

OECD experts meet to discuss VAT policy design and application of VAT to international trade.

On 8 and 9 November, delegates from Working Party N° 9 on Consumption Taxes met in Paris to discuss policy issues on the design and operation of Value Added Taxes (“VAT” and its equivalent, called “Goods and Services Taxes” – “GST” in certain jurisdictions). The discussion was mainly focused on the further development of internationally agreed principles for applying VAT/GST on international trade.

Research suggests that the current international environment for consumption taxes, especially with respect to trade in services and intangibles, is hindering business activity and economic growth and distorts competition. The creation of a global framework for applying VAT/GST on international trade is therefore a key priority for the OECD.

“Business globalisation combined with the global spread of VAT/GST has led to high levels of uncertainty, complexity and high risk of double taxation for businesses”, a delegation of the Business and Industry Advisory Committee (“BIAC”) explained at the meeting. The business delegation presented concrete business cases illustrating how the current international VAT/GST environment creates obstacles to international trade and investment. *“Businesses need a set of internationally agreed principles to ensure a consistent interaction of VAT/GST systems in an international context. We have been cooperating with the OECD in developing a set of principles over recent years and we are particularly pleased with the progress made in a very constructive spirit. We look forward to continuing this cooperation going forward”,* said Karl-Heinz Haydl, Chair of the BIAC VAT Committee.

After the meeting with business representatives, government experts discussed the application of VAT/GST to the cross-border trade in services and intangibles involving multinational enterprises and on the design of guidance to ensure VAT/GST neutrality in practice. *“I was pleased with the constructive policy exchange and with the progress towards commonly agreed principles”,* said Richard Brown, Chair of Working Party N° 9.

Experts also considered ways to improve the efficiency of VAT/GST systems. Governments are facing the difficult challenge of raising revenues in the short term to address fiscal consolidation challenges without jeopardising economic growth. In this context, the meeting notably agreed that combating VAT/GST fraud and avoidance is another policy priority, notably through enhanced cooperation and exchange of information between countries.

Also the VAT/GST treatment of carbon trading was considered, as part of a wider OECD project. The aim is to ensure that tax rules do not impact negatively the development of economic instruments used in environmental policy.

Finally, it was generally recognised that in an increasing global environment where over 150 countries have implemented a VAT/GST, there is a need for a global platform where the economic, social and cross border issues of operating a VAT/GST can be discussed. It is in this context that it was agreed to explore the creation of a Global Forum on VAT which would provide a platform where businesses and governments from around the globe can meet to exchange experience and to identify best practices.

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