

## LUCERNE CONFERENCE - COMMUNIQUÉ

We, the senior tax policy officials from 25 OECD countries, the European Commission and 5 non-member economies met in Lucerne, Switzerland on 9-10 September 2009 to reflect on our cumulative experiences with value added taxes and consider how these increasingly important taxes might develop in the years ahead<sup>1</sup>.

The world faces an unprecedented global financial and economic crisis and Governments need to find sustainable ways to finance the cost of exiting the crisis and improve the economic efficiency of taxes in the long term. In their statement at the summit meeting in L'Aquila on 8 – 10 July 2009 the Leaders of the G8 said, "In this difficult time, the protection of our tax base and the efforts to combat tax fraud and tax evasion are all the more important, especially given the extraordinary fiscal measures adopted to stabilise the world economy and the need to ensure that economic activity is conducted in a fair and transparent manner."

We met against this background to consider, inter alia, the role of value added taxes as the world emerges from recession. Tax revenues will be important as countries seek to rebalance their books. Revenues from corporate taxes are likely to take a significant time to recover and there will be an increased reliance on other forms of taxes.

In June 2009, OECD Ministers agreed that "Growth-oriented tax reforms would generally involve shifting revenue from corporate and personal income taxation or social security contributions onto consumption and property taxes, including housing taxation."

We recognise and confirm the key role that value added taxes (VAT) play in those countries that deploy such taxes, both within the OECD area and beyond. The tax is now operated by nearly 150 countries including all but one member of the OECD.

We considered the ways in which VAT can fulfil its role as effectively as possible. As a result of our discussions:

- We agree that VAT is likely to maintain its key position and could become even more central as the world emerges from recession and countries seek to deal with their public debt imbalances.
- We encourage countries to modernise their VAT systems to keep pace with economic and technological changes. We recognise that their economic efficiency should be improved while recognising the political difficulties attached to any increases in taxes.
- We encourage all countries to ensure that simplification of VAT without putting the fight against VAT fraud at risk is carried through in the years ahead. In particular, we encourage tax administrations to ensure that they provide business with certainty and clarity in the way that the tax is applied and that the compliance costs can be minimised.

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<sup>1</sup> As the only OECD member country without a VAT, the United States attended the conference as an observer. The United States has not, therefore, been involved in the development of this communiqué

- We look forward to the completion of the work being undertaken by the OECD on the application of VAT internationally to the service sector and welcome the involvement of the business community in this work. Risks for double Taxation and involuntary double Non Taxation should be minimised.
- In order to combat VAT fraud, we encourage the OECD to develop further work in this area, including the availability of rapid exchange of information between countries using, for example, the Joint Council of Europe/OECD Convention on Mutual Administrative Assistance in Tax Matters.

We thank the Swiss Government and, in particular, the Swiss Federal Tax Administration for their excellent organisation of this event. We have been particularly impressed by their welcome and hospitality.

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### ***Further Notes***

#### **VAT is likely to maintain its key position**

The revenue share from general consumption taxes (mainly VAT) has risen over the last 40 years in OECD countries and now account for 18.6 of total tax revenues against 13.6 in 1965. It is expected that this trend could continue as revenues from corporate taxes are likely to take a significant time to recover and there will be an increased reliance on other forms of taxes. Personal income taxes and social security contributions will recover as unemployment falls but as most forecasts predict a relatively slow emergence from recession increases in these sources of revenue is likely to be slow.

#### **The economic efficiency of VAT should be improved**

We considered the economic efficiency of VAT and how this efficiency might be improved. The changes in the technological and economic environment imply that countries should ensure their VAT systems are modernised accordingly. In particular when seeking to bolster revenues, countries may want to consider broadening the existing tax base as an alternative or an addition to a possible increase of the standard VAT rate. We recognise the political difficulties and the economic impacts attached to increases in taxes, be it through a widening of the base or an increase in rates, but also noted that, appropriate consultation, communication and management, often as part of wider tax reform, can help minimise the political cost associated with major changes to VAT systems.

