SESSION MATERIAL

OPENING SESSION

• Welcoming statements
• Background and objective of the Global Forum on VAT

Chair: Rintaro Tamaki, Deputy-Secretary General, OECD
Panellists:
Pascal Saint-Amans, Director, Centre for Tax Policy and Administration, OECD
Manfred Bergmann, Director, European Commission
Richard Brown, Chair of Working Party N° 9 on Consumption Taxes

SESSION 1: IMPLEMENTING A VAT – A GLOBAL PERSPECTIVE (plenary session)

This session aims to set the scene by providing an overview of the current VAT landscape, recent VAT experiences around the world and indications of likely challenges for the future of VAT. The following topics will be covered:

• VAT policy and administrative developments - A worldwide overview
• Implementing VAT in emerging and developing economies
• Operating VAT in a Regional Trading Bloc - The EU Experience
• Managing the VAT risk - A business perspective

Chair: Michael Lang, WU, Vienna University of Economics and Business
Panellists:
Michael Keen, Deputy Director Fiscal Affairs Department, International Monetary Fund
S. Jain, Officer on Special Duty, Ministry of Finance, India
Donato Raponi, Head of Unit VAT and other turnover taxes, European Commission
William Morris, Chair of BIAC Tax Committee (Business and Industry Advisory Committee)

SESSION 2: APPLYING VAT TO INTERNATIONAL TRADE – THE CHALLENGE OF ECONOMIC GLOBALISATION (break-out sessions)

This session explores challenges to the principle of “taxation at destination”, the standard for applying VAT in an international context where exports are zero-rated and imports are taxed in the importing country at the VAT rate applicable to domestic production. This principle, while generally readily applicable for international trade in goods, creates particular challenges with the growing international trade in services and intangibles, which are not subject to border controls. Administrative procedures for ensuring that the right amount of tax is paid in the right place are complex and differ across jurisdictions. From a government’s viewpoint there is a risk of under-taxation and loss of revenue, or distorting trade through double taxation. From a business viewpoint, there are revenue risks and compliance costs.

Two break-out sessions will be held, which will be followed by a plenary session where reports on the outcome of both sessions will be presented. Topics for discussion will include:

• How the development of international trade increases the risks of double taxation and unintended non-taxation
• Why is taxation at destination the preferred approach for applying VAT to international trade
• The challenge for tax administrations
• The impact for businesses
• Applying VAT to cross-border telecommunication and e-commerce

Break-out session 1:
Chair: Rainer Nowak, Canada
Panellists:
Rebecca Millar, University of Sydney
Nii Ayi Aryeeetey, Ghana
J. Alfredo Tijerina-G., Mexico
Julien Brugère, Time Warner
Rapporteur: Champa Gunnoo, Mauritius

Break-out session 2:
Chair: Richard Stern, World Bank
Panellists:
Walter Hellerstein, University of Georgia
Wang Wengin, China
Naoki Oka, Japan
Viannis Pouloupolous, Rio Tinto
Rapporteur: Mike Cunningham, United Kingdom

SESSION 2: APPLYING VAT TO INTERNATIONAL TRADE – THE CHALLENGE OF ECONOMIC GLOBALISATION (plenary session)

Presentation of the reports from the break-out sessions, followed by discussion in plenary.

Chair: David Hollinrake, Southern African Development Community
Rapporteurs: Champa Gunnoo, Mauritius and Mike Cunningham, United Kingdom
SESSION MATERIAL

SESSION 3 : THE OECD INTERNATIONAL VAT/GST GUIDELINES (plenary session)

Since the late 1990s, governments have recognised that greater coherence is needed for the application of VAT in an international context. The OECD first developed international standards on consumption taxation in the context of electronic commerce in 1998, as part of the Ottawa Taxation Framework Conditions. Destination-based taxation of cross-border e-business was the governing principle of this framework. With subsequent evidence that VAT can distort international trade in services and intangibles more generally, the OECD launched a project for the development of the OECD International VAT/GST Guidelines, as an internationally agreed standard for a consistent VAT-treatment of cross-border trade.

The aim of this session is to present ongoing work on the development of the OECD International VAT/GST Guidelines and to share views with participants about their design and implementation. This session will cover the following topics:

• Ensuring VAT-neutrality in an international context: the International VAT Neutrality Guidelines
• Consistent allocation of taxing rights on international trade in services and intangibles: the OECD VAT/GST Guidelines on place of taxation
• The business perspective
• Considering the future: a VAT model tax treaty?

Chair: Richard Brown, Chair of Working Party N° 9 on Consumption Taxes
Panellists:
Marie Pallot, New Zealand .......................................................... 99
Lesley O’Connell Xego, South Africa .................................................. 103
Karl-Heinz Haydl, Co-chair of TAG, BIAC ........................................ 107
Thomas Ecker, Austria ........................................................................ 115

SESSION 4 : DESIGNING EFFICIENT AND EQUITABLE VAT SYSTEMS (break-out sessions)
(For governments, international organizations and academics)

VAT is a major source of revenue and the design of VAT regimes can thus potentially have a significant impact on a country’s economic performance. It is widely seen as a relatively growth-friendly tax and as a result many countries are seeking to raise additional revenues from VAT, rather than other taxes, as part of their fiscal consolidation strategies. Many countries may consider broadening the VAT base, by using fewer exemptions and reduced rates, as economic research suggests that this could increase output and economic welfare. However, such reform may prove to be politically challenging.

Two break-out sessions will be held, allowing participants to share policy analysis and experience on the following topics:

• What do we really know about the “performance” of VAT
• The key challenges of VAT-design and possible approaches. Tax base, rate structure, registration threshold
• Distributional impact of VAT and addressing political obstacles to raising/eliminating reduced rates and exemptions
• Revenue and economic effects of broadening VAT bases

Break-out session 1
Chair: Chia-Tern Huey Min, Singapore
Panellists:
Colin Brown, Australia .......................................................... 129
E. H. Ibrahima Diop, Senegal .................................................. 137
Abdelouahab Naciri Darai, Morocco ........................................ 149
Antoine Magnant, France .......................................................... 163
Rapporteur: Francesca Vitale, Italy

Break-out session 2
Chair: Michael Keen, International Monetary Fund
Panellists:
Cecil Morden, South Africa .......................................................... 171
Natasha Avendano Garcia, Colombia .............................................. 191
Yutaka Ito, Japan ....................................................................... 197
Alberto Daniel Barreix, Inter-American Development Bank .......... 205
Rapporteur: Rob Dalla-Costa, Australia
# SESSION MATERIAL

## SESSION 4: DESIGNING EFFICIENT AND EQUITABLE VAT SYSTEMS (plenary session)

Presentation of the reports from the break-out sessions, followed by discussion in plenary.

**Chair:** Michel Aujean  
**Rapporteurs:** Rob Dalla-Costa, Australia and Francesca Vitale, Italy

## SESSION 5: MANAGING VAT ADMINISTRATION AND COMPLIANCE (plenary session)

*For governments, international organizations and academics*

Compliance burden considerations are a strategic issue of concern in tax system design and administration. VAT systems are widely regarded as the most burdensome of all taxes for businesses, imposing significant and highly regressive compliance costs and potentially hampering the development of economic activity and international trade. The measurement of compliance costs and the identification of the VAT features that contribute positively or negatively to compliance burden are of key importance for evidence-based thinking about reform and improvement. Also VAT fraud and avoidance remain a concern for many tax administrations. VAT gaps (between actual VAT revenues and notional revenues with full compliance) may be considerable (e.g. estimated at 10% or more of potential revenues in some cases). A key question is whether it is possible to develop an effective strategy against VAT fraud and avoidance without imposing excessive administrative burden and compliance cost.

Discussions during this session will concentrate on:

- Measuring and reducing administrative and tax compliance costs
- Measuring the VAT gap and understanding its causes
- Implementing strategies to reduce VAT fraud and avoidance

**Chair:** David Hollinrake, Southern African Development Community  
**Panellists:**

1. Michael Walpole, University of New South Wales  
2. Richard Highfield, OECD  
3. Arthur Kerrigan, European Commission  
4. Gabriele Himsel, Germany

## SESSION 6: THE WAY FORWARD (plenary session)

*For governments, international organizations and academics*

The aim of this session is to draw conclusions, identify the areas where the Global Forum on VAT can usefully add value and consider how work may be organized. This session will consider:

- Overall summary and conclusions
- Issues and priorities for further work
- Work programme and agenda for the next Global Forum on VAT
- Governance of the Global Forum on VAT

**Panellists:**

1. Richard Brown, Chair of Working Party N° 9 on Consumption Taxes  
2. Pascal Saint-Amans, Director Centre for Tax Policy and Administration, OECD
Outline

• A Short History of the VAT (in five pictures)

• The VAT as Unfinished Business—Seven Issues
A SHORT HISTORY OF THE VAT

The Rise (and Rise) of the VAT

Number of Countries

- High Income
- Other Countries

Developments in revenue...

...in standard rates
...in C-Efficiency

...and in the number of rates
Do countries with a VAT raise more revenue than those without?

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<thead>
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<th>Region</th>
<th>Asia-Pacific</th>
<th>Americas</th>
<th>EU+</th>
<th>North Africa and Middle East</th>
<th>Small Islands</th>
<th>Sub-Saharan Africa</th>
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<td>4.03</td>
<td>4.15</td>
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<td>4.03</td>
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<td>0.02</td>
<td>2.87</td>
<td>2.87</td>
<td>0.91</td>
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SEVEN ISSUES
The VAT in troubled times

- VAT already central to consolidation
  - From 2011-12, 14 MS raised standard rate; none cut

- Clear potential where low or non-existent:
  - Japan, now committed to phased increase
  - U.S., but issues related to state/local sales taxes

- Standard rate often high
  - Scope and strong case for base-broadening

- ‘Fiscal devaluation’ to address competitiveness?

VAT and Trade Liberalization

- Replacing trade tax revenue a primary rationale for VAT in many developing countries

- Simple in principle...

- ...harder in practice (maybe less so recently)
VAT and ‘informality’

• ‘Informality’ isn’t the issue—non-compliance is

• VAT threshold (and special schemes) critical—and under-studied
  – Central to wider issue of taxing small enterprises

• What role for withholding taxes?
  – Theoretical appeal, but can be practical difficulties

• How to encourage ‘good’ VAT chains?

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VAT Gaps

• Importance of VAT [implementation] gaps

• C-inefficiency also reflects gaps from rate differentiation and exemptions

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[Bar chart showing VAT gaps across countries including Austria, Sweden, Finland, Ireland, Germany, Portugal, France, Belgium, United Kingdom, Spain, Greece, and Italy. The chart indicates different VAT gaps such as exemptions, rate differentiation, and compliance gap (2006).]
VAT and administrative reform

• Catalyzing organizational change
  – Movement to taxpayer segmentation
  – Coordination with customs often work in progress

• Strengthening the income tax?
  – Less progress than might have hoped

• Information technology
  – Undreamt of opportunities, e.g. pre-populating returns for smaller businesses (bigger later?)
  – But risk assessment and audit remain essential

VAT and fairness

Reduced VAT rate is poorly targeted because while poor may spend a larger proportion of their income on ‘food’, rich spend absolutely more

E.g., of $100 foregone, poor may receive only $5
• Question then is: Is there a way to spend $100 so that poorest benefit by at least $5?

• May well be, even in less advanced economies
  – Just needs to be better-targeted/more highly valued than cash-equivalent to reduced rate

• But showing how to compensate (still raising revenue) doesn’t convince policymakers

• Why not?

Learning about the VAT

Logic of the VAT more powerful than we thought

• We now know how to tax financial services
  – Financial Activities Tax as a second best?

• Destination principle doesn’t require zero-rating exports—e.g., CVAT, VIVAT—allowing VAT to operate better without fiscal frontiers

• Recent proposals for a destination based corporate tax = a VAT plus labor subsidy
IMPLEMENTING VAT IN EMERGING AND DEVELOPING COUNTRIES

Shobhit Jain, Officer on Special Duty, Ministry of Finance (India)

UNIQUE VAT CHALLENGES

- Huge economic diversity:
  - 75% population below $2 a day, 3% file income tax returns
  - Per capita income ranges from Euro 200 to 2,000
  - 50% revenue from 5 States, rest from 25 States
- Origin v consumption states
OTHER CHALLENGES

• Absence of mechanism for direct assistance to poor
• Large informal economy
• Poor reliance on technology
• Sub-national VATs

PERSUASIVE TRENDS

• Increasing reliance on exports
  – Destination-based VAT compatible with WTO

• Encourage FDI: competitive corporate taxes: revenue needs met through higher consumption taxes
PROPOSED GST FORMAT IN INDIA

• Dual GST comprising Central GST (CGST) and State GST (SGST)
• Most Central and State taxes to be subsumed into a unified GST; Taxes on alcohol, petroleum, property, electricity and taxes by local bodies to be outside GST
• Interstate and cross-border transactions to be levied IGST: (CGST + SGST); disbursement to consuming State
• Single Common Market: Seamless flow of input tax credits

PROPOSED GST FORMAT IN INDIA

• GST Council – comprising of Finance Ministers of both Centre and States
  – Scope: the taxes, cesses and surcharges which may be subsumed
  – Exemptions including threshold limits
  – Rate(s)
• Dispute Settlement Authority to adjudicate any deviation from GST Council’s recommendations
CURRENT CHALLENGES

• Fiscal Autonomy
  – GST rate(s)/ band
  – Exemptions
• Coordinated collection
• Elimination of origin based tax
• Compensation for revenue deficit
• Possible resistance from consumers and small business
• Taxes by local authorities

ONGOING STEPS...

• Constitutional Amendment Bill introduced
• Alignment of State and Central exemptions
• Alignment of rates of central taxes for goods and services
• Alignment of other provisions of central taxes for goods and services
ONGOING STEPS...

• Rules for Time of Taxation and Place of Provision for services in place
• Negative list of services
• Common Code for central taxes: Committee working

ONGOING STEPS...

• GSTN: Goods and Services Tax Network
• A common IT platform
• SPV: private limited company in which the Government will retain strategic control
• Software being developed by a leading private sector expert in IT, now working with Government as advisor in the rank of a Cabinet Minister
ROADMAP...

- **Common Tax Code**
  - Under execution
  - Largely achieved

- **GST Network**
  - By year end

- **Constitutional Bill**

**Key business processes**

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Thank you.
Operating VAT in a regional trading bloc
The European Experience

Donato RAPONI
DG Taxud
OECD Global Forum on VAT
Paris 7 November 2012

The EU: a single market

1 January 1993: Implementation of principles of free movement of persons, goods, services, and capital within the EU

It implied the disappearance of all customs procedures and formalities associated with the crossing of an internal border
The EU: a single market

VAT is a tax on consumption collected in principle by the country in which the consumption takes place.

Challenges put by the Single Market in 1993: setting up a VAT system within the EU that:

- ensured that the VAT receipts are collected by the Member State of consumption
- functioned within a Single Market without border controls

The EU: a single market

Consumers can buy goods and services within the EU without any formalities when crossing a border.

General Principle: VAT charged in the Member State of "origin"

- For goods: taxation in the country where the supply takes place (the shop where the goods are sold to the consumer, also for high value goods)
- For services: taxation in the country where the supplier is established
The EU: a single market

However, a need for some correction mechanisms:
- distance sales of goods
- new means of transport
- telecom, electronic and broadcasting services (2015)

These mechanisms:
- Are necessary for ensuring that VAT is collected by the Member State of consumption
- But area of complexity within the EU VAT system

For B2B supplies: EU VAT system ensures taxation in the Member State of destination
- For goods: in the country where the goods arrive;
- For services: in the country where the business customer is established.

For both supplies: customer ensures the taxation

AND goods can circulate from Portugal to Romania without any formalities for VAT at the borders
The Future of EU VAT


- Launched a broad based consultation with all the stakeholders
- After more than 40 years, and almost 20 years of VAT with the Single Market, time had come for a critical look at the EU VAT system

Why? Despite the benefits of the abolition of the border formalities, the EU VAT system is:

- too complex, too burdensome and susceptible to fraud
- an obstacle to a better functioning of the single market
- not efficient enough; and
- changes in technology and economic environment have not been fully taken into account

New circumstances: Financial crisis and need for fiscal consolidation

As a follow up to the Green paper, the Communication of December 2011 lays down the fundamental features of the future VAT system:

- A EU system based on the destination principle: Doing business across the EU must be as simple and as safe as engaging in domestic activities
- Simple: A single set of simple, clear and modern rules and obligations
- Efficient and neutral: Restricted use of exemptions and reduced rates, equal rules governing the right of deduction
- Robust and fraud proof: Modern methods of collecting and monitoring VAT
Destination vs. origin principle
EU concepts

**Origin:** EU definition of the place of taxation for cross-border transactions:
- The place at which the goods are situated at the time when they are sold by the taxable person (1987 proposal)
- The place where the supplier is established (1996 Programme)

**Requires:**
- approximation of VAT rates to avoid distortions
- compensation mechanism to allocate the revenue to the Member State of consumption

---

**Destination:** goods are taxed where consumption takes place

**Different options for implementing such a system:**
- Present transitional regime (flow of goods)
- Present regime but a single transaction
- Aligning with the contractual flows (flows of invoices)
- Aligning B2B supply of goods with rules for services
- VIVAT, CVAT etc..
Destination vs. origin principle

EU concepts

Important question: person liable for payment of VAT?

