that are applicable to all citizens. Measures such as not eliminating the deduction of specific health care costs, and the lower income tax rate in box 2 will therefore not be visible. They do, however, have a significant positive income effect.

Table 2: cumulative development of the purchasing power 2014-2017

<sup>1</sup> Including the integration of the income based child benefits scheme in the household allowance.

#### *Income effects for the period 2014-2017*

The Budget Agreement 2014 also affects the development of the purchasing power after 2014. Since there is no recent estimate of the economic development for subsequent years, calculations are therefore based on the estimates of the development of wages and prices by the CPB for the coalition agreement. Table 2 shows the development of the purchasing power for the period 2014-2017. The cancellation of the complete phasing out of the general tax credit has positive effects for higher incomes. This effect is not fully visible in the table because it mostly affects families between twice and thrice the standard income. Families with children are spared by the reversal of the reduction in child benefits for older children. For low incomes the advantage is limited, because the raising of the income based child benefits scheme – as compensation for the savings on the child benefits – is partially cancelled.

The income of single earners with a modal income will increase by around 2<sup>3</sup>/<sub>4</sub>%, in particular by integrating the income based child benefits scheme with the household allowance. This effect has been incorporated in table 2.

The six billion package initiated a phased introduction of the household allowance. This combines the current care allowance, the income based child benefits scheme allowance, the rental allowance and an elderly component into one allowance.

The care allowance and the elderly component by 2015 have been provisionally included earlier, as has been reported by the government in response to questions by Members of Parliament relating to the Budget Memorandum 2014. The integration of the income based child benefits scheme in the household allowance per 2017 has further been elaborated in the creation of the Budget Agreement 2014. The integration ends up being favorable to families with children, including single earners with a modal income. Due to the integration, single earners are better off by around 300 euro on average. Other groups are faced with a relative increase in the reduction of the household allowance. These effects have been included in Table 2.

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<sup>3</sup> Excluding the macro-economic effects of the Budget Agreement 2014.

