Tax Incentives for the Arts: The Case of the Netherlands

Sigrid J.C. Hemels *

Summary
The paper gives an overview of the Dutch tax incentives for the arts and discusses the drawbacks of tax incentives. The paper also examines how tax incentives can be designed to increase the involvement of the public with the arts, while minimising the drawbacks of using tax law for funding the arts.

Key Words
government support for the arts, the Netherlands, tax incentives

1 Introduction
Since 1945 direct government subsidies have been very important for the financing of the arts in the Netherlands. However, funding by tax incentives has also been important. Tax incentives are government expenditures in the form of foregone or deferred taxes representing a deliberate deviation from the regular rate structure of the tax law. An example of such a tax incentive which can also be found in Japanese tax law, is the possibility to deduct certain gifts from the taxable income.

Tax incentives for the arts have always been part of modern Dutch tax law (the oldest incentive which is still part of Dutch tax law, the exemption of works of art from a person's wealth, dates from 1893). However, in statements regarding the amount of money the government spends on the arts, only the direct subsidies appear. Although the Dutch government introduced a lot of new tax incentives for the arts since 1995, hardly any research was done on the amount and the effects of these incentives. In the United States tax incentives for the arts had been researched since the 1970's (for example Schuster 1979; Feld, O'Hare and Schuster 1983). However, this research was not part of the Dutch discussion on tax incentives for the arts. Furthermore it was not certain whether it could give a full explanation for the Netherlands as its main focus was on the gift deduction in the income tax, whereas in the Netherlands the value added tax (VAT) is very important as well.

Research on general Dutch tax incentives often lead to negative conclusions regarding this instrument of government policy: arguments against using tax laws for ancillary functions outweighed possible benefits. The question remained if this conclusion is also true for Dutch tax incentives designed for supporting the arts. This question was the subject of my PhD research on Dutch tax incentives for the arts which was published (in Dutch) in 2005 (Hemels, 2005a). This paper will summarise the main findings of my research. These findings might also be relevant for the discussion on Japanese tax incentives for the arts.

II A short characterisation of the Dutch tax incentives for the arts

Annex A gives an overview of the Dutch tax incentives for the arts. The arts' is defined broadly in this research: it covers every tax incentive which targets at promoting art and culture. Therefore the research is not limited to 'high culture'. Several observations can be extracted from the overview in Annex A.

* Leiden University, department of Tax Law and Allen & Overy LLP Amsterdam
E-mail: s.j.c.hemels@law.leidenuniv.nl
1. Known costs of tax incentives are substantial

The costs of the 36 Dutch tax incentives for the arts are partly unknown. Without taking into account these unknown costs, the estimated expenditure for tax incentives for the arts is at least € 809 million plus n% of € 42 million in 2005. The Dutch direct subsidies for the arts amounted to € 752 million in 2004 (Budget, 2004). Tax incentives are therefore quite an important source for the financing of the arts.

2. Cultural institutions and literature at large profit most

The tax incentives are not evenly spread over all cultural sectors. Most tax incentives regard cultural institutions in general. In financial terms the six tax incentives targeted at literature in the broad sense are most important. The reduced Value Added Tax (VAT) rate (6% instead of 19%) for books, newspapers and magazines for example accounts for the loss of tax income of € 577 million in 2005. This sheds a different light on the ongoing complaint of Dutch writers and other people engaged in literature about the supposed lack of governmental support for this sector of the arts. The gift deduction in the PIT and CIT roughly accounts for € 9.26 million of foregone taxes. This tax incentive is therefore probably less important for the arts in the Netherlands then other tax incentives.

3. Most tax incentives for the arts are VAT incentives

Tax incentives for the arts are included in several tax laws. The most important tax, both in terms of the number of incentives and of the costs involved is VAT. The known costs of the twelve VAT incentives amount to at least € 694 million in 2005. The Personal Income Tax Act (PIT, costs € 89 million) and the Corporate Income Tax Act (CIT, costs between € 2 and € 24 million) each contain seven tax incentives. The Gift and Inheritance Tax Act (GIT, costs € 13 million) contains five incentives.

III Why tax incentives should be considered with care

In general, tax specialists are not very keen on tax incentives. In this paragraph I will discuss several arguments against using tax incentives for funding the arts. These arguments make it necessary to consider with care whether it is preferable to introduce a tax incentive or a direct subsidy.

1. Insufficient democratic control

There is less information and less democratic control on tax incentives than on direct subsidies. In the Netherlands direct subsidies for the arts are accounted for in the annual budget of the Ministry of Culture. Tax incentives, however, are not covered. Every four years a substantial part of the direct subsidies for the arts is examined and discussed in public. The overview in Annex A makes it clear that tax incentives for the arts are hardly ever evaluated.