- Supplier liable for payment of VAT and charges VAT on all intra-EU transactions. Requires a broader One-Stop-shop
- Customer liable for payment of VAT when the supplier is not established: Reverse Charge

In-depth technical work in 2012 and 2013 with all stakeholders involved

Legislative proposal in 2014

The Future of EU VAT: other issues

Towards a simpler VAT system

- Standardisation of VAT obligations
  - First step: an EU VAT return

- The broadening of the One-Stop-Shop (notably to solve the complexity of the distance selling scheme)
  - First: smooth implementation of the mini-OSS in 2015

- An EU VAT web portal
  - Providing business with more accurate and reliable information on Member State rules and obligations

- Improving the governance of VAT at EU level
  - Tripartite EU VAT forum and VAT Expert Group
  - Guidelines and explanatory notes
The Future of EU VAT: other issues
Towards a more efficient VAT system

- **Broadening the tax base**
  - Public bodies: gradual approach towards taxation
  - Passenger transport: more neutral and simpler rules

- **Review of the reduced rates based on 3 criteria:**
  - Compatibility with the single market
  - Coherence with other EU policies
  - Similar goods and services should be subject to same rates

The Future of EU VAT: other issues
Towards a more robust and fraud-proof VAT system

- **Quick reaction mechanism** (to combat VAT fraud)
- **Broadening the automated access to information**
- **Reinforcing EUROFISC** (enhanced cooperation between MS)
- **Better cooperation with third countries** (key issue: supply of services)
- **Improve the efficiency of tax administrations of the EU**
- **Reviewing the way VAT is collected and monitored**
The Future of EU VAT: other issues
Uniform application of VAT legislation

- Why? EU VAT legislation mainly based on directives
- How to improve an uniform application?
  - VAT Committee: all guidelines are published
  - Implementing regulations
  - Explanatory notes issued by the Commission (e.g. invoicing rules)
  - Court of Justice:
    - fundamental role ("droit des juges")
    - on the request of the Commission
    - on the request of national courts (interpretation)
**Conclusion**

- **EU VAT harmonised legislation** applied across Europe (27 countries, 500 million inhabitants, 35 million taxable persons)

- **Main drivers:**
  - **Internal Market:** facilitates the integration of cross-border trade in the EU
  - **Fiscal consolidation:** +-1000 billion revenue

- **Main difficulties:** compliance costs, fraud (VAT gap 12 %)

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**Conclusion**

"L'Union européenne est un patrimoine de l'humanité, elle n'appartient plus aux seuls européens. Chaque fois qu'ailleurs dans le monde on parle d'intégration régionale, on regarde vers l'Europe"

*Speech of President Lula at l'Institut des sciences politiques, Paris 27/9/2011*
THANK YOU
IMPLEMENTATING A VAT – A GLOBAL PERSPECTIVE

William MORRIS, Chair of BIAC Tax Committee

MANAGING THE VAT RISK – A BUSINESS PERSPECTIVE

Introduction

• More than 150 countries have a VAT/GST

• 20% of world’s tax revenue

• Continuing shift from direct taxation towards indirect taxes and greater importance of VAT Policy in overall Tax Policy context

• Globalisation, technology, new business models, products and services lead to increasing complexity for indirect as well as direct taxes

• VAT is becoming a rapid response tool to collect more revenue in times of fiscal uncertainty – e.g., Europe 2010-present
MANAGING THE VAT RISK – A BUSINESS PERSPECTIVE

Interaction between systems

• Lack of standardisation (even within “harmonised” systems such as the EU’s) leads to significant difficulties, particularly in cross-border settings:
  – Expensive – and difficult – to follow regulations in 150 countries
  – Double taxation
  – Lack of refunds
  – Discrimination against non-resident businesses

Avenues to explore

• Increase compatibility of systems
• Common interpretation and application of legislation
• Legal certainty – ability to access the law and obtain rulings as required

Access to information

• Legitimate businesses want to comply and pay the right amount of tax at the right time and for that need access to reliable information

Avenues to explore

• New legislation and guidance should be introduced with sufficient lead time for business implementation
MANAGING THE VAT RISK – A BUSINESS PERSPECTIVE

Disproportionate penalties

- Legitimate businesses frequently heavily penalised for simple mistakes or for not being able to comply accurately / on time
- Often results from lack of clear information, complexity, problems in keeping tax law up to date with new business models (outsourcing, e-invoicing, etc.)
  - Penalties (5%-200%) for non-compliance involving no loss of revenue
  - Tax authorities charging interest rates well above commercial levels, including where no loss of revenue

Avenues to explore

- Give businesses the tools to comply
- No penalties for formalistic errors where there is no overall tax loss
- Interest rates as restitution not an additional penalty

MANAGING THE VAT RISK – A BUSINESS PERSPECTIVE

Fraud

- In order to minimise fraud revenue loss, tax authorities increasingly imposing blanket rules on legitimate businesses:
  - Onerous reporting obligations
  - Joint and several liability

Avenues to explore

- Fight together vs. fraud to preserve integrity of VAT system
- Targeted not blunt legislation
- Improved intelligence, better training, risk-profiling businesses, targeted visits, etc.
- Greater sharing of information and co-operation
MANAGING THE VAT RISK – A BUSINESS PERSPECTIVE

OECD Global Forum on VAT

- Dialogue and co-operation to understand government and business perspectives/environment
  - Short term - capture challenges/collect best practices globally on design of VAT/GST system; also practical administration
  - Longer term – work towards better global alignment of various VAT systems and increased efficiency in administering VAT

- Business, as tax collector, is crucial throughout the entire process – businesses are very happy to support
SESSION 2

APPLYING VAT TO INTERNATIONAL TRADE
THE CHALLENGE OF GLOBALISATION

(BREAK-OUT SESSION 1)

***********

Chair: Rainer Nowak, Canada

Panellists:
Rebecca Millar, University of Sydney
Nii Ayi Aryeetey, Ghana
J. Alfredo Tijerina-G., Mexico
Julien Brugère, Time Warner

Rapporteur: Champa Gunnoo, Mauritius
JURISDICTION TO TAX CONSUMPTION

BASIC CONCEPTS

- Jurisdiction to tax depends on:
  - establishing a plausible connection to the State, which justifies imposition of the tax (substantive jurisdiction)
  - having a practical means of collecting the tax that is imposed (enforcement jurisdiction)
  - problems arise if both are not present

- Two main design choices (origin and destination principles):
  - both focus on substantive jurisdiction
  - details of their implementation vary from State to State and may reflect enforcement jurisdiction (or lack thereof)
DESTINATION PRINCIPLE

VAT = (tax rate x price) where consumed
All revenue to country of consumption (destination)

ORIGIN PRINCIPLE

VAT = \sum (tax rate x value added) for each country of production
Revenue distributed in pattern of origin
IMPLEMENTATING THE DESTINATION PRINCIPLE

RELEVANCE OF KEY VAT FEATURES

A VAT is:
• an indirect tax on consumption
• a non-cascading, multi-stage transaction tax

THUS:
• VAT is collected from business but is not a tax on business
• It is collected at the time of purchase, not the time of use
• Its objective is to impose a tax burden on the final consumer at the place of consumption
• No net tax is collected on B2B supplies; only B2C supplies raise revenue (plus B2B supplies if ‘exemptions’ apply)

WHAT IS CONSUMPTION?

Consumption = an economic concept:
• the final purchase of goods and services by individuals

But VATs require a jurisdictional basis for all transactions:
• **B2B**: business use ≠ consumption
  – place of taxation for B2B supply should facilitate flow through of tax to next step in the chain
• **B2C**: use by final consumers = the object of tax
  – place of taxation rules reflect a State’s view on where consumption occurs
  – enforcement jurisdiction problems if supplier and customer are in different locations
IMPLEMENTING THE DESTINATION PRINCIPLE

WHERE DOES CONSUMPTION TAKE PLACE?
To implement the destination principle, VAT laws must identify place of consumption (B2C) or use (B2B)

- VAT laws use proxies to predict place of consumption
- Proxies based on:
  - **subjective** features of the transaction → **intangible** supplies:
    - location or residence of the customer
    - location or residence of the supplier
    - location or residence of some other person receiving the supply
  - **objective** features of a transaction → **tangible** supplies:
    - location of tangible property (goods or land) supplied or to which the supply relates
    - place of performance or of receipt of performance

CAUSES OF DOUBLE & NON-TAXATION

NON-TAXATION
Intentional non-taxation:
- international passenger transport
- travel agents'/tour operators' margins for foreign travel
- inbound B2C supplies (especially services) where no enforcement jurisdiction (if State chooses not to tax)

Intentional partial taxation:
- domestic exemptions

Unintentional non-taxation:
- inbound B2C supplies (especially services) if no enforcement jurisdiction (State imposes tax but cannot collect)
- inbound supplies that would be exempt if purchased locally
- States with different views of where consumption takes place
CAUSES OF DOUBLE & NON-TAXATION

DOUBLE TAXATION

- Conflicting principles (origin v destination): rarely/never?
- Use of different proxies due to:
  - different views of where consumption takes place
  - different characterisation of supply
  - different interpretations of the facts
  - different views on who is consuming/using the supply
- Failure to fully implement the destination principle:
  - no refund scheme for input tax incurred by foreign businesses
  - no entitlement to input tax credits for business inputs
  - failure to zero-rate exports of ‘exempt’ supplies
  - exemptions at earlier stages in the business chain
CAUSES OF DOUBLE & NON-TAXATION

EXAMPLE
Help desk services: which proxy?
• Place of performance
• Place of effective use or enjoyment
• Location of customer
• Location of supplier
• Location of consumers to whom the services are delivered

Tax payable by whom?
• supplier
• customer

Is a credit/refund allowed for the tax charged (if any)?

DIFFERENT PROXIES FOR SAME SUPPLY

Telco A <--- Customer B ----> Customer A ----> Telco B

• Customer B calls Customer A
• Customers are both global roaming
• Telco B charges Customer B for making the call
• Telco A charges Customer A for receiving the call
• Telco B charges Telco A and Telco A charges Telco B
KEY CHALLENGES WITH APPLYING VAT TO CROSS-BORDER TELECOMMUNICATIONS AND E-COMMERCE

- Compliance monitoring and collection issues arising from difficulties in identifying and tracking international trade in telecommunications and e-commerce due to the:
  - intangible nature of services generally and
  - absence of uniform documentation for tracking the movement of traded services between countries.
- Limitations in the design and structure of the law to adequately address the rapid technological developments in the two sectors over time.
KEY CHALLENGES WITH APPLYING VAT TO CROSS-BORDER 
TELECOMMUNICATIONS AND E-COMMERCE - CONTD.

- Conflicts between the tax laws and international
  conventions and agreements
- The involvement of different countries in cross
  border trade and the need for close inter-
  jurisdictional cooperation for effective taxation
  of telecommunications and e-commerce.
- Limitations in statutory definitions and other
  provisions regarding the
  nature and place of supply to ensure that
  taxation occurs in the
  appropriate tax jurisdiction.

STATUTORY PROVISIONS ON TELECOMMUNICATION AND E-COMMERCE -
SOME PERSPECTIVES FROM GHANA

- Design of the law: *Destination principle*
  applies. VAT is imposed on domestic
  consumption and exports are zero-rated.
  - VAT imposed on supply of goods and
    services made in Ghana; importation of
    goods; and imported services (other than
    exempt goods and services).
- VAT due on imported services is payable by
  the Receiver. The “reverse charge” rule
  applies where imported services are applied
  as inputs for taxable supplies.
Tax rates applicable — Standard rate of 12.5% for supplies made in Ghana and Zero rate (0%) for export of taxable goods and services.

“Taxable Supply” defined to include the -
- processing of data or supply of information or similar service; and
- Sale, transfer, assignment or licensing of patents, copyrights, trade marks, computer software and other proprietary information.

Rules on Place of Supply have not changed since the re-introduction of VAT in 1998 in spite of rapid developments in telecommunications and e-commerce over the years;
- consequential conflicts between the statutory provisions and some aspects of the Melbourne Agreement and the Ottawa Framework.
STATUTORY PROVISIONS ON PLACE OF SUPPLY OF SERVICES - SOME PERSPECTIVES FROM GHANA CONTD.

- Generally, Place of Supply of a Service is “the supplier’s place of business, or the place from which the service is supplied or rendered”
- Place of supply rule is normally applied in determining whether a particular e-commerce transaction constitutes domestic consumption, import or export of service for imposition of tax at the appropriate rate.

STATUTORY PROVISIONS ON TELECOMMUNICATION SERVICE - SOME PERSPECTIVES FROM GHANA

- Telecommunication service: Special rule for Place of Supply: — the place where the facility or instrument for the emission, transmission or reception of the service is ordinarily situated.
- Where the facility/instrument is situated in Ghana, the place of supply is Ghana (a proxy for domestic consumption); VAT is due at the standard rate (12.5%) irrespective of all other considerations — A potential area of conflict with international agreements and creates uncertainties in the country’s fiscal environment in that sector.
Jean-Baptiste Colbert (1619-1683): “The art of taxation consists in so plucking the goose as to obtain the largest amount of feathers with the least possible amount of hissing”

With taxation of telecommunications and e-commerce the challenge is getting hold of the goose in the first place……the goose has become virtual!

THE END

THANKS FOR YOUR ATTENTION AND PARTICIPATION
Findings that lead to possible tax fraud:

- “simulated” exports of goods and services
- Other International transactions; i.e. VAT on imports of intangibles

These effects are more important as the country has a large foreign (export/import) sector (approximately 60% for Mexico: 30% exports/30% imports)

Some of the main challenges we face are:

1. What information is required to “verify” the transaction?
2. How to verify transactions without imposing a large burden on taxpayers?

One of the main topics that the Tax Administration deals with are refunds from exports and no “payments” of VAT on imports of intangibles.
Some main reasons for VAT refunds:
• Exports
• New Investment (associated largely with economic growth)
• VAT Zero Rate on domestic supplies

Process for verifying VAT: following OECD recommendations

Evolution of Total Refunds (75 to 80% share is due to VAT Refunds)

1/ (Net VAT Revenue/Gross VAT Revenue)

<table>
<thead>
<tr>
<th>Years</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Average 2000-2011</td>
<td>30.1%</td>
</tr>
<tr>
<td>2011</td>
<td>34.5%</td>
</tr>
<tr>
<td>1st. semester 2012</td>
<td>31.2%</td>
</tr>
</tbody>
</table>

Notes: Estimates for Third and Fourth Quarter 2012.
1/ It is important to mention that the VAT is a cash-flow tax in Mexico.

 Evolution of main variables

- Exports: Average share on GDP of 29.3% (2003-2012), and 32.9% on 2010:2012:I
- New Private Investment: Average share of GDP of 16.8% (2003-2012), and annual real growth of 8.6% in 2011.
- VAT Zero Rate on domestic supplies: 27.1% of private consumption is on goods and services subject to Zero VAT Rate; Private Consumption is 68.7% of GDP (2003-2012:I).

<table>
<thead>
<tr>
<th>Economic Activity</th>
<th>Number of Large Taxpayers</th>
<th>Explains 75% of VAT Refunds increase in 2011</th>
<th>Main Reason</th>
</tr>
</thead>
<tbody>
<tr>
<td>Automobile and Autoparts</td>
<td>14</td>
<td>20.6%</td>
<td>Export</td>
</tr>
<tr>
<td>Mining</td>
<td>9</td>
<td>18.8%</td>
<td>New Investment and Export</td>
</tr>
<tr>
<td>Electronics</td>
<td>3</td>
<td>10.3%</td>
<td>New Investment</td>
</tr>
<tr>
<td>Telecommunications</td>
<td>3</td>
<td>7.9%</td>
<td>New Investment</td>
</tr>
<tr>
<td>Chemical Industry</td>
<td>6</td>
<td>7.1%</td>
<td>New Investment and Export</td>
</tr>
<tr>
<td>Construction and infrastructure</td>
<td>7</td>
<td>6.6%</td>
<td>New Investment</td>
</tr>
<tr>
<td>Others</td>
<td>28</td>
<td>28.6%</td>
<td>-</td>
</tr>
<tr>
<td>Total</td>
<td>70</td>
<td>100%</td>
<td>-</td>
</tr>
</tbody>
</table>
... THE CHALLENGE FOR TAX ADMINISTRATIONS

**VAT Refunds: “simulated” exports**

Mexican Customs “Tax” Return on Export  
USA Customs “Tax” Return on Import

- **Information Exchange**
  - Includes: Type of merchandise; Value; Weight; Harmonized system classification

Exports declared in Mexico are lower than declared US imports (value and/or weight) or goods imported into the USA differs from what was declared in Mexico.

We are moving towards a unique custom return for USA and Mexico.

---

**VAT on import of Intangibles**

- Monthly Tax Return (Income and VAT)
- Monthly Report of operations with suppliers (domestic and foreign)
- Annual Report on Payment to Foreigners classified according to the OECD

For intangibles, VAT payment on import is "virtual"; the taxpayer must credit (and charge the VAT in the same period in the Monthly Return) giving a balance of zero.

For income purposes the taxpayer deducts payments made to foreign suppliers which is verified against the Annual report on payment to Foreigners; if not reported, deduction is denied and for VAT purposes the Tax Administration may reject the VAT credit.

---

1/ Exports to the US are around 65% of total Mexico’s exports.

1/ This tax return contains the amount of VAT credited on imports of intangibles.
Steps for “verifying” VAT on intangibles:

**For VAT credit:**
If a taxpayer credits VAT on the monthly tax return, then it must be equal to the monthly information on suppliers (that is, total VAT credit must coincide as it is in the interest of the taxpayer!).

However, how do we know if the taxpayer is including the corresponding VAT charge?  
We don’t know for certain; however, we consider an approximation as follows:

1. We have the VAT amount he charged, since he is reported as supplier.
2. Then, we add to this amount the VAT on intangibles credited by the taxpayer; if this amount exceeds the amount of VAT charged reported on the monthly tax return, we have indications of discrepancies.
3. In addition, the Tax Administration analyzes deviations from average on import of intangibles and payments to foreigners.

Finally, it is important to mention that audits on VAT incorporate a full revision of credits –including those derived from imports of intangibles.

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**Final comments**

- Globalization has increased welfare according to many different studies, as people gain access to new and better services and goods.
- For the Tax Administration, it imposes important challenges in term of preventing the erosion of the VAT base.
- One of the main strategies to prevent VAT evasion/fraud in the international arena is the exchange of information.
- Another main challenge is to get information without imposing “huge” burdens to taxpayers.
- As the international experience points out, a close coordination between those that design the information requested and risk model developers is important to attain a balance between service and control.
PERCEPTION OF VAT WITHIN THE BUSINESS

Julien BRUGERE, Time Warner

• Greater awareness
  • VAT is in the news
  • Internal communication / training
• VAT is a key factor
  • Budgets / Financial targets are strict
• Simple questions
  • Will we suffer VAT?
  • How much?
• Company’s attitude towards VAT
HOW DOES IT WORK IN PRACTICE?