#### **VAT compliance should be eased for businesses**

Our meeting benefited from input from business representatives. VAT does not seek to tax businesses themselves, except in well defined cases. However, business has the responsibility to collect the tax, which can involve significant compliance costs. We noted their concerns over complexity and, in particular, over a lack of certainty in the administration of the tax. We support the OECD initiative to develop Guidelines for the international issues affecting VAT and look forward to their publication.

Noting that complexity can lead to poorer compliance, we encourage all countries to ensure that simplification of VAT is carried through in the years ahead. However, simplification should be carried out in a way that does not open up opportunities for fraud against VAT. In particular, we encourage tax administrations to ensure that they provide business with certainty and clarity in the way that the tax is applied. We also encourage tax administrations to ensure that penalties for genuine mistakes made by business have regard to the net amount of revenue lost.

### **Combating VAT fraud and other abuses**

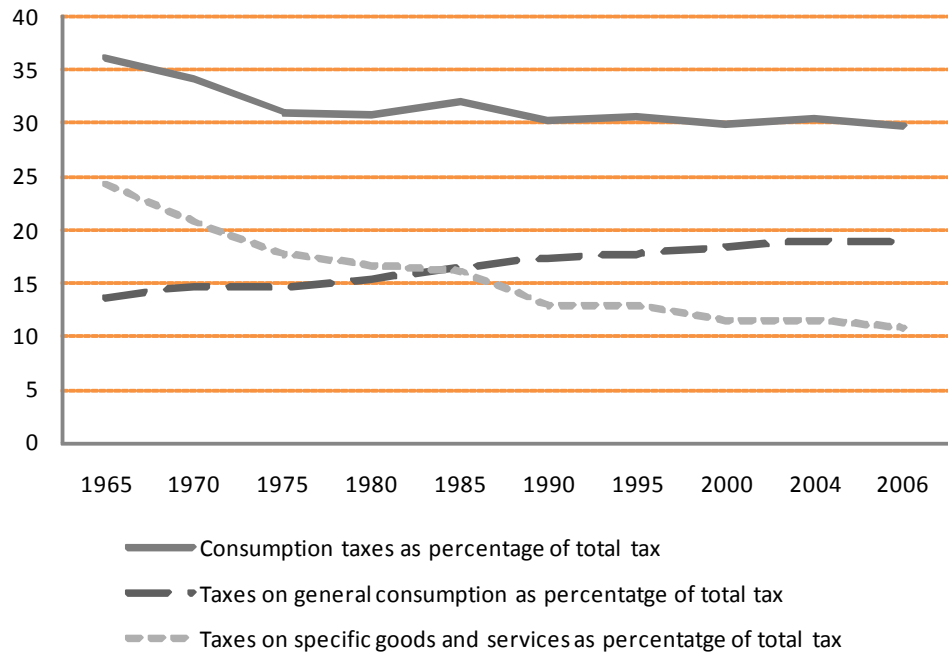
We note that VAT has been subjected to systemic attacks in recent years, often by those involved in a variety of criminal activities. Some of these frauds involve international trading and we encourage the OECD to develop further work in this area, including the availability of rapid exchange of information between countries. We welcome the changes to Article 26 of the OECD's Model Tax Convention that now allows for exchange of information on specific taxpayers under bilateral treaties for indirect, as well as direct, taxes. We would also encourage countries to enter into multilateral exchange of information agreements such as the Joint Council of Europe/OECD Convention on Mutual Administrative Assistance in Tax Matters. We also would encourage OECD countries to participate in the OECD's Secure Exchange of Consumption Tax Information System (SECTIS) that allows for exchange of information on generic tax frauds and avoidance schemes.

### **OECD Role**

We recognise the increasing role played by the OECD in working with member countries to secure effective VAT systems in a global environment and to develop a dialogue with non-OECD economies and work with them, as appropriate, to improve the design and operation of their consumption tax systems.

# Share of consumption taxes as percentage of total taxation

Consumption Tax Trends 2008



## Average tax revenues as a percentage of aggregate taxation by category of tax (2006)

Consumption tax trends 2008