Various countries have tried to get a better grip on tax incentives by accounting for these expenditures in tax expenditure reports. However the frequency and the status of these reports differ. For example, not every country's parliament has to vote on or approve such accounts (OECD 1984, p.10). Furthermore it is often difficult to extract tax incentives for the arts from tax expenditure overviews (Feld et al., 1983, p.32). For example, the gift deduction is often not split up into various sectors (like religion, welfare and culture).

The Netherlands fits very well into this general picture. In the last decade, the Dutch government has taken steps towards providing more information on tax incentives but the costs of tax incentives for the arts are still less visible and in control than the costs of direct subsidies. The Dutch tax expenditure report (introduced in 1998) is only an annex to the general budget and is therefore hardly
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ever discussed in parliament. Furthermore, the information on tax incentives for the arts is not complete and in some cases is hard to extract. The costs of only eight tax incentives for the arts are taken into account separately (total costs in 2005: € 642 million). The costs of 14 tax incentives are not split up. I estimate these costs at € 137 million plus an unknown percentage of € 42 million. The costs of 13 tax incentives are totally unknown. Especially VAT incentives are not very well accounted for: the costs of seven of these incentives are unknown. Even if the cost of tax expenditures are known, as in the case of the Dutch PIT, these expenditures are not taken into account in figures on the total government support for the arts. Although the Dutch Ministry of Culture is supposed to discuss the tax incentives for the arts in its yearly comments on its budget, it mentioned only three tax incentives in 2004. This means that the total amount the Dutch government spends on the arts and the distribution of all funds over the various art sectors is neither fully known nor discussed. This is not a typical Dutch problem: Schuster and other authors have often critiqued it before in more general terms (Schuster, 1979, p.3; Feld et al., 1983, pp.4-7; Schuster, 1989, p.15; O'Hagan, 1998, p.106). However, as a result of this research and subsequent questions raised in parliament, the Dutch Ministry of Culture promised to provide the parliament in 2006 with an overview of ‘taxation and cultural policy’. This might mean the Dutch parliament will have more information on tax incentives for the arts in the near future.

2. The budget illusion of tax incentives

Tax incentives lead to lower tax income for the government and therefore decrease the governmental budget. This means the government has to cut other expenses or, for example, has to raise the tax rates to be able to introduce a tax incentive. Tax incentives therefore cost money. However, tax incentives may give the Ministry of Culture and the art world the illusion that they are for free. Tax incentives do not affect the Dutch budget for culture as these incentives are born by the budget of the Ministry of Finance. This may lead to the introduction and maintenance of tax incentives which are not very efficient or effective. The Dutch tax incentives for films which were introduced in 1998 are an example of such incentives. These incentives were evaluated in 2001 and 2003 and there were serious doubts concerning their effectiveness. Subsequently the Ministry of Finance tried to abolish these incentives a few times. However, the Ministry of Culture and the film lobby were very much opposed to such an abolishment. The pattern has been that in the end the film incentives are always maintained, possibly because of the strong influence of the film lobby on members of parliament (Haan, 2004a, b). Another example is the reduced VAT rate for cinema tickets and theatre tickets. These tax incentives, which were introduced in 1996 and 1998, were initiated and strongly advocated by the Ministry of Culture. These incentives were partly intended as a compensation for a cut in direct subsidies. However, as the reduced rate applies on all theatre and cinema tickets, there were doubts on the effectiveness of this incentive. These doubts proved to be true, when the Dutch Supreme Court decided that sex cinema tickets could also profit of the reduced VAT, as the rate does not differentiate. It is highly unlikely that such cinemas would have been eligible for a direct subsidy. Such spill over of money to sectors which would never be funded with direct subsidies, makes the reduced VAT rate a very ineffective way for financing the arts. At a macro level such incentives lead to a waste of government money. However, from the view of the Ministry of Culture it leads to extra money for the arts, without decreasing the budget for the arts. The preference for tax incentives for the arts became even stronger in the Netherlands after the Ministry of Finance introduced a strict budget maximum for direct subsidies in 1994. Because of this budget restriction, the Ministry of Culture could only introduce a new subsidy if it cut another subsidy. This restriction, however, did not apply to tax incentives. As there was an economic boom in the Netherlands
in the second half of the nineties, money was available to introduce new incentives. Unlike most of his predecessors the Undersecretary of Finance at that time was not opposed to the use of tax incentives. This might all help to explain the fact that no less than 15 tax incentives for the arts were introduced between 1995 and 2005. Maybe even just as significant is the fact that, between 1975 and 1995, not even one tax incentive for the arts entered into force. This might be explained by the faith in a strong government and in government steering by direct subsidies during that period.