• Let’s take a real-life example
• You have been asked to make a movie
• You will have:
  • Very strict budget
  • Story (including scenery)
• You have to choose a foreign country
• What do you do?

COUNTRY VAT ASSESSMENT CHECKLIST

• VAT on supplies from local vendors?
  • What is the main “place of taxation” rule?
  • Are there any exceptions / specific rules?
  • Is input tax blocked on certain purchases?
• Relief available?
  • Specific zero-rating
    – Certain supplies
    – Certain industries
  • VAT-exemption purchase certificates
  • VAT refund mechanism
COUNTRY VAT ASSESSMENT CHECKLIST

• Administrative requirements?
  • Application forms (inc language)
  • Deadlines
  • Local representative?
  • Financial requirements?

• How does it really work in practice?
  • Has anyone done it?
  • Were they successful?

• Would authorities grant a ruling?

COUNTRY ASSESSMENT

VAT becomes a key element to assess the competitiveness of the selected countries
WHAT WOULD WE LIKE?

• Wide use of the destination principle
• Limited use of specific rules
• Easy access to information
• Harmonisation and standardisation of the rules and procedures
SESSION 2

APPLYING VAT TO INTERNATIONAL TRADE
THE CHALLENGE OF GLOBALISATION

(BREAK-OUT SESSION 2)

*********

Chair: Richard Stern, World Bank

Panellists:
Walter Hellerstein, University of Georgia
Wang Wenqin, China
Naoki Oka, Japan
Yiannis Poulopoulos, Rio Tinto

Rapporteur: Mike Cunningham, United Kingdom
JURISDICTION TO TAX CONSUMPTION

BASIC CONCEPTS

• Jurisdiction to tax depends on:
  – establishing a plausible connection to the State, which justifies imposition of the tax (**substantive jurisdiction**)  
  – having a practical means of collecting the tax that is imposed (**enforcement jurisdiction**)  
  – problems arise if both are not present

• Two main design choices (**origin** and **destination** principles):
  – both focus on substantive jurisdiction  
  – details of their implementation vary from State to State and may reflect enforcement jurisdiction (or lack thereof)
DESTINATION PRINCIPLE

VAT = (tax rate x price) where consumed
All revenue to country of consumption (destination)

ORIGIN PRINCIPLE

VAT = ∑(tax rate x value added) for each country of production Revenue distributed in pattern of origin
RELEVANCE OF KEY VAT FEATURES

A VAT is:

• an indirect tax on consumption
• a non-cascading, multi-stage transaction tax

THUS:

• VAT is collected from business but is not a tax on business
• It is collected at the time of purchase, not the time of use
• Its objective is to impose a tax burden on the final consumer at the place of consumption
• No net tax is collected on B2B supplies; only B2C supplies raise revenue (plus B2B supplies if ‘exemptions’ apply)

WHAT IS CONSUMPTION?

Consumption = an economic concept:
• the final purchase of goods and services by individuals
But VATs require a jurisdictional basis for all transactions:

• B2B: business use ≠ consumption
  – place of taxation for B2B supply should facilitate flow through of tax to next step in the chain
• B2C: use by final consumers = the object of tax
  – place of taxation rules reflect a State’s view on where consumption occurs
  – enforcement jurisdiction problems if supplier and customer are in different locations
IMPLEMENTING THE DESTINATION PRINCIPLE

WHERE DOES CONSUMPTION TAKE PLACE?
To implement the destination principle, VAT laws must identify place of consumption (B2C) or use (B2B)

- VAT laws use proxies to predict place of consumption

Proxies based on:
- **subjective** features of the transaction ➔ **intangible** supplies:
  - location or residence of the customer
  - location or residence of the supplier
  - location or residence of some other person receiving the supply
- **objective** features of a transaction ➔ **tangible** supplies:
  - location of tangible property (goods or land) supplied or to which the supply relates
  - place of performance or of receipt of performance

CAUSES OF DOUBLE & NON-TAXATION

NON-TAXATION
Intentional non-taxation:
- international passenger transport
- travel agents'/tour operators’ margins for foreign travel
- inbound B2C supplies (especially services) where no enforcement jurisdiction (if State chooses not to tax)

Intentional partial taxation:
- domestic exemptions

Unintentional non-taxation:
- inbound B2C supplies (especially services) if no enforcement jurisdiction (State imposes tax but cannot collect)
- inbound supplies that would be exempt if purchased locally
- States with different views of where consumption takes place
CAUSES OF DOUBLE & NON-TAXATION

DOUBLE TAXATION
• Conflicting principles (origin v destination): rarely/never?
• Use of different proxies due to:
  – different views of where consumption takes place
  – different characterisation of supply
  – different interpretations of the facts
  – different views on who is consuming/using the supply
• Failure to fully implement the destination principle:
  – no refund scheme for input tax incurred by foreign businesses
  – no entitlement to input tax credits for business inputs
  – failure to zero-rate exports of ‘exempt’ supplies
  – exemptions at earlier stages in the business chain
CAUSES OF DOUBLE & NON-TAXATION

EXAMPLE
Help desk services: which proxy?
• Place of performance
• Place of effective use or enjoyment
• Location of customer
• Location of supplier
• Location of consumers to whom the services are delivered

Tax payable by whom?
• supplier
• customer

Is a credit/refund allowed for the tax charged (if any)?

DIFFERENT PROXIES FOR SAME SUPPLY
Telco A

Customer B
• Customer B calls Customer A
• Customers are both global roaming
• Telco B charges Customer B for making the call
• Telco A charges Customer A for receiving the call
• Telco B charges Telco A and Telco A charges Telco B
PRACTICE AND CHALLENGES OF APPLYING GST TO CROSS-BORDER SERVICES AND INTANGIBLES IN CHINA

Wenqin WANG
Int’l Taxation Department, SAT (China)

OVERVIEW

• Chinese GST System in Terms of Cross-Border Services and Intangibles
• VAT Policy for Cross-border Services and Intangibles in the Transformation of Business Tax (BT) to VAT
• Challenges of Applying GST to Cross-Border Services and Intangibles
1. Applying GST to Services and Intangibles

Generally

Basic Concept of GST in China

- GST in China mainly consists of VAT and BT
  - VAT: the invoice-credit method.
  - BT: a turnover tax calculated on gross sales, no credit is allowed.

Classified according to levying scope
Origin of Coexistence of VAT and BT

- 1992: market economy called for a modern tax system
- 1994: tax system reform
- Tax distribution fiscal system
2. Applying GST to Cross-Border Services and Intangibles

Applying VAT to Cross-Border Services

- Destination Principle: VAT Refund for export
  VAT imposed on import
- VAT refund for export of processing, repairs and replacement services

Applying BT to Cross-Border Services and Intangibles

- Place of business establishment principle
  - destination principle: service receivers’ perspective
  - origin principle: service providers’ perspective
  - exceptions: prevent tax jurisdiction conflicts
1. Reform of Transformation of BT into VAT

Background
• Eliminating Repeated Taxation
• Enhancing service industry

Main Contents
• 8 industries: transportation and part of contemporary services, e.g. R&D and technology, IT, consulting, etc
2. VAT Policy for Cross-Border Services in the Reform

Main Principle
• Destination principle.

Specific Policy
• Zero-rate: international transportation, etc.
• Exemption:
  - Offshore services;
  - Providing technology transfer service, technology consulting, etc. for establishments outside China
More Difficulties in Administering VAT on Cross-Border Services

- Difficult to detect fake export without the assistance of border-control
- Difficult to ensure import tax return, particularly in B2C
- Establishing and perfecting reverse charge

Lack of Exchange of VAT Information

- Income Tax: EOI Article in DTA; TIES; Global Forum Peer Review...
- SECTIS
- Convention of Mutual Assistance in the Collection of Taxes in the future.
2. Challenges for the Design of GST System under the Destination Principle

Coexistence of VAT and BT in China
- Response to issues under the current BT rules
  - Which Zero-rate and Which Exemption after the Transformation of BT into VAT?
- Balance of Good Administration and Good Tax System

3. Challenges of Addressing Issues of Jurisdiction Conflict

Inevitable Conflict of VAT Jurisdiction
- Different principles in different countries
- Different specifics even under consistent principles
  - e.g. How to determine the place of consumption in applying the destination principle to headquarters and branches?
Need for More International Actions Similar to International Actions Similar to Income Tax
- The OECD International VAT/GST Guidelines
- VAT “DTA” in the future?

4. Challenges for Tax Distribution Fiscal System
- Where to pay tax largely affects tax revenue of local government
- Mitigating Deviation of Tax Revenue From Tax Source
1. Specific challenges for tax administrations in applying VAT to international trade
2. Levying VAT on imports: Goods
   (a) Low value imports: threshold
   (b) Distance selling (example)
3. Levying VAT on imports: Services
4. Exemption of exports and the protection of revenue base
   (a) A mixed contract (example)
5. Conclusions
Achieving destination principle

- Under the destination principle (which is agreed internationally), the tax revenue should be attributed to the country of consumption.
  - Exports are zero-rated in the country of the seller.
  - Imports are taxed in the country of the consumer.

1. Specific challenges for tax administrations in applying VAT to international trade

- VAT is ‘paid’ by sellers (‘statutory’ taxpayers).
- The economic burden of the tax is borne by consumers (‘economic’ taxpayers).
- The ‘payer’ of tax and the ‘bearer’ of tax are geographically in different tax jurisdictions.
Alternative methodologies for levying VAT on imports of goods and services

1. Oblige consumers to file a tax return (e.g., Use tax in the US).
2. Oblige third-party intermediaries to collect tax on behalf of the administration (e.g., customs, post office, forwarding company).
3. A system requesting foreign businesses to charge and register for and pay the tax in the country where they have customers (e.g., EU registration system for cross-border services).

2. Levying VAT on imports (goods)

- Customs collect VAT when goods are crossing borders.
- A post office or international courier service may also collect the tax on behalf of the administration.
- Goods will not be handed over to the receiver before the tax has been paid (i.e., the receiver has legal obligation to pay tax).
(a) Low value imports: threshold

- The receiver of low value goods may be exempt from the obligation to pay tax in order to speed up the transit of goods and to reduce the cost of tax collection. Low value means, for example 22 Euro (in the EU area) or 10,000 yen (in Japan).
- Certain categories of goods (such as alcoholic products, perfumes, tobacco) are eliminated from the exemption (EU area).

(b) Distance selling (example)

- Businesses supplying goods to individuals use the Internet to target the domestic market from an offshore logistics center (instead of a domestic logistics center) to eliminate the obligation to add the amount of VAT to their price.
- This shift was particularly pronounced in certain sectors such as cosmetics and health supplements.
3. Levying VAT on imports (Services)

The effectiveness of a registration system would depend on:

1. Detecting strategies for noncompliant offshore service providers.

2. The need and use of thresholds (design and administration).

3. Transparency and accuracy of the tax returns of registered offshore service providers. - How to ensure this?

4. Secure tax collection from noncompliant offshore service providers. – How to ensure this?
4. Exemption of exports and the protection of revenue base

- In countries where the rate of VAT is low, the risk of abuse may be smaller than that of countries with higher tax rates.

(a) A mixed-contract (example)
- A foreign travel agent (service provider) selling ‘package plans’ in country B (which include (i) international airfare to country A and (ii) hotel and railways in country A) may opt to register in country A and obtain a tax refund (i.e. from tax paid to hotels and railways) --

(1/2)
-- by “estimating” for the tax purposes the international airfare part of the package higher than the market value. As a result, the remaining part of the package, i.e., the fee for hotels and railways the agent receives from its customers would be smaller than the actual cost of hotels and railways.

- In practice, it is not always easy to establish the market value.

5. Conclusions

- Striking a balance among policy goals to ensure effective administration in this area:
  - Raising tax revenue.
  - Reducing administrative costs (government and private sectors).
  - Eliminating possible distortions (created by different tax treatments).
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Views expressed in this presentation are those of the presenter's and do not necessarily represent those of the National Tax Agency.
THE CHALLENGES FOR BUSINESSES

Yannis POULOPOULOS, Rio Tinto

HOW A DECISION IS MADE TO INVEST?

• Several specific factors including:
  – Licence to operate in the jurisdiction
  – Budgetary and management approval process including, but not limited to:
    ▪ Does the investment make economical sense
      – NPV (net present value) or equivalent of investment
    ▪ Impact +/- of fiscal/taxation policy including VAT
  – Transparency with government (including taxation)
IMPACT OF VAT

• How robust is the VAT system in the applicable jurisdiction:
  – Does the government operate a full VAT refund system?
    ▪ Assuming VAT refund is bona-fide... are such refunds guaranteed/honoured or partially made?

IMPACT OF VAT CONTD.

– Is the VAT refund system limited to input VAT credits (refund due to business) being offset against a positive output VAT liability (VAT due to government)?
  ▪ Does the jurisdiction recognise the concept of VAT zero-rate (e.g. export of goods and/or services) transactions being included as part of the VAT offset?
  ▪ If no to the above then what happens to the deemed VAT refund if the business has no positive output VAT liability to offset?
COMPETIVENESS OF VAT

• No VAT refunds due to VAT offset limitations – this negatively impacts working capital, but also the P&L of the business and its investment:
  – Direct effect makes the sale of goods and/or provision of services more expensive making the business and jurisdiction uncompetitive; or
  – Business profits likely to be reduced and/or investment is loss making by writing-off VAT refund

COMPETIVENESS OF VAT CONTD.

• Partial VAT refunds – impacts working capital of the investment (not sustainable long term)
• Relief availability?
  – Specific VAT zero-rating:
    • Transaction type
    • Certain industries
  – VAT exemption purchase certificates (mindful this has the potential to impact the structure and very essence of the VAT system)
  – Offset input VAT credits against other fiscal liabilities
WHAT IS NEEDED BY BUSINESS?

- VAT efficient refunds
  - Standardisation of the rules and procedures
  - Greater harmonisation and efficiency between government departments, i.e. taxation (VAT receipt/collection) and treasury (budget/spend)
    - VAT relating to taxable B2B transactions should not be considered as a source of funding
    - VAT refund budgets must be maintained
    - More relevant today given global austerity programmes
- Adoption of OECD destination principle applied to services and limit the use of specific rules applied to services
SESSION 3

THE OECD INTERNATIONAL VAT/GST GUIDELINES

**********

Chair: Richard Brown, Chair of Working Party N°9

Panellists:
Marie Pallot, New Zealand
Lesley O’Connell Xego, South Africa
Karl-Heinz Haydl, Co-chair of TAG, BIAC
Thomas Ecker, Austria
WHAT ARE THE OECD INTERNATIONAL VAT/GST GUIDELINES?
A BRIEF INTRODUCTION

1. Background

1. As Value Added Taxes (VAT)¹ have continued to spread across the world, also the international trade in goods and services has expanded rapidly in an increasingly globalised economy. One consequence of these developments has been the greater interaction between VAT systems, along with a growing risk of double taxation and unintended non-taxation if the application of VAT in an international context were to remain uncoordinated.

2. Even though the basic principles of VAT are generally the same across countries, in that they aim to tax final consumption in the jurisdiction where it occurs according to the destination principle, differences exist as to how this is achieved in practice. Since the late 1990s, tax authorities and the business community have recognised that VAT rules require greater coherence to support global trade and that a co-operative approach was required to solve common problems.

2. A first step – Taxation and electronic commerce

3. The need for international co-ordination first became apparent following the emergence and strong growth of e-commerce. OECD Ministers agreed in 1998 on an international common approach for taxing e-commerce, which has become known as the “Ottawa Taxation Framework Conditions”. In the field of consumption taxes, the core elements of the Taxation Framework Conditions were as follows:

- Rules for the consumption taxation of cross-border trade should result in taxation in the jurisdiction where consumption takes place and an international consensus should be sought on the circumstances under which supplies are held to be consumed in a jurisdiction;
- For the purpose of consumption taxes, the supply of digitised products should not be treated as a supply of goods;
- Where business and other organisations within a country acquire services and intangible property from suppliers outside the country, countries should examine the use of reverse charge, self-assessment or other equivalent mechanisms where this would give immediate protection of their revenue base and of the competitiveness of domestic suppliers.

¹ For ease of reading, the terms “value added tax” and “VAT” are used to refer to any tax that embodies the basic features of a value added tax, by whatever name or acronym it is known (e.g., Goods and Services Tax (GST)).
4. In 2001, the OECD issued “Guidelines on Consumption Taxation of Cross-Border Services and Intangible Property in the Context of E-commerce”. Destination based taxation of cross-border e-business was the governing principle of these Guidelines, which provide that:

- For business-to-business transactions, the place of consumption is deemed to be in the jurisdiction in which the recipient has established its business presence; and
- For business-to-consumer transactions, it is the jurisdiction in which the recipient has his or her usual place of residence.

5. In 2002, the OECD published the “Consumption Tax Guidance Series”, dealing more specifically with methods for verifying jurisdiction and status of customers, simplified registration procedures and with definition of place of consumption.

3. The OECD International VAT/GST Guidelines

6. Against the background of the strong growth of international trade in services, which doubled between 2000 and 2008, evidence grew that VAT could distort cross-border trade in services and intangibles more generally and that this situation was creating obstacles to business activity, hindering economic growth and distorting competition.

7. The OECD considered these problems significant enough to require further remedies and it launched a project to develop OECD International VAT/GST Guidelines (the Guidelines) in 2006. The objective of the VAT/ GST International Guidelines is to address uncertainty and risks of double (non) taxation that result from inconsistencies in the application of these taxes to international trade, with a specific focus on trade in services and intangibles. The Guidelines would set the standard for countries when designing and administering their domestic rules. They build on two core principles:

- The ‘neutrality’ principle whereby VAT is a tax on final consumption that should be neutral for business.
- The ‘destination’ principle whereby internationally traded services and intangibles should be subject to VAT in their jurisdiction of consumption.