3. Difficulties regarding co-ordination

Tax incentives for the arts are not included in the budget of the Ministry of Culture but are the responsibility of the Ministry of Finance. This may make it more difficult to co-ordinate the policy for the arts and to distinguish priorities in this policy (in general this critique on tax expenditures is made by Surrey et al., p.142; Halberstadt and De Kam, 1978, p.162; Surrey and McDaniel, 1985, p.106). The governmental bodies (including members of parliament) which are responsible for tax affairs and tax incentives may not be fully aware of the objectives of cultural policy (Schuster, 1987).

The Dutch Ministry of Finance and the Ministry of Culture currently introduce new tax incentives in collaboration. The Ministry of Culture is often the instigator of these incentives. However, after the introduction of tax incentives, the co-ordination sometimes gets lost. For example, none of the ministries involved in the tax incentives for films (Culture, Finance, Economic Affairs) knew in 2003 how much public money (subsidies and tax incentives) was spent in total on the Dutch film industry. A spokesperson from the Ministry of Culture commented that the total amount was just not registered (Haan, 2003).

This lack of co-ordination is also illustrated by the fact that regarding 28 tax incentives the decision whether something constitutes art or a cultural institution and therefore qualifies for a tax incentive is not made by art professionals, like art counsels or national art funds, but by the Dutch tax authorities. This leads to strange results. For example, video art is not considered art for VAT purposes not only in the Netherlands but in all EU member states, as it is not on the limitative list of art works for VAT purposes. On the other hand, the Dutch Supreme Court considered exact copies (made in China) of famous art works as art for VAT purposes, as they met the definition of a painting (Hemels, 2005b). The definitions applied by the Dutch tax authorities can even differ between tax laws: for example, there are four different definitions of "museum" for Dutch tax purposes (Hemels, 2005c). The interpretation of tax laws by the tax authorities and judges without taking into account the opinions of art professionals can also lead to a diversion in respect of cultural policy objectives and the effects of tax incentives for the arts.

4. Increasing complexity of tax laws

Both tax incentives and direct subsidies can complicate the legislation. This is partly caused by the complexity of modern society. However the primary objective of taxation, providing a budget for government expenditures, can lead to tax laws that are more complex than specific subsidy laws would be.

5. Spill over effect of tax incentives

Generic tax incentives like low VAT tariffs are easy to implement and do not lead to a lot of red tape. On the other hand, such incentives are very broad and are therefore difficult to target at certain objectives of cultural policy. These tax incentives can result in the waste of public money as such incentives do not only support the arts but also products which would probably not be regarded as art and would not be supported with direct art subsidies. For example, not only literature profits from the low VAT tariff but all books (in the Dutch VAT definition everything with more than 32 pages held together in
a cover, for example bus timetables) and magazines (for example, porn magazines are subsidised in the same way as all other magazines). In 1997, the European Commission warned that reduced rates are a very imprecise tool and should not be used as a substitute for direct subsidies (COM 1997, 559).

My research has lead to some discussion in Dutch parliament whether it would be possible to differentiate between books and magazines which should be eligible for the reduced VAT rate and others which should be taxed against the normal rate. However, the Ministry of Finance and the Ministry of Culture feared this would lead to a lot of red tape. I agree with this fear. There is, however, another solution if the parliament decides that the current reduced rate causes to much waste of money. This would be to abolish the reduced rate for books and magazines and use the money now spent on this tax incentive for well targeted direct subsidies. Sweden, for example, is contemplating to abolish the reduced rate for books and magazines. However, in Sweden this will not lead to more direct subsidies for books, but to a general cut in VAT rates.

The advantage of this generic support is that the administrative burden is relatively light. It is a political decision to determine whether the amount of subsidies for a purpose not in accordance with the policy for the arts is acceptable in exchange for a lower administrative burden. This decision can only be made if it is clear what the amount of ineffectively spent subsidy is. This is not the case in the Netherlands at the moment.

Another drawback of these low red tape generic tax incentives is that they are often not bound to a maximum figure. This means that such incentives can unexpectedly become big burdens for the governmental budget. For example, originally Dutch film incentives in respect of personal income tax were not bound to a maximum figure. These incentives were expected to cost 5 million guilders (€ 2.27 million) a year, but in reality cost 200 million guilders (€ 90.76 million) over 2½ years. Since 2001, these incentives have been much more restricted, with a maximum of € 23 million per year (€ 20 million as of 2005).

It is of course possible to make tax incentives less generic and bind them to specific conditions and maxima, like direct subsidies. Schuster (1999, p.60) commented that countries do try to target tax incentives for the arts more precisely. This is true for the Netherlands as well. The film incentives are probably regulated most, but also the incentives for cultural investments, monuments and the payment of inheritance tax with art are relatively strictly regulated. However, this strict regulation leads to more red tape. For example, from the money invested in films in 2003, 20% was not spent on films but on structuring costs in order to meet the conditions of the incentive (for example costs for accountants, (tax) lawyers and administrators). The costs of governmental institutions dealing with these incentives amounted to € 828,900 between 1999 and 2003 (Drenth et al., 2003, p.43, 46). If the (costs of) red tape become too much, a direct subsidy may be a better solution than a tax incentive.