4. The status of the Guidelines

8. The Guidelines do not impose legally binding VAT rules on countries or provide detailed draft legislation. Rather, they are developed as a set of internationally agreed principles for the VAT treatment of the most common types of international transactions, as a basis for countries to frame their own laws and administrative practice. Their design and consistent implementation is intended to reduce impediments to international trade and improve the neutrality of VAT regimes worldwide while reducing opportunities for tax avoidance and creating more certainty for business and tax authorities.

2Available at www.oecd.org/ctp/ct
9. The Guidelines apply only to VAT systems, by whatever name or acronym they are known, that embody the basic design features of such a tax as described in the Guidelines: broad-based taxes on final consumption collected from, but in principle not borne by, businesses through a staged collection process (by whatever approach, e.g. invoice credit method or subtraction method). Taxes that lack these characteristics in principle fall outside the scope of the Guidelines, even if they are denominated as a type of a VAT. For example, a “production-type VAT” would not be covered, as such a tax is in principle borne by businesses. The Guidelines also do not apply to single-stage consumption taxes charged only once to the end user at the final point of sale, such as retail sales taxes.

5. The development process

10. The Guidelines are being developed by the OECD’s Committee on Fiscal Affairs (CFA), through its Working Party No 9 on Consumption Taxes. The business community is actively involved in the development process. For this, a Technical Advisory Group (TAG) was created with government and business representatives and academic experts.

11. The Guidelines are being developed in stages, building up to a complete set of guidelines on the VAT treatment of the most common types of international transactions. The output from each stage is considered as a building block contributing to the complete Guidelines.

12. Work started first on what were considered as the most pressing issues:

- principles to ensure VAT-neutrality in the context of cross-border trade;
- principles for identifying the place of taxation for cross-border trade in services and intangibles.

6. Status of work

6.1. On VAT-neutrality

13. International VAT Neutrality Guidelines were adopted in 2011\(^3\), as one of the key building blocks of the OECD International VAT/GST Guidelines. They consist of six guidelines on achieving neutrality in an international context:

- **Guideline 1. The burden of value added taxes themselves should not lie on taxable businesses except where explicitly provided for in legislation.**

  Guideline 1 confirms the principle adopted by the CFA in 2006. It recognises that, although businesses act as tax collectors across the value chain, the final tax burden should rest with the final consumer (except in cases explicitly provided for in legislation).

- **Guideline 2. Businesses in similar situations carrying out similar transactions should be subject to similar levels of taxation.**

  Guideline 2 reproduces one of the Ottawa Taxation Framework Conditions, welcomed by Ministers in October 1998. It confirms that the tax should be

\(^3\) Available at www.oecd.org/ctp/ct
neutral in order to ensure that it is ultimately collected along a particular supply chain and is proportional to the amount paid by the final consumer, whatever the nature of the supply, the structure of the distribution chain, the number of transactions or economic operators involved and the technical means used.

- **Guideline 3. VAT rules should be framed in such a way that they are not the primary influence on business decisions.**

  Guideline 3 states that VAT should not be the primary driver for business decisions, e.g. it should not induce businesses to adopt specific distribution channels or legal forms under which they operate. Such neutrality includes the tax ultimately paid to tax administrations and the associated compliance burdens.

- **Guideline 4. With respect to the level of taxation, foreign businesses should not be disadvantaged nor advantaged compared to domestic businesses in the jurisdiction where the tax may be due or paid.**

  Guideline 4 provides that VAT systems should apply in a way that ensures there is no unfair competitive advantage afforded to domestic businesses. This means that, according to the destination principle, the tax levied on imports does not exceed the amount of tax levied on the same supplies in the domestic market and that the amount of tax which is refunded or credited in the case of exports is equal to the amount of tax that has been levied. This also means that businesses incurring VAT in countries where they are neither established nor registered should benefit from tax reliefs or deduction comparable to domestic businesses although it is recognised that specific administrative requirements may apply (e.g. the conditions of reciprocity with the country of the foreign business).

- **Guideline 5. To ensure foreign businesses do not incur irrecoverable VAT, governments may choose from a number of approaches.**

  Guideline 5 recognises that governments may choose from a number of approaches to ensure that foreign businesses do not incur irrecoverable VAT in countries where they are not established nor registered. Such approaches include direct refunds, local registration, specific tax reliefs and shifting tax liability onto local suppliers or customers, etc., none of them being preferred as a general rule.

- **Guideline 6. Where specific administrative requirements for foreign businesses are deemed necessary, they should not create a disproportionate or inappropriate compliance burden for businesses.**

  Guideline 6 recognises that imposing specific administrative requirements on foreign businesses does not necessarily breach neutrality. Indeed, dealing with foreign businesses with no “legal” presence in a jurisdiction inevitably brings an element of risk for tax administrations and they may need to take appropriate measures to protect against fraud or avoidance.

  However, such specific measures should be proportionate to the risk and should not create an inappropriate compliance burden or constitute a disguised form of discrimination. Tax administrations are also encouraged to take full advantage
of available instruments that support exchange of information and mutual assistance in debt recovery (e.g. the Multilateral Convention on Mutual Administrative Assistance in Tax Matters). It is also important that such specific requirements are clear, consistent and accessible to foreign businesses.

14. A Commentary on the application of the International VAT Neutrality Guidelines in practice was developed and published on the OECD website (www.oecd.org/ctp/ct) for public consultation until end September 2012. The results of the public consultation were entirely supportive and the Commentary is now being finalised.

6.2. On place of taxation

15. Draft Guidelines on place of taxation for cross-border supplies of services and intangibles in a business-to-business (“B2B”) context were adopted in 2010. They set out key principles for identifying the place of taxation for transactions between businesses that are established in one jurisdiction only (“single location entities”, as opposed to “multiple location entities” that have establishments in more than one jurisdiction and that are the subject of current work; see below). These principles are the following:

- **Guideline 1. For consumption tax purposes internationally traded services and intangibles should be taxed according to the rules of the jurisdiction of consumption.**

  Guideline 1 confirms the destination principle. It implies that the cross-border supply of service or intangible will be free of VAT (i.e. exempt with right to deduct input tax) for the supplier in its own jurisdiction and that any VAT due on the transaction will be charged in the customer’s jurisdiction.

- **Guideline 2. For business-to-business supplies, the jurisdiction in which the customer is located has the taxing rights over internationally traded services or intangibles.**

  Guideline 2 confirms the use of proxies for determining the place of taxation. It is indeed long established that taxing internationally traded services and intangibles at the place where they are actually used would be impracticable. This Guideline provides that the customer location is the most appropriate proxy to determine where the service or intangible is used, in a B2B context. This is the jurisdiction where the customer has located its permanent business presence. The allocation of taxing rights in a B2B context on the basis of customer location is referred to in these Guidelines as the “Main Rule”.

  The Guidelines set out that other proxies could be used only in specified or exceptional circumstances. This is the subject of current work (see below).

  To avoid unnecessary burden on suppliers, it is recommended that the customer be liable to account for any tax due. This can be achieved through the reverse-charge mechanism where that is consistent with the overall design of the national consumption tax system. This avoids a requirement for the supplier, in principle, to be registered for VAT or account for tax in the customer’s jurisdiction.
• **Guideline 3. The identity of the customer is normally determined by reference to the business agreement.**

Guideline 3 provides that the supplier, the customer and tax administrations should, in principle, rely on the “business agreement” to identify the nature of the supply, the identity of the parties and their rights and obligations with respect to that supply. The term “business agreement” was adopted because it is a general concept, rather than a term with a technical meaning, and it is not specific to any particular jurisdiction. It is not restricted to a contract and is, therefore, potentially very wide in its application.

16. **Current work on place of taxation is focusing on:**

• **Guidelines on place of taxation for cross-border supplies of services and intangibles to entities that have establishments in more than one jurisdiction.**

According to the “Main Rule” as described under Guideline 2 above, the taxing rights on cross-border supplies of services and intangibles between businesses are allocated to the jurisdiction where the customer has located its permanent business presence. However, when a supply is made to a customer that is established in more than one jurisdiction (e.g. operates through branches in different jurisdictions), an additional analysis is required to determine which of the jurisdictions where this customer has establishments, has the taxing rights over this supply.

Guidelines addressing this issue are now being developed, based on the principle that taxing rights should be allocated to the jurisdiction(s) where the establishments using the service or intangible is (are) located. Draft Guidelines will be released for public consultation (on [www.oecd.org/ctp/ct](http://www.oecd.org/ctp/ct)) in early 2013.

• **Guidelines on specific rules for place of taxation**

The application of the “Main Rule” as described above may create difficulties in a number of circumstances, notably where the status and location of the customer may be difficult to ascertain. Such identification may also involve disproportionate compliance or administrative burdens. There may also be circumstances where the simple application of the Main Rule might not lead to an appropriate tax result. Where this is the case, the allocation of taxing rights by reference to a proxy other than customer location (e.g. supplier’s location, place of performance, location of immovable property) might be justified.

Guidelines are now being developed, providing an evaluation framework for governments to assess the desirability of implementing a specific rule for determining the place of taxation. This work is based on the principle that the implementation of such specific rules should remain limited to the greatest extent possible. Draft Guidelines will be released for public consultation (on [www.oecd.org/ctp/ct](http://www.oecd.org/ctp/ct)) by early 2013.

17. **As of 2013, work on the development of the Guidelines will focus on:**

• Applying the destination principle to cross-border supplies of services and intangibles to final consumers (“B2C”);
- Anti-abuse provisions (work until now has focused essentially on bona fide business activity);
- Mutual cooperation and dispute resolution.

18. The objective is to arrive at a complete set of Guidelines applying to cross-border trade in services and intangibles by the end of 2014. A draft Table of Contents of the final product is in Annex.

19. This work may be expanded further in the future, where this would prove appropriate to address future challenges.
DRAFT TABLE OF CONTENTS

Preface

Glossary

Chapter I  Core Features of VATs Covered by the Guidelines

Chapter II Neutrality of VAT in the Context of Cross-Border Trade

1. Introduction - VAT and Neutrality Principles

2. Basic Neutrality Principles

3. Neutrality in International Trade
    3.1. Taxation Principles
    3.2. Administration and Compliance

Chapter III Applying the Destination Principle to Cross-Border Supplies of Services and Intangibles

1. Business to Business Supplies

2. Business to Final Consumers Supplies

Chapter IV Anti-Abuse Provisions

Chapter V Multilateral Cooperation and Dispute Resolution

Commentary

  Commentary on Chapter II - Neutrality of VAT in the Context of Cross-Border Trade
ENSURING VAT NEUTRALITY IN AN INTERNATIONAL CONTEXT: THE INTERNATIONAL VAT NEUTRALITY GUIDELINES

Marie PALLOT, Inland Revenue (New Zealand)

BACKGROUND TO THE GUIDELINES

• Initial CFA confirmation of principle that VAT/GST a tax on consumers, not business
• Establishment of TAG to provide international consistency for reducing double taxation and non-taxation
• 3 task teams – place of taxation (TT one), neutrality principles (TT two), specific rules/exceptions (TT three)
• Task Team two drafted neutrality guidelines, public consultation and finalisation July 2011
THE 6 NEUTRALITY GUIDELINES, AGREED BY THE CFA, ARE:

1. The burden on value added taxes themselves should not lie on taxable businesses except where explicitly provided for in legislation
2. Businesses in similar situations carrying out similar transactions should be subject to similar levels of taxation
3. VAT rules should be framed in such a way that they are not the primary influence on business decisions

4. With respect to the level of taxation, foreign businesses should not be disadvantaged nor advantaged compared to domestic businesses in the jurisdiction where the tax may be due or paid
5. To ensure foreign businesses do not incur irrecoverable VAT, governments may choose from a number of approaches
6. Where specific administrative requirements for foreign businesses are deemed necessary, they should not create a disproportionate or inappropriate compliance burden for the businesses
ROLE AND SCOPE OF THE GUIDELINES

• As guidelines cannot be prescriptive but can be influential in both policy and operational settings
• Part of a wider set – nothing agreed until everything agreed
• Guidelines deal with cross border transactions rather than domestic law matters
• At this stage limited to B2B supplies not involving avoidance/evasion
• Relationship with the other task teams’ work on customer location and specific rules

COMMENTARY FOR THE GUIDELINES FOR PUBLIC CONSULTATION 2012:

Some issues:
• More detail on each guideline – overall approach that all must be satisfied
• Meaning of neutrality/non-discrimination
• Differentiation between substantive tax and administrative obligations – reference to best practice administration
• Need to reflect different ways to achieve neutrality – e.g. refunds, registration, zero-rating
• Reciprocity
A NEW ZEALAND PERSPECTIVE

- Recent discussion document on importance of neutrality
- Importance to service-based industries
- Recent tax bill introducing ability for non-resident businesses to register without requirement to be a supplier
- Fine-tuning through consultation with expected enactment April 2014
GUIDELINES

- For consumption tax purposes, internationally traded services and intangibles should be taxed according to the rules of the jurisdiction of consumption.
- For B2B supplies, the jurisdiction in which the customer is located has taxing rights over internationally traded services (Main Rule).
- The identity of the customer is normally determined by reference to the business agreement.
- When the customer has establishments in more than one jurisdiction (Multiple Location Entity, MLE), the taxing rights accrue to the jurisdiction(s) where the establishment(s) using the service or intangible is (are) located.
GUIDELINES

• In those cases where the services are used by one or more establishments other than the establishment that entered into the business agreement, the taxing rights are allocated in 2 steps (Recharge method)—
  - Step 1 – taxing rights are allocated to the jurisdiction where the customer establishment that enters into the business agreement is located
  - Step 2 – taxing rights are allocated to the jurisdiction(s) where the customer establishment that uses the service or intangible under a recharge arrangement is (are) located

GUIDELINES

• These Guidelines deal only with the allocation of taxing rights on services and intangibles that a MIE acquires from an external supplier
• Recharges are made in accordance with corporate tax or other regulatory requirements, and management accounting and budgeting purposes.
• Each internal recharge is treated as a supply within the scope of VAT.
• It’s up to the jurisdiction of the establishment of use whether it effectively wishes to collect VAT on a recharged service or intangible for which it has the taxing rights. Reverse charge mechanism is a recommended tax collection method.
A SOUTH AFRICAN PERSPECTIVE

SA VAT design
- Destination based
- Broad based
  - Minimal exemptions and zero ratings
- Current practice - VAT registration generally required for foreign business supplying goods/services
- SA – separate Head Office/branch
  - Recharge therefore automatically a supply and normal rules apply

- No specific place of supply rules
  - Inherent in legislation to achieve destination based principle
  - Tax foreign business consumption in SA – currently no B2B refunds for services
  - Proposed guidelines – requires shift in SA policy
  - Refunds on B2B therefore to be considered if implement Guidelines
PRACTICAL CONSIDERATIONS FOR AFRICA

- Africa generally exports goods and imports services
- Use of recharge method
  - Revenue generation – A major consideration?
  - Principle - should be level playing fields with foreign and local business regarding VAT
- Constraints
  - Financial
  - People – tax administrations and taxpayer education
  - Skills
  - Industry – levels of sophistication throughout Africa
THE OECD INTERNATIONAL VAT/GST GUIDELINES

Karl-Heinz HAYDL
Chair of the BIAC work on VAT/GST

VAT/GST
... a simple tax
... in a complicated world???
… THERE SEEMS TO BE SOME TRUTH …

• Advocate General Mazak’s recent quote in C-174/11 (Finanzamt Steglitz vs. Ines Zimmermann):
  – Value added tax (VAT) was originally meant and introduced as a simple tax on the supply of goods and services. However, it is arguable that the VAT system and some of its rules have turned out to be rather complicated. Indeed, one judge of the Court of Appeal (England and Wales) has observed in that regard that ‘beyond the everyday world ... lies the world of [VAT], a kind of fiscal theme park in which factual and legal realities are suspended or inverted’.

... WHAT DRIVES THE COMPLEXITY IN TODAY´S WORLD?

➔ Variety of business models
➔ Complex products and services structure
➔ International Trade / Globalization
➔ Technological development
➔ New enemies/risk areas – organized VAT pirates / fraudsters

... lead to big administrative and financial burden for both business and tax administrations !!!

... these developments put legislators and tax collectors (business) under big pressure !!!
... THE LAST 20 YEARS HUGE CHANGE IN BUSINESS ENVIRONMENT

→ Driving global competitiveness – gaining “economies of scale”
→ Focus on core functions/core business: outsourcing back-office and other functions to higher skilled or cost efficient partners or locations
→ Centralization of specific sourcing functions to bring effective cost management and cost control/efficiency, improve internal controls and bring one face to the customer/supplier leads to Global contracts (Central Purchasing agreements / Global framework agreements, ...)

WHY DOES BUSINESS NEED INTERNATIONAL VAT/GST GUIDELINES?

... this new business environment led to:
+ Increasingly global/cross-border and more complex transactions
+ Increasingly global and more complex supplier and customer base and contract structures
+ Increasingly global and more complex risks

... it becomes increasingly clear there is a global need for VAT/GST coordination in order to manage these risks

... new, bigger and more global risks for business as VAT/GST collector !!!
... Global Dialogue and Cooperation is key !!!
WHY DOES BUSINESS NEED INTERNATIONAL VAT/GST GUIDELINES?

Risk drivers:
→ Big global spread of VAT/GST in the last 50 years
→ Growing interactions between VAT systems
→ Different VAT systems, not always compatible

Place of taxation issues:
+ Use of different rules or different interpretation of similar rules
+ Different characterization of similar rules

Difficulties to recover foreign VAT/GST–OECD

... leads to uncertainty, complexity and risk of double taxation !!!
... so “real” VAT costs and on top of high VAT compliance costs !!!

OECD WORK ON INTERNATIONAL VAT/GST GUIDELINES

Ambition:
→ Consistent place of taxation rules on a global basis:
  + Apply main rule (destination principle) consistently
    * consistent interpretation
    * consistent characterization
  + Consistent treatment of establishments ensuring VAT neutrality both when it comes to output VAT and input VAT
  + Apply specific rule consistently and as limited as possible based on developed criteria

→ Ensure neutrality of VAT on a global basis

... highly important for business and government !!!
OECD WORK ON INTERNATIONAL VAT/GST GUIDELINES

➔ Best practice – working together as partners
- great working process/spirit based on mutual trust
- high personal investment and commitment
- building block approach
- effective set up and communication within TAG and TT process
- through BIAC broaden consultation and obtain feedback from the larger business community
- active dialogue and cooperation
- strong commitment to reach consensus on difficult issues

➔ ... this is the fundament for the big progress made so far

➔ ... being able to be here today is the outflow of this

Structure, working process/spirit, flexibility, communication, resources, realistic short term and long term goals and deliverables are key for the successful outcome of this work !!!

OECD WORK ON INTERNATIONAL VAT/GST GUIDELINES

Big picture

... the more main rule, the more neutrality !!!
OECD WORK ON INTERNATIONAL VAT/GST GUIDELINES

Place of taxation
- Main rule (destination principle):
  + to be applied the widest extent possible
  + taxation in the jurisdiction of consumption, where the customer is located, supported by the business agreement
  # Current work on multiple location entities – externally bought-in services
  + taxation in the jurisdiction where the establishment is located that uses the service
  + not decided yet finally but recharge method recommended
  + 2 steps: business agreement and allocation via internal recharge arrangement

TT 1 work in progress

Place of taxation
- Specific rule:
  + to be applied as limited as possible
  + on the spot supplies (i.e. restaurant, taxis, etc.)
  + services directly connected with immovable property

TT 3 work in progress
OECD WORK ON INTERNATIONAL VAT/GST GUIDELINES

→ Neutrality
  - VAT Neutrality Guidelines
    + 6 guidelines
  - VAT Neutrality Guidance Series
    + application of the Neutrality Guidelines in practice
→ Fundamental principle for business as tax collector

TT 2 work most advanced !!!

OECD WORK ON INTERNATIONAL VAT/GST GUIDELINES

→ Future work
  - Dispute resolution mechanism
  - Avoidance
  - B2C
  - Overall guideline – combining various building blocks
  - reviewing set up, process and structure of the TAG and the 3 Task Teams to align with future work

Key priorities !!!
GLOBAL FORUM ON VAT

- highly welcomed by business
- global dialogue and cooperation is key, even more in the years to come
- let’s make this Forum a platform for exchanging thoughts and sharing best practices on global VAT/GST matters on an ongoing basis

... we believe in it !!!

Bussiness is very happy to actively support !!!

THANK YOU VERY MUCH FOR YOUR ATTENTION !!!

“If we are together nothing is impossible. If we are divided all will fail.” Winston Churchill
CONSIDERING THE FUTURE:
A VAT MODEL TAX TREATY?*

by Thomas Ecker
Austrian Federal Ministry of Finance

*for further information, see Ecker, A VAT/GST Model Convention (2012)

Agenda

• Double (non-)taxation
• Counter measures
  – The current path
  – Possible ways forward
• Future approach?
Counter measures

- Unilateral
  - coordinated or not
- Bilateral
- Multilateral
  - harmonisation
  - limiting taxing rights only

Harmonisation

- Best strategy against double (non-) taxation
- Politically very hard to achieve
- Regional harmonisation
  - EU
  - ANDEAN
  - CEMAC
  - Eurasian EC
  - UEMOA
Uncoordinated unilateral measures

• Pro- vs. retroactive
• Advantages
  – relatively simple implementation
  – possibility to account for state’s individual interests.
• Disadvantages
  – risks only partial elimination of double (non-) taxation
  – revenue loss without guarantee of reciprocity

Coordination of unilateral measures

• Current path (OECD VAT Guidelines)
• What do they achieve?
  – counters non-taxation too
  – “non-binding” reciprocity
• Challenges
  – No direct effect
  – Only partial elimination of double (non-) taxation?
Possible next steps

• Guidelines could turn out insufficiently concrete
• Disputes may require resolution and arbitration mechanism
• Arbitration should be binding
• Need legal basis for decision
  → Treaty could be basis

Tax treaties limiting taxing rights

• Treaty could
  – immediately limit taxing rights of all but one state; or/and
  – provide dispute resolution and arbitration mechanism in case of double taxation;
  – be basis for administrative cooperation and exchange of information
• Income tax treaties unsuitable
  – need separate independent VAT treaty
Conclusion

• Measures not exclusive but can be combined
• Hope: coordination renders treaties unnecessary
• Multi- better than 3000 bilateral treaties
• Possible approach:
  – regional harmonisation
  – coordination of unilateral measures
  – binding dispute resolution for problematic areas (e.g. on base of tax treaty) if needed
  – unilateral relief for rest
1. PLACE OF TAXATION – “MULTIPLE LOCATION ENTITIES”
MNE is a company with establishments in 5 different countries: a head office in Country B and trading establishments (branches) in Countries A, D, E. It is also the parent company of a subsidiary in Country C. The subsidiary and all establishments are VAT registered.

MNE Head Office enters into a global contract with Supplier S, located in Country A, for the supply of a software to MNE’s subsidiary and to all its establishments. The agreement also provides for after-sales services (maintenance, call centre support…).

The business agreement between Supplier S and Company MNE establishes a price for the acquisition of the software and a monthly fee for after-sales services.

Supplier S issues invoices for the supply of the software and for the after-sales services and MNE Head Office, from which it receives payment.

MNE Head Office charges its establishments and its subsidiary for the software and for the after-sales services, according to agreed terms and conditions. MNE’s Head Office has agreements in place with its subsidiary and internal arrangements with its establishments, setting out the terms and conditions for the transactions between them.

NB: We assume that all countries apply the reverse charge mechanism as a tax collection method.
2. PLACE OF TAXATION – SPECIFIC RULE?
3.

INTERNATIONAL VAT-NEUTRALITY - REFUNDS
Company S is established in Country A, where it is VAT registered and has a full right to input-VAT deduction. It has no establishments in any other country. It acquires a service from Company R, established in Country B.

According to legislation of Country A, this service is taxable in Country A and Company S is liable to pay VAT of Country A through the reverse-charge mechanism.

According to legislation of Country B, the service is taxable in Country B and Company R invoices VAT of Country B to Company S in Country A.

VAT incurred on such a service is considered by both Country A and Country B as fully deductible if the service is used for making taxable supplies.

Company S applies for a refund of the VAT of Country B paid to Supplier S.

Is international VAT-neutrality achieved?

1. In case Country B provides VAT refunds to non-resident companies, under a procedure that requires them to register through a simplified registration system.

2. In case Country B provides VAT refunds to non-resident companies under a procedure that notably requires them to submit the Articles of Incorporation and all Bylaws and Amendments translated in local language along with a bank guarantee that, in the case of Company S, would be equal to 10 times the amount of the refund requested.
SESSION 4

DESIGNING EFFICIENT AND EQUITABLE VAT-SYSTEMS

(BREAK OUT SESSION 1)

**********

Chair: Chia-Tern Huey Min, Singapore

Panellists:
Colin Brown, Australia
E. H. Ibrahima Diop, Senega
Abdelouahab Naciri Darai, Morocco
Antoine Magnant, France

Rapporteur: Francesca Vitale, Italy
The Australian GST base and its impact on trends in GST revenue

Colin BROWN, Manager, Tax Analysis Division
The Treasury (Australia)
AUSTRALIA'S VAT RATIO

OECD VAT ratios, 2008

Source: OECD Consumption Tax Trends, 2010

DECOMPOSITION OF GST TO GDP RATIO

GST/GDP = Consumption x GST consumption/Consumption x GST/GST consumption

Index (2002-03=1.00)
CONCLUDING POINTS

- A narrow GST base means that the composition of the growth in consumption expenditure matters
- The Australian experience has been that strong growth in the GST-free/input taxed portion of consumption has undermined GST revenue growth
CONCLUDING POINTS

• This impact exacerbates the impact of strong investment growth and savings on the performance of GST revenue relative to GST.

• Has an impact on State and Territory budgets because the GST, while collected by the Federal Government, is a major source of funding for the States.
INTRODUCTION

The tax system of Senegal, as many others, includes a general consumption tax under the form of a VAT.

There is a perceived inequity, which may increase with the differences in income and the patterns of consumption according to living standards.

Higher concentration of consumption taxes on lower income groups. Equally, the high level of consumption taxes has a demonstrated influence on the allocation of available income.

Existence of many exemptions and inclination of certain economic sectors to advocate for a lower VAT rate.
EFFICIENCY OF THE VAT WITH REGARD TO THE NUMBER
OF REDUCED RATES AND EXEMPTIONS

• Single VAT rate of 18% since September 2001
  (according to UEMOA Directive).

• Adoption of a reduced VAT rate of 10%
  applicable to supplies of accommodation
  and restaurants to support the touristic activity.

• According to UEMOA Directive Member
  States can have one reduced rate between 5%
  and 10% applicable to a limited number of
  supplies.

• Advantages of a single rate: easier management and control
  of taxpayers.

• Disadvantages: uniform taxation of taxpayers irrespective
  of their contributive capacity.

• Limitations of reduced rates and exemptions: high income
  people benefit equally of the social exemptions and reduced
  rates as the poorest share of the population.

• Both small and large fishers and farmers benefit from the
  VAT exemption.

• All consumers, rich and poor benefit VAT exemption of
  basic foodstuffs.

• Exemptions often benefit equally, or even more the rich
  than the poor.
Multiple VAT rates:

• Increase compliance and administrative costs. One single rate provides a much simpler system.

• Create tax credit situations and involve an additional administrative burden.

• Create disputes on the coverage of different rates

• Increase tax fraud and avoidance risks for taxpayers who misclassify the supplies to benefit the reduced rates.

• As part of the upcoming tax reform, Senegal wants to make the system simpler, fairer and more equitable.

• Simplicity implies keeping the single VAT rate, which ensures the most neutral system.

• Exemptions are justified by their positive impact on the lowest income part of the population.

• This advantage is lost when exempt raw products are used as inputs to make more sophisticated products consumed by the higher income people.
• Subsidies are not always the best strategy to address equity concerns since they are long and complex. They are also sensitive to fraud.

• Subsidies have a significant impact on State's treasury, in particular in periods where there is a strong demand. Therefore subsidies on food and energy are becoming less convincing for partners of the development.

• Maintaining some subsidies e.g. for rice, which benefits the poorest, would be more justified than subsidies for gas.

• 2009: Survey on the tax expenditures in Senegal:

  • 326 measures of tax expenditures (exemptions, reductions, presumptive taxes, payment facilities, etc).

  • Standard regime and derogations.

  • Only the most significant measures (171 on 326) have been assessed.
• The total value of tax expenditures is worth 300 billions CFA Francs, i.e. 21% of total tax receipts and 3.7% of GDP.

• The revenue impact of tax expenditure is significant.

• Need to continue the assessment exercise according to UEMOA Directives.

• The aim is the improvement of the management of the tax system.

• Tax expenditures should be revised and rationalised as part of the reform of the Tax Code.
INTRODUCTION

Le système fiscal sénégalais, à l’instar de beaucoup d’autres pays, compte un impôt général sur la consommation dénommé Taxe sur la Valeur Ajoutée (TVA).

Perception d’une certaine inégalité qui peut s’accentuer avec l’écart de revenu et la structuration des dépenses des consommateurs en fonction de leur niveau de vie.

Plus forte concentration des impôts sur la consommation au niveau des groupes à faible revenu de la même manière que le niveau élevé des impôts sur la consommation influe, de façon certaine, sur la répartition des revenus disponibles.

Existence d’une multiplicité d’exonérations et propension de certains secteurs d’activités à solliciter l’adoption d’un taux réduit de TVA.
PERTINENCE DU SYSTÈME DE LA TVA AU REGARD DU NOMBRE IMPORTANT DE TAUX ET D’EXONÉRATIONS


• L’adoption d’un taux réduit de TVA de 10% applicable aux prestations d’hébergement et de restauration fournies par les établissements d’hébergement touristique = soutenir le tourisme, un des secteurs stratégiques de l’économie nationale, en améliorant sa compétitivité par les prix.


• Avantages taux unique : une plus grande facilité dans la liquidation, la gestion, le suivi et le contrôle des déclarations de TVA.

• Inconvénients majeurs: le fait de prélever uniformément dans les revenus du consommateur sans qu’il soit tenu compte de sa capacité contributive.

• Contrainte non aplanie par les exemptions et les exonérations. Le caractère impersonnel de la TVA donne la possibilité aux titulaires de gros revenus à l’acquisition de biens et services exonérés pour des raisons sociales de profiter, à quantité ou à qualité égales, de l’exonération au même titre que les couches plus pauvres.

• L’exemption de l’activité agricole bénéficie aussi bien au pêcheur, à l’éleveur ou à l’agriculteur traditionnels et dont l’exploitation constitue le seul moyen de subsistance, qu’aux grands exploitants de surfaces agricoles ou aux pêcheurs professionnels.
• l’exonération qui porte sur les produits alimentaires de première nécessité non transformés (viande, poisson à l’état frais, œufs, céréales, tubercules, oignons...) préserve les revenus du consommateur quel que soit son niveau de vie. Il en est de même de l’accès aux services sociaux de base (éducation, santé, logement...).

• La multiplicité des exonérations, notamment celles ayant un caractère social, quel que soit l’encadrement qui y est apporté, profite autant, sinon davantage, aux titulaires de gros revenus qu’aux personnes à faible revenu.

PROBLÉMATIQUE DE L’ÉLIMINATION DES VAUX RÉDUITS ET DES EXONÉRATIONS

La multiplicité des taux: accroître de façon significative les coûts d’administration de l’impôt. Un taux unique garantit la simplicité du système.

favoriser les situations de crédit, induisant une charge de travail supplémentaire pour l’Administration et des tensions de trésorerie pour l’entreprise.

Difficultés dans la définition des assiettes de chaque taux= risque de divergences d’interprétation de la norme fiscale et de contentieux entre les services fiscaux et les entreprises.

Possibilités de fraude ou simplement d’évasion fiscale par des classifications volontairement erronées de certains biens ou services dans des assiettes à taux faibles.
Dans le cadre de la réforme prochaine du CGI, l’option retenue par le Sénégal est de mettre en place un système fiscal à la fois simple, transparent et équitable.

Cette simplicité commande le maintien du taux unique, lequel fait partie des éléments structurants d’un régime de TVA le plus neutre possible.

les exonérations contribuent à réduire l’impact sur les personnes à faible revenu. Sous l’angle du profit qu’en tirent les couches les moins nanties, ces exonérations sont justifiées.

Les opérations dites exonérées à l’origine perdent cette qualité lorsque le produit est transformé ou que la prestation comporte une part de luxe. Cette nuance introduit une plus grande possibilité de prélèvement sur les dépenses des couches aisées plus tournées vers des produits ayant une plus grande valeur ajoutée.

les subventions ne sont pas toujours la meilleure stratégie pour rétablir l’égalité. D’abord, parce qu’elles obéissent à des règles d’administration qui rendent les procédures d’octroi souvent longues et au préjudice des bénéficiaires. Ensuite, elles laissent beaucoup de place à la fraude ou au détournement de destination des produits ou services subventionnés.

Les subventions ont souvent un impact marqué sur la trésorerie de l’État en période de forte sollicitation. Ces raisons font partie de celles qui expliquent que les subventions des produits alimentaires et même de l’énergie sont devenues moins convaincantes pour les partenaires au développement.

Le maintien de certaines subventions, comme celle sur le riz, qui bénéficie plus aux pauvres, serait ainsi plus justifié que les subventions sur le gaz.
2009: Étude sur les dépenses fiscales au Sénégal :

- 326 mesures de dépense fiscale (exonération totale ou partielle, temporaire ou définitive, réductions, taxation forfaitaire, abattements, déductions ou facilités de trésorerie).

- Régime de droit commun (Code général des impôts et Code des douanes) et régimes dérogatoires.

- Seules les mesures les plus significatives ont été évaluées. Sur un total de 326 mesures identifiées, 171 ont été effectivement évaluées, soit 52% contre 43% pour la précédente édition (2008).

- La valeur en impôt des dépenses fiscales s’élève à 300 milliards F CFA. Ce montant représente 21% des recettes fiscales et 3,7% du PIB.

- L’impact budgétaire des dépenses fiscales demeure significativement important.

- Nécessité de poursuivre de l’exercice d’évaluation des dépenses fiscales s’impose conformément aux recommandations de la directive n° 01/2009/CM/UEMOA de l’UEMOA portant Code de transparence dans la gestion des finances publiques.

- L’objectif visé est l’amélioration de la conduite de la politique fiscale.

- Rationalisation subséquente et conséquente des dépenses fiscales. Poursuivre en profondeur, à la faveur de la réforme en cours du CGI.
INTRODUCTION

An efficient VAT system requires:
- Developed economic structures
- Appropriate registration threshold
- A limited number of rates (1 or 2 rates).
- A modern tax administration and taxpayers capable of compliance

This intervention presents the experience of Morocco in the management of:
- The tax base;
- The tax rate;
- The VAT registration threshold.
I.- Broadening the tax base

Objectives:
- Reforming the VAT (implemented in 1986), as part of the tax reform undertaken since 2005.
- Enhancing the efficiency of VAT as general consumption tax to balance the dismantling of import tariffs and reduced revenue from privatisation

Actions:
- Limiting exemptions
- Applying the zero rate to exports only (currently domestic supply of basic essentials is zero rated)
- Assessing the revenue cost of tax expenditures (50% of total tax expenditures are due to VAT exemptions)
THE KEY CHALLENGES OF VAT-DESIGN AND POSSIBLE APPROACHES

II.- Uniformisation of tax rates

Current situation:
- There are currently five VAT rates:
  - Standard rate 20%;
  - Reduced rate 14% (transport, electricity, etc);
  - Reduced rate 10% (hotel accommodation, restaurants, professionals etc);
  - Reduced rates 7% (many consumer goods);
  - Reduced rate 0% (many basic essentials in addition to exports).
- Reduced VAT rates seem inefficient to meet social objectives
- Simplifying the VAT rates' structure would reduce administrative and compliance costs. It would also progressively eliminate tax credit situations that penalize businesses.