IV Why tax incentives for the arts should still be considered: promotion of involvement with the arts

The drawbacks mentioned in the previous paragraph might lead to the conclusion that tax incentives should never be used for funding the arts. However, this conclusion would be premature, because there is a very strong argument in favour of using tax incentives. Well designed tax incentives can promote the involvement of the public with the arts. In this paragraph I will explain this argument.

1. Diffusion of roles because of direct subsidies

When discussing arts subsidies economists are wont to distinguish three agents (Klamer and Zuidhof, 1999): those who pay; those who benefit;
and those who care. I would like to add a fourth category: those who decide. In a pure market transaction one person fits in all these four categories: if I care about a painting and decide to buy it, I pay for it and will benefit from it. In a market transaction, the consumer who, in the case of the arts can also be described as the public, decides. Artists dealing in the market sphere will take into account the preferences of the public. Before World War II this was the dominant sphere in which art transactions took place in the Netherlands. The government did not feel a special responsibility towards the arts - the drawback being that the public might not recognise certain art works or cultural heritage as such.

In World War II the Germans occupied the Netherlands and implemented their cultural policy. They introduced direct subsidies and, as annex A reveals, tax incentives for the arts. After World War II, and especially after the 1970s, direct subsidies became increasingly important in the Netherlands (Dulken, 2002, p.14). The Dutch government has delegated most of the intrinsic decisions on which art and which cultural institutions it should fund to boards of experts and artists. In the Dutch system of distributing direct subsidies, those who decide (the experts) are not the same as those who pay (all tax payers); those who care (of course the experts care as well, but the group of those who care is probably larger than the group of those who decide, in other words, not everybody who cares can decide); and those who benefit (the people who actually go to the theatre, museum etc.). This resulted in a dominant position for the experts and some neglect of the preferences of the public. As Dutch cultural institutions depend mostly on direct subsidies for their funding (according to Klamer (2004, p.474) 85% of the income) and income from the public is only of minor importance, the arts and cultural institutions have shifted their focus from the preferences of the public to the preferences of the experts who assist the government in the allocation of the direct subsidies (Van Klink, 1986, p.1242; Ministry of Culture, 2002, p.59; Van Dulken 2002, p.14). This has various drawbacks. The former Dutch State Secretary of Culture, the economist Rick van der Ploeg, warned: "One should not forget that supply subsidies allocated by committees of experts might lead to high culture for a small elite" (2002, p.349).

Neglect of the public can lead to an alienation of the public from the arts: "if they don't care about us, why should we care about them?". In the end, this might lead to the result that the public, the tax payers, are not willing to pay for the arts any longer (Van der Klink, 1986): "why should we pay for something which is not made for us, we don't make use of and what we don't understand, in other words, why pay if we don't care?". Ultimately it is not possible to make the general public, the tax payers, pay, if the arts do not care for them and the public in the end does not care for the arts any more. In 2004, even de Volkskrant, a Dutch newspaper with a left wing and culturally engaged image, questioned why people with low incomes should have to pay for the opera tickets of wealthy pensioners (Dekker and Zonderop, 2004). Rick van der Ploeg warned that, if the arts do not care more about the preferences of the public, they lose support and relevance (Dekker and Zonderop, 2004). Tax incentives for the arts might partly solve this problem.

2. Sharing instead of dividing: how tax incentives can increase the involvement in the arts

Well-structured tax incentives for the arts can give part of the decision-making power back to the public. However, unlike in a market transaction, the public is not the only decision maker. Tax incentives are government expenditures and therefore have to be regulated to ensure they will promote the common good. The government should therefore, with the help of experts, carefully decide which tax expenditures are to be introduced and which are to be abolished. Experts can advise the government. For example, in the case of the gift deduction in the PTT, experts should advise which institutions actually qualify as cultural institutions.
to which tax payers can donate deductible gifts. In the case of the reduced VAT rate, experts should decide what is to be considered art. The experts are therefore still important in keeping the quality standards high. However, they only decide on which institutions, art and artists can qualify for the incentives. The public, more specifically, those of the public who care, decide which institutions and arts effectively get the government support. They decide whether they donate to a museum or a theatre. If the donator pays the maximum rate of Dutch PIT, 52% , this means that, if he decides to donate €1000 to a museum, he pays €480 and the government (i.e. all tax payers) pay €520. Therefore, in using tax incentives, those who care do not only share the decision (with the experts) but also the costs (with the other tax payers). They share the benefits with those who benefit but who did not donate. However, the latter may become future donators. The arts and cultural institutions should divide their attention between the experts and the public and take into account the preferences of both groups. Of even more importance is that cultural institutions have to ensure the public cares about the arts in order to maintain or enlarge their funding base.

V What is a well designed tax incentive for the arts?

A well designed tax incentive for the arts helps to increase the involvement of the public and also meets the critique of tax experts mentioned in the third paragraph. In this paragraph I will discuss how such a tax incentive can be designed.

1. The design of the tax incentive

The first consideration when contemplating a tax incentive for the arts is that the aim of the incentive should primarily be involving the public in the arts. If this is not the case, a tax incentive might not be the best option. For example, the film incentives in the Netherlands are designed in such a way that investors will have a guaranteed return because of the tax incentives. Most investors are therefore not really interested in the film they finance but in the return they receive on their investment. In the last few years, these incentives have been under constant discussion and threat of being abolished. Investors immediately fled to other investments like windmills and ships. The tax incentives had not created a bond between the investors and the film sector. The best way to create this involvement is if the tax payer is not merely investing but rather is primarily involving himself with the arts. It is therefore important that the cultural institution emphasises the bond with the donators and ensures they become involved and that they are not merely treated as "cash machines". This is a responsibility of the cultural institutions: the tax law can not create a 'culture of giving and caring' on its own. In this regard it is very interesting what will happen with the Dutch tax incentive for cultural investments. This tax incentive was introduced in 2004 and has European approval until 31 December 2008. After that date the European Commission might decide that the Netherlands must abolish the incentive. Banks have therefore not been very keen to introduce cultural investment schemes (Hemels, 2004). However, in the spring of 2005, the "Kunsthall" museum in Rotterdam and ING Bank announced the introduction of the first cultural investment scheme. The initiator of this relatively small investment scheme is not the bank but the museum. The small group of cultural investors (approximately 25 people) will enjoy certain privileges like receiving invitations for openings, special receptions and catalogues of exhibitions. The efforts the museum will direct at involving the investors raise the chances that the cultural investors will not withdraw their support of the museum after the potential abolishment of the tax incentive. This way tax incentives can be used to create an involvement strong enough to survive if a tax incentive is abolished or made less attractive. The cultural investment scheme of the Kunsthall is an interesting test case for this assumption. The film incentives also had the aim of encouraging private investors to become involved in the film
industry but failed because of the emphasis on the financial return the tax incentives guaranteed. If the Kunsthal manages to put the emphasis on the museum and not on the return, it might succeed in creating a more permanent involvement. A museum is probably more suitable for creating such a long-lasting involvement than a film, as a film by definition is only a project of a comparatively short period.

Another important factor in creating involvement is that the tax payer has to invest some of his own money and not only the tax man's money. In other words: he has to sacrifice something and he has to be aware of that sacrifice. The film incentives fail in this aspect, as those incentives guarantee the same (and possibly a better) return on the film investment compared with other investments. On the other hand, the gift deduction is a very good example of a tax incentive that requires a sacrifice. A gift always costs money, even for tax payers in the highest tariff bracket. A tax payer in the 52% bracket who donates € 1000 will get a refund of € 520 but will still have "lost" € 480. The same mechanism works for tax incentives regarding monuments, exemptions and reduced gift and inheritance tax tariffs for cultural institutions and tax incentives regarding volunteers. VAT tax incentives will probably not have a strong effect towards creating involvement as consumers are often unaware of these incentives, which are part of the price they pay. Together with the problem that VAT incentives are very generic and therefore difficult to target, this makes VAT an unsuitable tax law to use for tax incentives for the arts.

Another important part of the design of an effective tax incentive is that the tax authorities should not decide if something is art or a cultural institution but that they should at least consult art experts. Notwithstanding that art experts can have different opinions on this issue, I would prefer to have art experts taking leading decisions in these questions than tax experts. The advisory boards for direct subsidies can also function as such for tax incentives. In the Netherlands this is already the case for the tax incentives for cultural investments and for monuments. If this would be introduced for other tax incentives as well it could also strengthen the co-ordination between cultural policy and tax incentives for the arts. However, the stronger involvement of art experts would make it even more necessary to solve the budget illusion. Otherwise art experts might be inclined to use a very broad definition of art, because every euro for the arts, no matter how ineffectively it would be spent, would mean extra funding for the arts. In the next paragraph, I try to provide a solution for this problem.