Actions:
- On the basis of the indicators included in the tax expenditures' reports, the following measures have been taken since 2005
  - Taxation of a number of supplies previously exempt (investment goods in particular);
  - Increase of VAT rates for certain operations;
  - Simplification of the VAT rates' structure with the aim to keep only two rates: one standard rate (between 18% and 20%) and one reduced rate (between 7% et 10%).
Thank you for your attention
LES DÉFIS CLÉS DE LA CONCEPTION DE LA TVA (ASSIETTE, TAUX, SEUILS) ET MÉTHODES DISPONIBLES

Abdelouahab NACIRI DARAI, Chef de la Division, de la législation fiscale, Ministère de l’Économie et des Finance (Maroc)

INTRODUCTION
L’efficacité d’un système de TVA suppose préalablement :
- des structures économiques évoluées (tissu productif dense et diversifié, population d’entreprises capable de générer une plus large valeur ajoutée) ;
- une assiette très large (généralisation à l’ensemble des secteurs et agents économiques) ;
- un seuil d’assujettissement suffisamment élevé ;
- un nombre réduit de taux (1 ou 2 taux).
- une administration fiscale moderne et des contribuables ayant une capacité à se conformer aux obligations fiscales et comptables.

L’objet de cette intervention est de faire une présentation sommaire de l’expérience marocaine concernant, notamment les aspects :
- d’assiette ;
- de taux ;
- et de seuil d’assujettissement à la TVA.
I. - Elargissement de l’assiette

Objectifs :

- faire face aux contraintes du démantèlement tarifaire et à l’amenuisement des recettes de privatisation pour réussir la transition fiscale, en renforçant particulièrement l’efficacité de la TVA.

- En tant qu’impôt général sur la consommation, l’optimisation de son rendement permettrait de mobiliser des ressources domestiques supplémentaires.

Actions :

- Réduction des exonérations, en renonçant à toute nouvelle exemption, en assujettissant les biens et services actuellement exonérés et en réservant le taux zéro uniquement aux opérations d’exportation (actuellement, une grande part des consommations finales, notamment l’ensemble des produits de base est exonérée).

- Elaboration du rapport sur les dépenses fiscales, annexé depuis 2005 au projet de chaque loi de finances, en mettant en évidence l’importance des exonérations accordées en matière de TVA (50% du total des dépenses fiscales) a permis de réduire certaines exonérations.
II.- Uniformisation des taux

Constat :

- Les taux de la T.V.A sont au nombre de cinq :
  - un taux normal de 20% ;
  - un taux réduit de 14% : opérations de transport, électricité ... ;
  - un taux réduit de 10% : hôtellerie, restauration, professions libérales...;
  - un taux réduit de 7% : produits de large consommation ;
  - le taux 0% : l'exonération avec droit à déduction n'est pas limitée aux exportations et opérations assimilées, elle concerne un large éventail de produits et services.

- La politique des taux de T.V.A différenciés a montré ses limites quant à l'efficacité d'atteindre les objectifs sociaux.

- La simplification de la structure des taux permettrait de diminuer les coûts de gestion de la T.V.A pour les entreprises, de faciliter le contrôle de l'administration fiscale mais aussi d'éliminer progressivement les situations de crédits structurels qui pénalisent les entreprises.

Actions :

- Sur la base des indicateurs contenus dans les rapports de dépenses fiscales, il a été procédé, depuis 2005 :
  - à l'assujettissement à la TVA de certaines opérations exonérées auparavant (biens d'investissement en particulier) ;
  - au relèvement du taux pour certaines opérations ;
  - à la simplification des taux dans l'objectif d'arriver à une TVA à 2 taux : l'un compris entre 7 et 10%, l'autre entre 18 et 20%. 
LES DÉFIS CLÉS DE LA CONCEPTION DE LA TVA (ASSIETTE, TAUX, SEUILS) ET MÉTHODES DISPONIBLES

III- Fixation d’un seuil d’assujettissement adéquat

Actuellement, il existe 2 seuils d’assujettissement :
- un seuil fixé à 2.000.000 DH (environ 200.000 €) pour les commerçants ;
- un seuil fixé à 500.000 DH (environ 50.000 €) pour les petits prestataires.

- La fixation d’un seuil d’assujettissement adéquat et suffisamment élevé évite la gestion d’un grand nombre de dossiers à faible potentiel et permet de maîtriser les coûts de collecte de l’impôt aussi bien pour l’administration que pour les entreprises.

- À ce titre, une réflexion sera menée dans le cadre des assises sur la fiscalité, prévues en février 2013, en vue d’instaurer un seuil unique compris entre 500.000 DH (50.000 €) et 1.000.000 de dirhams (100.000 €).

- En effet, le choix du seuil d’immatriculation à la TVA constitue un élément décisif dans la conception d’une TVA. (Un seuil trop bas peut entraîner des difficultés considérables, si l’administration fiscale n’a pas la capacité de gérer un grand nombre d’assujettis à la TVA).

CONCLUSION

- Les efforts déployés au cours de ces dernières années allant dans le sens de la réduction des exonérations ainsi que les améliorations apportées à la gestion et au contrôle de l’impôt, n’ont pas manqué de produire des effets notoires sur l’évolution des recettes fiscales en général et de la T.V.A. en particulier.

- Cette performance de recettes de la T.V.A ne saurait faire oublier l’objectif tendant à la réhabilitation de la T.V.A en tant qu’instrument efficace du renforcement de la fiscalité domestique tout en continuant à œuvrer dans le sens de la suppression des distorsions économiques et sociales liées à la prolifération des exonérations et la multitude des taux.

- Il est constaté que malgré les différents aménagements apportés à la T.V.A et les recettes relativement satisfaisantes qu’elle procure (6% du PIB) son coefficient d’efficacité reste en deçà de son potentiel.

- Cette situation est largement imputable à une conception d’une T.V.A de première génération marquée par une multiplicité des taux, des seuils d’imposition inadaptés et une prolifération des exonérations.

- L’organisation des assises sur la fiscalité en février 2013 sera l’occasion de débattre du système fiscal marocain et de se concerter sur la levée des obstacles à la conduite de la réforme de la TVA.
REDUCED VAT RATES : REVENUE IMPACT AND ECONOMIC EFFECT

Antoine MAGNANT, sous-directeur, Ministère des finances (France)

PANORAMA

4 rates:
- Standard rate 19.6% (base 650 bn €)
- Reduced rate 7% (base 125 bn €; 50 items)
- Reduced rate 5.5% (base 150 bn €; 4 items)
- Reduced rate 2.1% (base 50 bn €)
- No domestic zero rate
REVENUE IMPACT

- Total tax expenditures (VAT) = 18,4 bn €
  - 13% of total VAT receipts
  - 25% personal income tax
  - 2 times inheritance tax = 4 times wealth tax
- The main tax expenditures in France are in the VAT area (work in dwellings, restaurants)

IMPACT ON REVENUE

- Tax expenditures/tax yield:
  - Income tax: 47%
  - Wealth tax 22%
  - VAT 13%
  - Corporate tax 6%
- Reduction in progress (reduced rate of 7% in 2012)
- No new reduced rates (except books)
IMPACT ON REVENUE

- High tax expenditure in France
- Less for VAT than for personal income taxes

MAIN TARGETS

- Basic essentials: food, goods and services for disabled, medicine, social housing = 22% of total tax expenditure
- Priority areas: culture (books, shows), press, renewable energy = 4% of total tax expenditure
MAIN TARGETS

- Work intensive activities (no distortion of the Single Market; risks of underground work): restaurants, hotel accommodation, works
  - = 50% of the total tax expenditure
- Remote areas: overseas
  - = 10% of total tax expenditure

CAUSES

- Interest for tax expenditure: generally characteristic of the French tax system
- Tax expenditures VAT:
  - Strong employment target: in addition to more general measures for low income earners with the aim to support work intensive sectors
  - Additional argument: reducing prices for basic essentials as in most European countries
ASSESSMENT

- Overall assessment of all tax expenditures in 2011.
- Appreciation according to their efficiency.
- VAT = “efficient” at 95% i.e. much higher than direct taxes.

SECTORIAL ASSESSMENT

- Mostly scrutinised = restaurants
  - More than 50 000 jobs
  - Investment
  - Price impact
- Housing
  - 30 000 to 50 000 jobs
  - Underground work difficult to assess
FUTURE

- No broadening of the scope for reduced VAT rates
- Status quo?
- Consolidating budgets?
- VAT rate increase to compensate for more growth friendly tax reductions?
LES TAUX RÉDUITS DE TVA : IMPACT SUR LES RECETTES ET EFFETS ÉCONOMIQUES

Antoine MAGNANT, sous-directeur, Ministère des finances (France)

PANORAMA

4 taux :
- taux normal 19,6% (base 650 Mrds €)
- taux réduit 7% (base 125 Mrds € ; 50 cas)
- Taux réduit 5,5% (base 150 mrds € ; 4 cas)
- Taux réduit 2,1 % (base 50 mrds €)
- Pas de taux 0
L'IMPACT SUR LES RECETTES PUBLIQUES

• cumul des “ dépenses fiscales ”
  TVA = 18,4 Mrds €
• = 13% des recettes nettes de TVA
• = 25% impôt sur le revenu = 2 fois l’impôt de succession = 4 fois l’ISF
• les principales dépenses fiscales françaises en montant sont en TVA : les travaux dans les logements, la restauration

L'IMPACT SUR LES RECETTES PUBLIQUES

• Dépenses fiscales/rendement : 47% IR ; 22% ISF, 13% TVA, 6% IS
• Réduction en cours (création taux de 7% en 2012)
• Pas de création prévue (sauf livre)
L'IMPACT SUR LES RECETTES PUBLIQUES

• Beaucoup de dépense fiscale en France.
• Moins en TVA que impôts directs des personnes.

LES PRINCIPAUX CIBLAGES

• Produits de première nécessité : alimentation, biens et services pour handicapés, médicaments, logement social = 22% du total de la dépense.
• Secteurs prioritaires : culture (livres, spectacles), presse, énergie renouvelable = 4% du total de la dépense.
LES PRINCIPAUX CIBLAGES

- secteurs de main d'œuvre (pas de distorsion dans marché unique ; risque travail dissimulé) : restauration, hôtellerie, travaux = 50% du total de la dépense
- zones enclavées : outre mer = 10% du total de la dépense

LES CAUSES

- de l'intérêt pour la dépense fiscale : de manière générale caractéristique du système fiscal français
LES CAUSES

• des dépenses fiscales TVA :
  ✔ fort ciblage emploi : se cumule avec des mesures en faveur des bas salaires qui sont plus générales, dans le but de soutenir les secteurs intensifs en emplois
  ✔ autre déterminant : prix de biens et services considérés comme étant de première nécessité, ce qui se retrouve dans l’essentiel des pays d’Europe

QUELLES ÉVALUATIONS ?

• Evaluation générale de toutes les dépenses fiscales en 2011.
• Note en fonction de leur efficacité.
• TVA = “bonne note” : à 95% (en montant) efficace, soit très supérieur aux impôts directs
QUELLES ÉVALUATIONS SECTORIELLES ?

• secteur le + analysé = restauration.
✓ + de 50 000 emplois
✓ investissement
✓ Effet prix .
• Logement
✓ emplois (+30 000 à + 50 000)
✓ travail dissimulé incertain

LES PERSPECTIVES

• pas de développement des taux réduits
• statu quo ?
• consolidation budgétaire ?
• Augmentation pour compenser baisse d'impôts favorable à croissance ou emploi ?
SESSION 4

DESIGNING EFFICIENT AND EQUITABLE VAT-SYSTEMS
(BREAK OUT SESSION 2)

**********

Chair: Michael Keen, International Monetary Fund

Panellists:
Cecil Morden, South Africa
Natasha Avendano Garcia, Colombia
Yutaka Ito, Japan
Alberto Daniel Barreix, Inter-American Development Bank

Rapporteur: Rob Dalla-Costa, Australia
VAT IN SOUTH AFRICA
30 SEPTEMBER 1991 TO 2012

Cecil MORDEN, National Treasury (South Africa)

CONTENTS
1. Introduction of VAT in South Africa - history
2. Tax/GDP & VAT “Efficiency” ratios
3. VAT concessions
4. Tax burden, regressivity & multiple VAT rates
5. Case for a board base VAT - views by the experts
6. Administration & compliance costs
7. Concluding remarks
8. Additional slides
INTRODUCTION OF VAT IN SOUTH AFRICA - HISTORY (1)

- Value Added Tax was introduced in South Africa on 30 September 1991.
- It is a destination VAT, invoice credit method, with full credits for capital goods.
- VAT is payable when invoice is issued – payment basis for municipalities and sole traders with an annual turnover below R2.5 million per annum.
- Value-Added Tax Committee (VATCOM) recommended a broad tax base with minimal exclusions.
- When the VAT Act, No 89 of 1991, was promulgated on 12 June 1991 no provisions were made to exclude (zero-rate) any goods or services.
- On 17 July 1991 the zero-rating of brown bread and maize meal were included.
- On 29 September 1991 (the Sunday before the scheduled introduction of VAT on Monday 30 September 1991), following extended public protest, eight additional basic food items were added to the zero-rated list.

INTRODUCTION OF VAT IN SOUTH AFRICA - HISTORY (2)

- At the beginning of 1993 further public protest resulted in the zero rating of an additional nine basic food items with effect from 7 April 1993.
- The VAT rate was increased from 10 per cent to 14 per cent on the same day.
- Pressures for a higher VAT rate on luxury goods were allayed, to an extent, by the extension of ad valorem excise duties on luxury goods to items such as air conditioners, cell phones, video cameras, jetskis and domestic dishwashers. Motor vehicles were later added to the list by way of a progressive ad valorem duty formula that excluded the cheapest vehicles from this impost.
TAX / GDP RATIOS

GDP = C + G + I + X - M

C = Final Consumption Expenditure by Households
G = Consumption Expenditure by Government
I = Fixed Investment Expenditure
X = Exports
M = Imports

VAT bases = most of C + part of G
IES, STATS SA, 2005/06 (% EXPENDITURE BY EXPENDITURE GROUP)

<table>
<thead>
<tr>
<th>Expenditure Deciles</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>6</th>
<th>7</th>
<th>8</th>
<th>9</th>
<th>Upper</th>
</tr>
</thead>
<tbody>
<tr>
<td>Average household size</td>
<td>2.6</td>
<td>3.4</td>
<td>4.0</td>
<td>4.3</td>
<td>4.6</td>
<td>4.8</td>
<td>4.7</td>
<td>4.5</td>
<td>4.1</td>
<td>3.9</td>
</tr>
</tbody>
</table>

**Expenditure Group**

- Food and non-alcoholic beverages: 36.1%, 35.7%, 34.1%, 32.6%, 30.8%, 28.1%, 24.5%, 19.6%, 13.1%, 7.0%.
- Alcoholic beverages and tobacco: 3.4%, 2.5%, 2.0%, 1.9%, 2.0%, 1.9%, 1.3%, 0.6%.
- Clothing and footwear: 9.4%, 9.3%, 9.1%, 8.9%, 8.7%, 8.4%, 7.9%, 7.0%, 3.4%.
- Housing, water, electricity, gas and other fuels: 21.1%, 20.4%, 18.7%, 18.4%, 18.1%, 18.4%, 22.5%.
- Furnishings, household equipment and routine maintenance of the dwelling: 4.9%, 5.7%, 6.9%, 7.3%, 7.8%, 8.3%.
- Health: 2.7%, 1.7%, 1.0%, 2.1%, 2.3%, 3.5%, 3.1%, 3.5%, 3.7%.
- Transport: 8.2%, 6.3%, 9.3%, 9.5%, 8.7%, 10.3%, 11.0%, 12.3%, 14.9%.
- Communication: 2.8%, 3.1%, 3.5%, 3.1%, 3.7%, 3.7%, 3.6%.
- Recreation and culture: 1.5%, 2.0%, 2.8%, 3.2%, 3.8%, 4.0%, 4.2%, 4.3%, 5.4%.
- Education: 0.9%, 1.1%, 1.0%, 1.3%, 1.3%, 1.9%, 1.9%, 2.3%, 2.5%.
- Restaurants and hotels: 2.6%, 2.8%, 2.2%, 2.3%, 2.7%, 2.8%, 2.6%, 2.1%, 2.0%.
- Miscellaneous goods and services: 6.3%, 7.9%, 8.1%, 8.6%, 10.0%, 11.9%, 14.5%.
- Other unclassified expenses: 0.2%, 0.2%, 0.2%, 0.2%, 0.2%, 0.2%, 0.2%, 0.2%, 0.2%.

**Total**

- 100%, 100%, 100%, 100%, 100%, 100%, 100%, 100%, 100%, 100%.
### Estimated VAT Revenue by Category

<table>
<thead>
<tr>
<th>%</th>
<th>Net VAT Revenue: 1995</th>
</tr>
</thead>
<tbody>
<tr>
<td>79.26%</td>
<td>Household Expenditure</td>
</tr>
<tr>
<td>8.65%</td>
<td>Government Expenditure</td>
</tr>
<tr>
<td>12.09%</td>
<td>Business Expenditure: Intermediate inputs (VAT Exemptions)</td>
</tr>
<tr>
<td>100.00%</td>
<td>Total</td>
</tr>
</tbody>
</table>
VAT CONCESSIONS

- As a consumption destination based tax exports are zero-rated and imports are subject to VAT.
- Most countries exclude non-fee based financial services from the VAT base due to practical difficulties.
- Many analysts have demonstrated that in absolute monetary terms the middle and higher income earners benefit more from the zero-rating than the poor. However, public opinion is very strongly in favour of maintaining the zero rating of basic foodstuffs.
- An effective VAT system, not unduly compromised by well-intended but doubtful concessions, is essential in generating the necessary tax revenues to fund Government’s expenditure programmes, including initiatives to help the poor.