2. The control of tax incentives

The lack of information on tax incentives should be resolved in order to be able to use tax incentives as a sound alternative for financing the arts. Tax incentives should be subject to the same evaluation and control mechanisms as are used for direct subsidies (Schuster 1986, p.354). The first step for the Netherlands would be to provide for an estimation of the cost of every tax incentive. Secondly, each tax incentive should be evaluated and discussed in parliament on a regular basis. These two changes are not very difficult to implement and are, in my view, a basic condition for the use of tax incentives. A third change that would be important is to provide for a bigger responsibility of the Dutch Ministry of Culture for the budget spent on tax incentives for the arts. This could probably make the Ministry of Culture keener on pursuing the effectiveness and efficiency of tax incentives for the arts. The best way to achieve this (also suggested - in more general terms - by McDaniel, 1989) would be to make the Ministry of Culture responsible for the budget spent on tax incentives for the arts. The Ministry of Culture would receive one budget out of which it would have to finance both direct subsidies and tax incentives for the arts. Introducing an ineffective tax incentive would mean that the Ministry could spend less money on direct subsidies, whereas abolishing an
ineffective tax incentive would open the possibility of introducing a presumably more effective direct subsidy or tax incentive. This would force the Ministry of Culture and the members of parliament responsible for culture to make a more thorough evaluation when contemplating the introduction of a new tax incentive. It would enhance a serious discussion on the question of whether a tax incentive or a direct subsidy would be the best way to achieve certain objectives of cultural policy. Also the co-ordination of cultural policy and tax incentives for the arts could be improved, as this would become the responsibility of the Ministry of Culture as well.

Because most tax incentives lack a maximum, the budget for direct subsidies should consist of the budget that remains after the estimated costs of the tax incentives for the arts have been deducted. To prevent an underestimation of the costs of the tax incentives, these estimations should be made by the Ministry of Finance. This Ministry has the know-how to make such calculations. However, maybe even more important, it would introduce a system of checks and balances. Both ministries would ensure the calculation would be reasonable. Such a budget system would provide that a reduction in (ineffective) tax incentives would enable the Ministry of Culture to introduce an effective subsidy or tax incentive. A general cut in the governmental budget for the arts would mean that the Ministry of Culture could decide whether it cuts direct subsidies or tax incentives. As a consequence, not only society as a whole but also the arts would therefore benefit from such a change in accounting for and dealing with tax incentives.

VI Conclusion

Well designed tax incentives can increase involvement with the arts. Therefore tax incentives can be a valuable way to finance the arts, provided there is enough information and democratic control. This is currently not the case in the Netherlands. It was only in 2005 that it became clear that the Dutch government spends almost the same amount on tax incentives for the arts as on direct subsidies. However, the facts presented in this paper have been given considerable attention by Dutch Members of Parliament. This raises the hope that in the future the Dutch tax incentives for the arts might become more visible and more in control.
## Annex A: Summary of most important characteristics of Dutch tax incentives for the arts

<table>
<thead>
<tr>
<th>No.</th>
<th>Tax incentive</th>
<th>Introduced</th>
<th>Tax law</th>
<th>Aim</th>
<th>Evaluation</th>
<th>Foregone taxes in million Euro</th>
<th>Artistic Judgment by art professionals (ap)</th>
<th>Maximum per tax payer and/or open end</th>
</tr>
</thead>
<tbody>
<tr>
<td>3</td>
<td>Exemption for works of art and science</td>
<td>1893</td>
<td>PIT</td>
<td>Promotion of / not obstructing private acquisitions of art</td>
<td>-</td>
<td>5</td>
<td>tp</td>
<td>open end</td>
</tr>
<tr>
<td>4+5</td>
<td>Exemption and tax credit for cultural investments</td>
<td>2004</td>
<td>PIT</td>
<td>Promotion of private investments in museums and the performing arts</td>
<td>-</td>
<td>2</td>
<td>ap</td>
<td>maximum per tax payer / open end</td>
</tr>
<tr>
<td>6</td>
<td>Deduction for monuments</td>
<td>1971</td>
<td>PIT</td>
<td>Preservation of cultural heritage</td>
<td>-</td>
<td>32</td>
<td>ap</td>
<td>open end</td>
</tr>
<tr>
<td>7</td>
<td>Deduction of gifts</td>
<td>1952</td>
<td>PIT</td>
<td>Promotion of gifts to cultural institutions</td>
<td>2006</td>
<td>3 (3% * 247 = 7,41)</td>
<td>tp</td>
<td>maximum per tax payer / open end</td>
</tr>
<tr>
<td>8</td>
<td>Exemption for foundations restoring monuments</td>
<td>2005</td>
<td>PIT</td>
<td>Promote restoration of cultural heritage</td>
<td>-</td>
<td>2</td>
<td>ap</td>
<td>open end</td>
</tr>
<tr>
<td>9</td>
<td>Exemption for libraries</td>
<td>1941</td>
<td>CIT *</td>
<td>?</td>
<td>-</td>
<td>?</td>
<td>tp</td>
<td>open end</td>
</tr>
<tr>
<td>10</td>
<td>Exemption for cultural institutions</td>
<td>1969</td>
<td>CIT</td>
<td>Supplementary exemption</td>
<td>-</td>
<td>?</td>
<td>tp</td>
<td>open end</td>
</tr>
<tr>
<td>11+12</td>
<td>Deduction for cultural institutions and deduction regarding volunteers</td>
<td>2002</td>
<td>CIT</td>
<td>Avoid socially undesirable taxation</td>
<td>-</td>
<td>? (x% of 2 in 2002)</td>
<td>tp</td>
<td>open end</td>
</tr>
<tr>
<td>13</td>
<td>Expenditure reserve</td>
<td>2001</td>
<td>CIT</td>
<td>Prevent taxation of direct subsidies in the year of receipt</td>
<td>-</td>
<td>? (x% van 20)</td>
<td>tp</td>
<td>open end</td>
</tr>
<tr>
<td>14</td>
<td>Deduction of gifts</td>
<td>1952</td>
<td>CIT</td>
<td>Promotion of gifts to cultural institutions</td>
<td>-</td>
<td>? (13% * 14 = 1,82 in 2003)</td>
<td>tp</td>
<td>maximum per tax payer open end</td>
</tr>
<tr>
<td>15</td>
<td>Reduced rate for works of art</td>
<td>1934</td>
<td>VAT *</td>
<td>Support art dealers and artists</td>
<td>-</td>
<td>?</td>
<td>tp</td>
<td>open end</td>
</tr>
<tr>
<td>16</td>
<td>Reduced rate for books, magazines and newspapers</td>
<td>1934</td>
<td>VAT</td>
<td>Promotion of culture / education of the people</td>
<td>-</td>
<td>577</td>
<td>tp</td>
<td>open end</td>
</tr>
<tr>
<td>17</td>
<td>Reduced rate for renting books and magazines</td>
<td>1955</td>
<td>VAT</td>
<td>Promote culture / support the poor</td>
<td>-</td>
<td>? (x% of 60)</td>
<td>tp</td>
<td>open end</td>
</tr>
<tr>
<td>18</td>
<td>Reduced rate museums</td>
<td>1956</td>
<td>VAT</td>
<td>Promote culture</td>
<td>-</td>
<td>? (x% of 60)</td>
<td>tp</td>
<td>open end</td>
</tr>
<tr>
<td>19</td>
<td>Reduced rate performing arts</td>
<td>1998</td>
<td>VAT</td>
<td>Promote culture</td>
<td>-</td>
<td>? (x% van 57)</td>
<td>tp</td>
<td>open end</td>
</tr>
<tr>
<td>20</td>
<td>Reduced rate cinemas</td>
<td>1996</td>
<td>VAT</td>
<td>Promote culture / stimulate film industry</td>
<td>-</td>
<td>? (x% van 57)</td>
<td>tp</td>
<td>open end</td>
</tr>
<tr>
<td>21</td>
<td>Reduced rate performing artists</td>
<td>1941 (abolished 1969) 2002</td>
<td>VAT</td>
<td>Equal treatment cultural education and theatre performances</td>
<td>-</td>
<td>?</td>
<td>tp</td>
<td>open end</td>
</tr>
<tr>
<td>22</td>
<td>Exemption cultural services</td>
<td>1955</td>
<td>VAT</td>
<td>Avoid improper taxation and difficulties in collection of the tax support the arts policy</td>
<td>-</td>
<td>?</td>
<td>tp</td>
<td>open end</td>
</tr>
<tr>
<td>No.</td>
<td>Tax incentive</td>
<td>Introduced</td>
<td>Tax law</td>
<td>Aim</td>
<td>Evaluation</td>
<td>Foregone taxes in million Euro</td>
<td>Artistic Judgment by art professionals (ap) or tax professionals (tp)</td>
<td>Maximum per tax payer and/or open end</td>
</tr>
<tr>
<td>-----</td>
<td>---------------------------------------------------</td>
<td>------------</td>
<td>---------</td>
<td>-----</td>
<td>------------</td>
<td>--------------------------------</td>
<td>--------------------------------------------------------------------</td>
<td>----------------------------------------</td>
</tr>
<tr>
<td>23</td>
<td>Exemption public broadcasters</td>
<td>1941</td>
<td>VAT</td>
<td>?</td>
<td>-</td>
<td>?</td>
<td>tp</td>
<td>open end</td>
</tr>
<tr>
<td>24</td>
<td>Exemption lectures</td>
<td>1941</td>
<td>VAT</td>
<td>?</td>
<td>-</td>
<td>?</td>
<td>tp</td>
<td>open end</td>
</tr>
<tr>
<td>25</td>
<td>Exemption composers, writers and journalists</td>
<td>1941</td>
<td>VAT</td>
<td>?</td>
<td>-</td>
<td>?</td>
<td>tp</td>
<td>open end</td>
</tr>
<tr>
<td>26</td>
<td>Different taxation of re-sold art</td>
<td>1965</td>
<td>VAT</td>
<td>Prevent cumulating VAT, support art dealers</td>
<td>-</td>
<td>?</td>
<td>tp</td>
<td>open end</td>
</tr>
<tr>
<td>27</td>
<td>Reduced rate cultural institutions</td>
<td>1921</td>
<td>GIT (x)</td>
<td>Support theses institutions/ promote gifts</td>
<td>-</td>
<td>? (8% * 159 = 12.72)</td>
<td>tp</td>
<td>open end</td>
</tr>
<tr>
<td>28</td>
<td>Exemption of cultural institutions</td>
<td>1917</td>
<td>GIT</td>
<td>Promote private gifts</td>
<td>2000</td>
<td>? (x% of 159)</td>
<td>tp</td>
<td>open end</td>
</tr>
<tr>
<td>29</td>
<td>Exemption of museums</td>
<td>1917</td>
<td>GIT</td>
<td>Importance public art collections</td>
<td>-</td>
<td>?</td>
<td>tp</td>
<td>open end</td>
</tr>
<tr>
<td>30</td>
<td>Exemption of gifts for the promotion of art and science</td>
<td>1931</td>
<td>GIT</td>
<td>Support government responsibility</td>
<td>-</td>
<td>?</td>
<td>tp</td>
<td>open end</td>
</tr>
<tr>
<td>31</td>
<td>Possibility to pay inheritance tax with works of art</td>
<td>1997</td>
<td>GIT</td>
<td>Preservation of cultural heritage</td>
<td>-</td>
<td>?</td>
<td>ap and tp</td>
<td>open end</td>
</tr>
<tr>
<td>32</td>
<td>Exemption for the acquisition of monuments</td>
<td>1972</td>
<td>RET (x)</td>
<td>Preservation of cultural heritage</td>
<td>-</td>
<td>11</td>
<td>ap</td>
<td>open end</td>
</tr>
<tr>
<td>33</td>
<td>Exemption common benefit</td>
<td>1917</td>
<td>CT (x)</td>
<td>Exempt public companies</td>
<td>-</td>
<td>?</td>
<td>tp</td>
<td>open end</td>
</tr>
<tr>
<td>34</td>
<td>Exemption old timers belonging to museums</td>
<td>1995</td>
<td>MVT (x)</td>
<td>Avoid extra costs for exhibitions and scarce use of public roads</td>
<td>-</td>
<td>? (x% of 1)</td>
<td>tp</td>
<td>open end</td>
</tr>
<tr>
<td>35</td>
<td>Exemption for libraries on wheels</td>
<td>1967</td>
<td>MVT</td>
<td>Promotion of library visits in remote districts</td>
<td>-</td>
<td>? (x% of 1)</td>
<td>tp</td>
<td>open end</td>
</tr>
<tr>
<td>36</td>
<td>Refund for cultural institutions</td>
<td>2000</td>
<td>ET (x)</td>
<td>Compensation for not benefiting from other refunds</td>
<td>-</td>
<td>? (x% of 19)</td>
<td>tp</td>
<td>open end</td>
</tr>
</tbody>
</table>