A BROAD BASE VAT

A VAT system with the smallest number of exemptions, zero-ratings and lower rates is desirable.

Efficiency and simplicity considerations should dominate and equity and other objectives should be pursued through the expenditure side of fiscal policy.

In principle, the adoption, or perpetuation, of VAT concessions aimed at addressing regressivity should not occur unless ways can be found to target such benefits only to lower income households.
The following goods and services are zero-rated:

- Exports
- 19 basic food items
- Illuminating paraffin
- Goods which are subject to the fuel levy (petrol and diesel)
- International transport services
- Farming inputs
- Sales of going concerns, and
- Certain grants by government.

Goods and services exempted from VAT are:

- Non-fee related financial services
- Educational services provided by an approved educational institution
- Residential rental accommodation, and
- Road and rail public passenger transport.

BASIC FOODSTUFFS ZERO-RATED IN SOUTH AFRICA

- Brown bread.
- Maize meal.
- Samp.
- Mealie rice.
- Dried mealies.
- Dried beans.
- Lentils.
- Pilchards/sardinella in tins.
- Milk powder.
- Dairy powder blend.
- Rice.
- Vegetables.
- Fruit.
- Vegetable oil.
- Milk.
- Cultured milk.
- Brown wheaten meal.
- Eggs.
- Edible legumes and pulses of leguminous plants.
REQUEST FOR VAT CONCESSIONS

During the last few years, especially since the zero-rating of illuminating paraffin in 2001, the Minister of Finance has received several requests from the public, certain interest groups and by way of questions in Parliament to abolish VAT (zero-rate) on the following goods and services:

- medicines;
- medical services;
- books;
- electricity;
- water;
- red meat;
- Sorghum meal;
- magen (a maize based soft drink, largely consumed by the poor);
- security related expenses by private individuals;
- canned vegetables;
- 450 gram household candles. The South African Candle Manufacturers argued that the zero-rating of illuminating paraffin has impacted negatively on the sales of household candles; and
- Toll fees.

VAT AND REGRESSIVITY

- "In the final analysis...it is not whether the VAT itself is regressive or not, but whether the entire tax and expenditure system is achieving the pattern of household income net of taxes and gross of transfers and government expenditures that society desires. The case for VAT does not fall on its regressiveness. The case for VAT is that it is an efficient way of collecting a large and buoyant revenue for government; other parts of the budget should take care of progressiveness, and the VAT should be kept as simple and efficient as it is intended to be - for that is its justification" (Tait: 1988).

- "The justification for VAT is that it is a neutral, efficient, buoyant, revenue-raising instrument. It is not designed to correct income or wealth inequalities. Other aspects of the tax system, such as the progressive income tax and more specifically the expenditure side of the government budget should take care of progressiveness, thus leaving the VAT system as simple and effective as possible" (Adams: 1994).
VAT AND REGRESSIVITY - MULTIPLE VAT RATES

- The Irish Commission on Taxation concluded in its Third Report of 1984, that an attempt to make VAT progressive by using a multi-rate system is not recommended. Instead, it recommended a single-rate broad-based system on all purchases. The Commission stated:

- "We are satisfied that to charge different rates of indirect tax on different goods and services is a most wasteful and ineffective way of trying to redistribute income. That task is best achieved by well-designed public expenditure programmes, supplemented at the top of the range of income and wealth by a progressive expenditure (income) tax. Measures on the indirect tax side complicate the system, give increased scope for evasion and accomplish little in the way of redistribution."

VAT IN SOUTH AFRICA: WHAT KIND OF RATE STRUCTURE?
CNOSSEN, VAT MONITOR, 2004 (KATZ COMMISSION, 1994)

- “providing relief to the poor through exemptions and VAT zero-rating is likely to be both unsound tax policy and ineffective social policy”
- “the disadvantages of multiple VAT rates outweigh the possible redistributive gains available from this option”
- “VAT impact studies in other countries also confirm specific conclusions of the Katz Commission. In Ireland, for example, it was found that the poor spend relatively more of their income on food than the rich, (however) in absolute amounts the rich spend twice as much (on food) as the poor. Consequently, Ireland’s zero-rating of food gives twice as much tax relief to high-income groups than to low-income groups - an odd way of alleviating the plight of the poor”.
“An important administrative advantage of a VAT is that the whole production-distribution process is involved in collecting the tax from the consumer. Basically, zero-rating (other than for exports, for which it is imperative) nullifies this advantage and turns it into a disadvantage. It involves the tax office in an expensive collection and refund process that does not yield revenue. Refund returns must be monitored with particular care even though no revenue is realized.”

“.. The best sales tax (VAT) with respect to both efficiency and administration is undoubtedly one with a single uniform rate applied to all taxable transactions”.

“.. Higher rates on ‘luxury’ goods are an ineffective means of increasing the progressivity of the fiscal system, and, most importantly, lower tax rates on ‘necessities’ are generally poorly targeted and ineffective”.

“The rich may spend relatively less of their income on ‘basic food’, but they are likely tp spend absolutely more and hence receive more benefit from such concessions.”

• “... many countries apply a reduced rate of VAT to certain “necessities” in order to reduce the tax burden on the poor. However, this is a relatively ineffective way of dealing with the problem as the rich typically consume more of the “necessities” than the poor”.

• “An argument can also be made in the case of using VAT to reduce employers social security contributions, thus reducing the cost of exporting and importing competing firms”.

• “Germany increased its VAT rate at the beginning of 2007, partly to finance a cut in social security contributions”.

MIRRLEES REVIEW OF THE UK TAX SYSTEM, INSTITUTE FOR FISCAL STUDIES, NOV 2010

• “Value added tax (VAT) is an important and, on the whole, well-designed tax. But in the UK, zero rates are applied to an unusually wide range of goods and services. There may be convincing arguments to justify a few of these departures from uniformity, but not most. We favour a broadening of the VAT base in the UK, applying the standard rate to a wider range of goods”.

• “The central component of both reform packages we look at is a broadening of the VAT base such that goods and services now subject to zero and reduced rates of VAT – principally food, passenger transport, books and other reading matter, prescriptions drugs, children’s clothing, and domestic fuel and power – would be taxed at the standard rate after the reform”.

• “Why should the tax system favour people who like reading magazines more than listening to music, or who buy their children more expensive clothes and less expensive toys than other?"

• The UK recently increased the standard VAT rate from 17.5% to 20%
ADMINISTRATION & COMPLIANCE COSTS

• Differential VAT rates (including concessions in the form of zero-rating, reduced rates and/or exemptions) results in increased administration and compliances costs.

• There is a (+) correlation between the compliance costs of VAT and the number VAT rates. (Compliance of VAT in Sweden, Report 2006:3B)

• “Global VAT experience has shown that, regardless of the effort which goes into defining the scope of a concession, borderline cases will subsequently result in uncertainties for both the Revenue Authority, as well as evasion opportunities for unscrupulous vendors (p.167)”

CONCLUDING REMARKS

• Lobbying efforts for more VAT concessions seems to be an ongoing challenge.

• Current reforms to the health system in South Africa might reopen the debate on the VAT treatment of medical services and the VAT rate.

• Increasing the VAT rate is politically very sensitive and hence the South Africa’s VAT rate as remained unchanged at 14 per cent since 1993.
HISTORY OF SALES TAX RATES IN SOUTH AFRICA

• General Sales Tax (GST)
  – 3 July 1978: 4%
  – 1 March 1982: 5%
  – 1 September 1982: 6%
  – 1 February 1984: 7%
  – 1 July 1984: 10%
  – 25 March 1985: 12%

• Value Added Tax
  – 30 September 1991: 10%
  – 7 April 1993: 14%
**SMALL BUSINESSES**

- One of the criticisms of VAT is that it imposes a lopsided compliance burden on small businesses.
- Very small businesses are accommodated by the voluntary registration as a VAT vendor below a specified annual turnover.
- This threshold was set at R150 000 in 1991 and increased to R300 000 in 1999. It is proposed to increase it to R1.0 million as from 1 January 2009, as part of simplified package tax regime for very small businesses.
- VAT Act provides for natural persons or unincorporated small businesses with an annual turnover below R2.5 million (set in 1992) to account for VAT on a payment basis. This provision was initially also available to incorporated small businesses but was later withdrawn due to it being abused.
- Optional four monthly filing of returns for small business with a annual turnover below R1.5 million - instead of two monthly.
- Simplified VAT retail scheme?

**FOREIGN AID**

- As a rule foreign donor countries require that all donor funds be used for the identified projects and that VAT should not apply.
- The administration involved to provide for such exclusions can be quite tricky.
- The VAT Act was recently amended that allows for each “approved” donor funded project to register as a VAT vendor.
- The approved project can claim all input VAT credits, even VAT payable on motor vehicles, that are normally not refunded, may be claimed.
REFUNDS AND FRAUD

- VAT refunds are both the jewel and Achilles heel of a typical VAT system.
- VAT refunds properly administered ensure that the tax does not distort production decisions and to a large extent eliminate the cascading effect of sales tax. Although some businesses might suffer temporary cash flow problems and complain about the compliance burden of VAT, the systems seems to work reasonably well.
- The fraudulent claim of VAT refunds and the under declaration of output VAT remains a real problem.
- Introduced an annual minimum turnover threshold of R20 000 in 1999, subsequently increased to R50 000.
- The observation by Tait (1988) “that the success of VAT cannot be taken for granted as it requires good design and implementation, not only when first adopted but also for many years thereafter”, should indeed be heeded.

INTERNATIONAL TREATMENT OF MERIT GOODS

The majority of countries studied afford some form of preferential VAT treatment to the existing and/or proposed merit goods and services in South Africa.
- Preferential treatment can take the form of zero-rating, exemption or a lower rate.
- The VAT rates in many other countries are higher than in South Africa. The scope of VAT relief is often limited, e.g. to services provide by state-owned or non-profit organisations.
- Educational services are generally regarded as meriting preferential treatment in all regions of the world. Preferential treatment is usually in the form of an exemption.
- Lower rates tend to be applied to reading matter more frequently than exemption or zero-rating.
INTERNATIONAL TRENDS

- VAT relief of merit goods or services should be viewed against the background of generally higher VAT rates.
- VAT concessions typically only reduce the regressivity of the VAT system when the spending patterns of lower income groups are viewed in isolation.
- VAT concessions that cannot be targeted to poorer households actually make VAT more regressive.
- VAT concessions undermine the attainment of other tax objectives (i.e. neutrality, efficiency and simplicity) and could distort consumer and producer choices.

ESTIMATED PROPORTION OF BENEFITS FROM ZERO-RATING ACCRUING TO CONSUMERS AND SUPPLIERS

<table>
<thead>
<tr>
<th>% Share of Benefit from VAT Zero-rating</th>
<th>Supplier</th>
<th>Consumer</th>
</tr>
</thead>
<tbody>
<tr>
<td>Maize Meal</td>
<td>39%</td>
<td>61%</td>
</tr>
<tr>
<td>Rice</td>
<td>14%</td>
<td>86%</td>
</tr>
<tr>
<td>Brown bread</td>
<td>6%</td>
<td>94%</td>
</tr>
<tr>
<td>Milk</td>
<td>68%</td>
<td>32%</td>
</tr>
</tbody>
</table>
ESTIMATED PROPORTION OF BENEFITS FROM PROPOSED ZERO-RATING ACCRUING TO CONSUMERS AND SUPPLIERS

CONCLUSIONS

• VAT concessions will:
  – Normally reduce regressivity if the expenditure patterns of the poor are viewed in isolation.
  – Provide some relief to the poor, but affect other policy considerations of equity, neutrality, efficiency and simplicity.
• Problems of defining the scope of further concessions, drafting amendments and regulating the procedural and documentary requirements for applying a new zero-rating, exemption or lower VAT rate would be significant to SARS.
• Vendors would require clarity as to how concessions would impact on them before proceeding with systems changes.
• Technological developments in the IT arena have made it easier for businesses to change systems than was the case when VAT was first introduced. However, many small and medium-sized businesses have not adopted such IT.
• Zero-rating of proposed new merit goods would carry a lower compliance cost than exemption or lower rate of VAT.
Books because –
  – it will worsen the regressivity of VAT;
  – the cost of books has little influence on literacy levels in South Africa;
  – additional funding for books in the education system would have a bigger impact on literacy levels; and
  – consumers are likely to receive a relatively small portion of any benefit arising from zero-rating.

Medicines because –
  – it will worsen the regressivity of VAT even though consumers might enjoy a significant portion of any VAT savings;
  – the positive price elasticity of demand suggests that elimination of VAT from medicines would not have the desired effect of increasing consumption of medicines; and
  – Very Low and Low expenditure groups are in any case reliant on the public health sector for access to medicines. Lower medicine costs would not automatically improve access to health care of these groups.
### MACRO AND VAT REVENUE TRENDS (CALENDAR YEARS)

<table>
<thead>
<tr>
<th>Year</th>
<th>FCEH/GDP</th>
<th>FCEGG/GDP</th>
<th>VAT/GDP</th>
<th>VAT/FCEH</th>
<th>Efficiency</th>
<th>C-Efficiency</th>
</tr>
</thead>
<tbody>
<tr>
<td>1990</td>
<td>62%</td>
<td>20%</td>
<td>6.1%</td>
<td>9.8%</td>
<td>0.47</td>
<td>0.76</td>
</tr>
<tr>
<td>1991</td>
<td>62%</td>
<td>20%</td>
<td>5.7%</td>
<td>9.2%</td>
<td>0.50</td>
<td>0.80</td>
</tr>
<tr>
<td>1992</td>
<td>63%</td>
<td>18%</td>
<td>6.4%</td>
<td>9.4%</td>
<td>0.42</td>
<td>0.67</td>
</tr>
<tr>
<td>1993</td>
<td>62%</td>
<td>20%</td>
<td>5.5%</td>
<td>9.8%</td>
<td>0.39</td>
<td>0.63</td>
</tr>
<tr>
<td>1994</td>
<td>62%</td>
<td>20%</td>
<td>5.9%</td>
<td>9.4%</td>
<td>0.42</td>
<td>0.67</td>
</tr>
<tr>
<td>1995</td>
<td>62%</td>
<td>18%</td>
<td>5.8%</td>
<td>9.4%</td>
<td>0.39</td>
<td>0.63</td>
</tr>
<tr>
<td>1996</td>
<td>63%</td>
<td>18%</td>
<td>5.6%</td>
<td>9.0%</td>
<td>0.40</td>
<td>0.64</td>
</tr>
<tr>
<td>1997</td>
<td>64%</td>
<td>19%</td>
<td>5.7%</td>
<td>9.0%</td>
<td>0.41</td>
<td>0.64</td>
</tr>
<tr>
<td>1998</td>
<td>64%</td>
<td>19%</td>
<td>5.7%</td>
<td>9.0%</td>
<td>0.41</td>
<td>0.64</td>
</tr>
<tr>
<td>1999</td>
<td>64%</td>
<td>18%</td>
<td>5.8%</td>
<td>9.1%</td>
<td>0.41</td>
<td>0.65</td>
</tr>
<tr>
<td>2000</td>
<td>63%</td>
<td>18%</td>
<td>5.8%</td>
<td>9.1%</td>
<td>0.41</td>
<td>0.65</td>
</tr>
<tr>
<td>2001</td>
<td>63%</td>
<td>18%</td>
<td>5.7%</td>
<td>9.1%</td>
<td>0.41</td>
<td>0.65</td>
</tr>
<tr>
<td>2002</td>
<td>62%</td>
<td>19%</td>
<td>5.6%</td>
<td>9.5%</td>
<td>0.42</td>
<td>0.68</td>
</tr>
<tr>
<td>2003</td>
<td>62%</td>
<td>18%</td>
<td>5.6%</td>
<td>9.6%</td>
<td>0.40</td>
<td>0.64</td>
</tr>
<tr>
<td>2004</td>
<td>63%</td>
<td>19%</td>
<td>5.6%</td>
<td>9.7%</td>
<td>0.40</td>
<td>0.64</td>
</tr>
<tr>
<td>2005</td>
<td>63%</td>
<td>19%</td>
<td>5.7%</td>
<td>9.5%</td>
<td>0.42</td>
<td>0.68</td>
</tr>
<tr>
<td>2006</td>
<td>63%</td>
<td>20%</td>
<td>7.3%</td>
<td>11.5%</td>
<td>0.52</td>
<td>0.83</td>
</tr>
<tr>
<td>2007</td>
<td>63%</td>
<td>19%</td>
<td>7.2%</td>
<td>11.3%</td>
<td>0.52</td>
<td>0.82</td>
</tr>
<tr>
<td>2008</td>
<td>63%</td>
<td>19%</td>
<td>6.7%</td>
<td>10.9%</td>
<td>0.48</td>
<td>0.78</td>
</tr>
<tr>
<td>2009</td>
<td>61%</td>
<td>21%</td>
<td>6.3%</td>
<td>10.2%</td>
<td>0.44</td>
<td>0.73</td>
</tr>
<tr>
<td>2010</td>
<td>59%</td>
<td>22%</td>
<td>6.4%</td>
<td>10.8%</td>
<td>0.46</td>
<td>0.77</td>
</tr>
<tr>
<td>2011</td>
<td>59%</td>
<td>21%</td>
<td>6.6%</td>
<td>11.2%</td>
<td>0.47</td>
<td>0.80</td>
</tr>
</tbody>
</table>