1) Tax expenditure budget 2005. If the tax expenditure budget 2005 does not state the amount of taxes foregone, either another tax expenditure budget is used (year indicated in brackets) or an estimation is made (question mark plus estimation in brackets: all estimations are accounted for in Hemels 2005) or if it is not possible to make an estimation.

2) Art professionals: foundations which also decide on direct subsidies (like the Council for the arts, the Mondriaan Foundation (plastic arts) and the Fund for the performing arts) and the Ministry of Culture.

3) Tax professionals: Ministry of Finance, Tax Authorities.

4) PIT = Personal Income Tax.

5) The Tax expenditure budget considers a 2001 report an evaluation, but as this report only contains ideas for the future and does not evaluate the existing incentives, it cannot be considered an evaluation.

6) At rough estimate 3% of the taxes foregone because of the deduction of gifts results from gifts to the arts (Hemels 2005).

7) CIT = Corporate Income Tax.

8) At rough estimate 13% of the taxes foregone because of the deduction of gifts results from gifts to the arts (Hemels 2005).

9) VAT = Value Added Tax.

10) GIT = Gift and Inheritance Tax.

11) The Tax expenditure budget considers a 2000 report an evaluation, but as this report only contains ideas for the future and does not evaluate the existing incentives, it cannot be considered an evaluation.


13) The Tax expenditure budget considers a 2000 report an evaluation, but as this report only contains ideas for the future and does not evaluate the existing incentives, it cannot be considered an evaluation.

14) RET = Real Estate Transfer Tax.

15) CT = Capital Tax.

16) MVT = Motor Vehicle Tax.

17) ET = Energy Tax.
Notes


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