### AD VALOREM EXCISE DUTIES

<table>
<thead>
<tr>
<th>C&amp;E Chapters:</th>
<th>% and R million</th>
<th>2005/06</th>
<th>2006/09</th>
<th>2011/12</th>
<th>2012/13</th>
</tr>
</thead>
<tbody>
<tr>
<td>Essential oils and resinoids; perfumery, cosmetic of toilet</td>
<td>1.7%</td>
<td>2.8%</td>
<td>2.4%</td>
<td>2.2%</td>
<td></td>
</tr>
<tr>
<td>Explosives; pyrotechnic products; matches; pyrophoric alloys</td>
<td>0.1%</td>
<td>0.1%</td>
<td>0.1%</td>
<td>0.1%</td>
<td></td>
</tr>
<tr>
<td>Furskins and artificial fur; manufactures thereof</td>
<td>0.0%</td>
<td>0.0%</td>
<td>0.0%</td>
<td>0.0%</td>
<td></td>
</tr>
<tr>
<td>Machinery and mechanical appliances</td>
<td>2.1%</td>
<td>1.9%</td>
<td>1.2%</td>
<td>0.8%</td>
<td></td>
</tr>
<tr>
<td>Electrical machinery and equipment and parts thereof; sound vehicles other than railway or tramway rolling-stock, and parts thereof</td>
<td>33.4%</td>
<td>38.1%</td>
<td>29.3%</td>
<td>24.4%</td>
<td></td>
</tr>
<tr>
<td>Ships, boats and floating structures</td>
<td>60.0%</td>
<td>56.1%</td>
<td>66.0%</td>
<td>71.0%</td>
<td></td>
</tr>
<tr>
<td>Optical, photographic, cinematographic, measuring, checking,</td>
<td>0.1%</td>
<td>0.1%</td>
<td>0.1%</td>
<td>0.0%</td>
<td></td>
</tr>
<tr>
<td>Arms and ammunition; parts and accessories thereof</td>
<td>0.7%</td>
<td>0.0%</td>
<td>0.0%</td>
<td>0.0%</td>
<td></td>
</tr>
<tr>
<td>Toys, games and sports requisites; parts and accessories thereof</td>
<td>0.1%</td>
<td>0.2%</td>
<td>0.2%</td>
<td>0.3%</td>
<td></td>
</tr>
<tr>
<td>TOTAL</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
<td></td>
</tr>
<tr>
<td>TOTAL: R million</td>
<td>2 732</td>
<td>3 369</td>
<td>5 177</td>
<td>2 517</td>
<td></td>
</tr>
<tr>
<td>Tariff Item</td>
<td>Article description</td>
<td>Tax rate</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>------------</td>
<td>---------------------------------------------------------</td>
<td>----------</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>118.15</td>
<td>Perfumes &amp; toilet waters</td>
<td>7%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>118.20</td>
<td>Lip make-up preparations</td>
<td>5%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>118.21</td>
<td>Eye make-up preparations</td>
<td>5%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>118.22</td>
<td>Talc</td>
<td>5%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>118.23</td>
<td>Perfumes &amp; toilet waters</td>
<td>7%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>118.24</td>
<td>Lip make-up preparations</td>
<td>5%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>118.25</td>
<td>Eye make-up preparations</td>
<td>5%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>118.26</td>
<td>Talc</td>
<td>5%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>118.33</td>
<td>Fireworks</td>
<td>7%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>118.36</td>
<td>Fur - apparel</td>
<td>7%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>118.37</td>
<td>Air conditioning machines - buildings not exceeding 8.8 KW</td>
<td>7%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>118.38</td>
<td>Telephones - cordless</td>
<td>7%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>118.39</td>
<td>Cellular phones</td>
<td>7%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>118.40</td>
<td>Loudspeakers</td>
<td>7%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>118.41</td>
<td>Electric amplifiers</td>
<td>7%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>118.42</td>
<td>Sound recording or reproducing apparatus</td>
<td>7%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>118.43</td>
<td>Video recording and reproducing apparatus</td>
<td>7%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>118.44</td>
<td>Cameras: Television, digital and video</td>
<td>7%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>118.45</td>
<td>Reception apparatus for radio-broadcasting</td>
<td>7%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>118.46</td>
<td>Radio-broadcast receivers - used in motor vehicles</td>
<td>7%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>118.47</td>
<td>Monitors</td>
<td>7%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>118.48</td>
<td>Televisions, decoders</td>
<td>7%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>118.49</td>
<td>Projectors</td>
<td>7%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>118.50</td>
<td>Motor vehicles: passenger cars &amp; goods - LVCs not exceeding 5 ton</td>
<td>7%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>118.51</td>
<td>Golf carts</td>
<td>7%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>118.52</td>
<td>Motorcycles</td>
<td>7%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>118.53</td>
<td>Water scooters</td>
<td>7%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>118.54</td>
<td>Revolvers, pistols, shot guns, etc.</td>
<td>7%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>118.55</td>
<td>Casino games - games of skill</td>
<td>7%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>118.56</td>
<td>Video games</td>
<td>7%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>118.57</td>
<td>Golf balls</td>
<td>7%</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
COLOMBIA’S VAT STRUCTURE: FAIRNESS VS. SIMPLIFICATION

National Tax and Customs Administration and Ministry of Finance (Colombia)

OECD – November 8th, 2012

Natasha Avendaño García

Colombia is the 7th most unequal country in the world as measured by GINI coefficient

0,54

VAT rates comparison with Latin-American OECD countries

Source: OECD Tax Database, 2011

VAT rates comparison with OECD countries

Source: OECD Tax Database, 2011
Rate differentiation

Sources: OECD Tax Database, 2011
HMRC, 2012

Zero rate for certain domestic goods
Differentiated rate below standard rate
Standard rate
Differentiated rate above standard rate

<table>
<thead>
<tr>
<th>Rate or treatment</th>
<th>Goods and services</th>
</tr>
</thead>
<tbody>
<tr>
<td>Exempted</td>
<td>Massive consumption goods: food, education, passenger transportation, utilities, medicines, real state transactions.</td>
</tr>
<tr>
<td>Zero rated</td>
<td>Exports; beef, pork, chicken, fish, eggs, milk, notebooks and books.</td>
</tr>
<tr>
<td>1.6%</td>
<td>Cleaning services, security services and services provided by temporal job agencies</td>
</tr>
<tr>
<td>10%</td>
<td>Oat, corn and rice for industrial use, crude palm oil, cocoa, chocolate, biscuits, agricultural machinery, machinery for manufacturing food or drinks, private medical insurance, storage of agricultural products, commercial lease, social clubs for workers and retirees.</td>
</tr>
<tr>
<td>16%</td>
<td>All other goods, including processed food and other massive consumptions goods.</td>
</tr>
<tr>
<td>20%</td>
<td>Domestic or imported four-wheel drive vehicles. Boats for recreation manufactured or assembled in the country. Mobile phone services.</td>
</tr>
<tr>
<td>25%</td>
<td>Motor vehicles with FOB value under US$ 30,000. Motorcycles (&gt;185 c.c.)</td>
</tr>
<tr>
<td>35%</td>
<td>Motor vehicles with FOB value above $ 30,000. Private airplanes, and imported sport boats</td>
</tr>
</tbody>
</table>
Costs of VAT benefits

<table>
<thead>
<tr>
<th>Benefit</th>
<th>Total fiscal spending</th>
<th>Total fiscal spending in basic goods</th>
</tr>
</thead>
<tbody>
<tr>
<td>Exemptions</td>
<td>7.54</td>
<td>1.95</td>
</tr>
<tr>
<td>Zero-rated</td>
<td>1.84</td>
<td>1.58</td>
</tr>
<tr>
<td>No discount for capital goods</td>
<td>-1.62</td>
<td>-</td>
</tr>
</tbody>
</table>

Figures in 2010 USD billion

Exemptions and Zero rated domestic goods: an inefficient subsidy

Higher income brackets receive a larger share of the fiscal spending on VAT exemptions and zero-rated domestic goods—a subsidy intended for lower income brackets.

Although it improves Gini by 0.6, it accounts for a fiscal spending of 1.23% of GDP (USD 3.69 billion)
Colombia’s VAT structure: 
fairness Vs. simplification

National Tax and Customs Administration and 
Ministry of Finance 
Colombia 
OECD – November 8th, 2012
Consumption Tax Reform in Japan
- Challenges on “Distributional Impact” -

Yutaka Ito
Director, Research Division, Tax Bureau
Ministry of Finance, Japan

November, 2012

Outline

- Comprehensive Reform of Social Security and Tax System
- What is “Distributional Impact” on Consumption Tax?
- Discussed Measures to counter “Distributional Impact”
- Discussions in Japan
- Comparison: Refundable Tax Credit vs. Multiple Tax Rates
- Summary / Additional point
Significant changes in social and economic conditions in recent years: aging society, declining birthrate, changing seniority system, changing family structure, and prolonged deflation

Target for the fiscal consolidation of the Japanese government:

1. Halving the primary balance deficit ratio to GDP from the FY 2010 level by FY 2015
2. Turning the deficit into surplus by FY 2020

Simultaneous achievement of an efficient social security system and fiscal consolidation

Outline of Tax Reform:

**Consumption tax**: Raise the current 5% rate in two stages to 8% in April 2014 and 10% in October 2015

The law for these hikes was passed in the Diet on August 10th, 2012.

**Individual income tax**: Raise the maximum rate and set an upper limit on wage deductions

**Corporate tax**: Reduce the effective tax rate by 5%

**Asset taxes**: Lower the basic deduction and raise the maximum tax rate for the inheritance tax
Consumption tax or VAT is said to have the “distributional impact” or the “regressivity”. Is it true?

If viewed in a lifetime context?

If viewed with social security benefits and other taxes?

Unfortunately, discussions in Japan have been mainly focused on the “distributional impact” of consumption tax and its countermeasures.

What is “Distributional Impact” on Consumption Tax?

- Consumption tax or VAT is said to have the “distributional impact” or the “regressivity”. Is it true?
- If viewed in a lifetime context?
- If viewed with social security benefits and other taxes?
- Unfortunately, discussions in Japan have been mainly focused on the “distributional impact” of consumption tax and its countermeasures.

Discussed Measures to Counter “Distributional Impact”

- A or B +1 measures are being discussed.
  
  A. Refundable Tax Credit
  
  B. Multiple tax rates
  
  +1. Simplified benefits: until the introduction of the above A or B
Discussions in Japan

- **Sankei Newspaper Opinion Poll (June 12, 2012)**
  
  Question: “As a measure for low-income households at the time of the consumption tax hike, which measure is closer to your idea?”
  
  Answer: Multiple Tax Rate 62.5%, Refundable Tax Credit 23.6%, Measures are not necessary 11.6%, Others 2.3%

- **Policy Proposal by Komeito (influential opposition party) (September 22, 2012)**
  
  “From the stage of the 8% consumption tax hike, we will implement measures for low-income households. On this occasion, we will aim to introduce a ‘reduced tax rate’ to lower the tax rate of daily necessities such as groceries. Reduced tax rates have been introduced in many countries throughout Europe. It is a user-friendly system that brings a feeling of reducing your tax burden every time you shop at grocery stores, etc.

---

Discussions in Japan (cont.)

- **Proposal by the Japan Federation of Economic Organizations (October 5, 2012)**
  
  - A single tax rate should be maintained at least until the stage of 10% consumption tax rate.
  - In a refundable tax credit system, introduction of an individual numbering system permits a more precise tracking of income. Compared to multiple tax rates, a refundable credit will have fewer problems and can provide more efficiently targeted benefits.

- **Action Program on Comprehensive Tax Reform by Democratic Party (December 24, 2008)**
  
  - Multiple-tax rate would impair the horizontal fairness of the consumption tax on a grand scale. It is not an appropriate measure to reduce regressivity because it is difficult to select subjects for which a reduced rate should be applied and the tax base would be eroded significantly.
  - Rather, introduction of a refundable tax credit is more appropriate.
Comparison 1

1. Effectiveness and Necessary Fiscal Resources

| Refundable Tax Credit | • Focused support can be provided to low-income households  
<table>
<thead>
<tr>
<th></th>
<th>• An efficient support is possible within limited financial resources by setting priority targets to provide benefits.</th>
</tr>
</thead>
</table>
| Multiple Tax Rates    | • Policy target might be unclear because the benefit increases for higher-income households with their higher consumption.  
                       | • Potential tax erosion is greater because of the benefit for high-income households. |

Comparison 1 (Effect of Multiple Tax Rate)
Comparison 2

2. Fairness

| Refundable Tax Credit | Difficulties in tracking income and assets of recipients
|                        | An individual numbering system and other information tracking tools are needed to prevent fraudulent receipts as experienced in other countries. |
| Multiple Tax Rates     | Difficulties in drawing a reasonable line between items that are subject to reduced rates and those which are not
|                        | Frequent troubles and litigations over the application of different tax rates in other countries |

Comparison 2 (Standard or Reduced?)

- Truffle, Caviar, Foie gras
- Pringles or Potato chips
- Eat-in or Take-away
- Pasty
- Children's Clothes
- Butter or Margarine
Comparison 3

3. Administrative Costs

<table>
<thead>
<tr>
<th>Refundable Tax Credit</th>
<th>Administrative costs to provide benefits and tackle fraudulent receipts (depending on the design of the system)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Multiple Tax Rates</td>
<td>(Especially in a transition from a single tax rate to a multiple rate system,)</td>
</tr>
<tr>
<td></td>
<td>• Increased cost on businesses related to applying the correct tax rate to individual products</td>
</tr>
<tr>
<td></td>
<td>• Additional costs for business, such as the renovation of cash registers or sales management systems</td>
</tr>
</tbody>
</table>

Summary / Additional Point

- In summary, the consumption tax is,
  1. if viewed in a lifetime context, a proportional tax on lifetime consumption, not exactly a regressive tax, and
  2. should be discussed, taking into consideration the benefits of the social security system and the total tax burden.
- If we take additional measures, which is more efficient, a mechanism to provide direct benefits or multiple tax rates?
- In addition, from a macroeconomic viewpoint, providing benefits to low-income households might effectively mitigate potential negative impacts on the economy, where those low-income households might have otherwise reduced their consumption more than higher-income earners, due to an increase in the consumption tax.
Future Development

- Learning from other countries’ experiences, we will continue to discuss and advance our tax reform.

- You will see our outcome in April 2014.
**Personalized VAT: Increasing Revenue to Compensate the Poorest**

*Alberto Barreix*

*IFD/FMM*

*November, 2012*

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### Fiscal Pillars in Latin America and the Caribbean

<table>
<thead>
<tr>
<th></th>
<th>as GDP % – Simple Average 2008/2009</th>
<th>as GDP % – Weighted Average 2008/2009</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>OECD (1)</td>
<td>Latin America (4)</td>
</tr>
<tr>
<td>Fiscal Revenue</td>
<td>41.5</td>
<td>24.2</td>
</tr>
<tr>
<td>VAT</td>
<td>6.9 (3)</td>
<td>6.6</td>
</tr>
<tr>
<td>Income Tax</td>
<td>12.6</td>
<td>4.7</td>
</tr>
<tr>
<td>Corporate</td>
<td>3.6</td>
<td>1.1</td>
</tr>
<tr>
<td>Personal</td>
<td>9.0</td>
<td>1.6</td>
</tr>
<tr>
<td>Social Security</td>
<td>10.2</td>
<td>3.8</td>
</tr>
<tr>
<td>Rest</td>
<td>12.0</td>
<td>9.1</td>
</tr>
</tbody>
</table>

|                         | OECD (1)    | Latin America (4) | Caribbean | “Rest of the world” |
| Fiscal Revenue          | 37.4        | 29.3               | 27.7      | 26.7                |
| VAT                     | 4.3 (3)     | 8.5                | 3.7       | 4.8                 |
| Income Tax              | 12.1        | 6.2                | 14.1      | 7.2                 |
| Corporate               | 2.9         | 3.0                | 11.1      | 4.4                 |
| Personal                | 9.1         | 3.2                | 3.0       | 2.8                 |
| Social Security         | 10.9        | 5.4                | 1.9       | 6.5                 |
| Rest                    | 10.1        | 9.2                | 8.0       | 8.2                 |

(1) Includes public and private social security, and net income from the exploitation of natural resources by public entities.
(2) Excludes Chile, Mexico & Turkey.
(3) Excludes the sales tax of the United States.
(4) Excludes Chile & Mexico.
(5) Encompasses 40 countries: 14 from Europe, 10 from Africa & 16 from Asia.
### VAT Productivity and Efficiency in LAC

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Argentina*</td>
<td>8.07</td>
<td>0.38</td>
<td>0.60</td>
<td>0.08</td>
<td>0.32</td>
</tr>
<tr>
<td>Chile*</td>
<td>8.09</td>
<td>0.43</td>
<td>0.68</td>
<td>0.06</td>
<td>0.35</td>
</tr>
<tr>
<td>Colombia*</td>
<td>5.27</td>
<td>0.43</td>
<td>0.45</td>
<td>0.16</td>
<td>0.10</td>
</tr>
<tr>
<td>Costa Rica</td>
<td>4.89</td>
<td>0.38</td>
<td>0.48</td>
<td>0.11</td>
<td></td>
</tr>
<tr>
<td>Ecuador</td>
<td>6.48</td>
<td>0.54</td>
<td>0.74</td>
<td>0.19</td>
<td>0.07</td>
</tr>
<tr>
<td>El Salvador</td>
<td>6.54</td>
<td>0.50</td>
<td>0.52</td>
<td>0.22</td>
<td>0.26</td>
</tr>
<tr>
<td>Guatemala</td>
<td>5.12</td>
<td>0.43</td>
<td>0.47</td>
<td>0.13</td>
<td>0.14</td>
</tr>
<tr>
<td>Honduras</td>
<td>5.52</td>
<td>0.46</td>
<td>0.50</td>
<td>0.29</td>
<td>0.21</td>
</tr>
<tr>
<td>Jamaica*</td>
<td>7.30</td>
<td>0.22</td>
<td>0.46</td>
<td>0.15</td>
<td>0.39</td>
</tr>
<tr>
<td>Mexico*</td>
<td>3.84</td>
<td>0.24</td>
<td>0.27</td>
<td>0.32</td>
<td>0.31</td>
</tr>
<tr>
<td>Nicaragua</td>
<td>7.40</td>
<td>0.49</td>
<td>0.53</td>
<td>0.33</td>
<td>0.14</td>
</tr>
<tr>
<td>Panama</td>
<td>2.46</td>
<td>0.48</td>
<td>0.69</td>
<td>0.26</td>
<td>0.05</td>
</tr>
<tr>
<td>Paraguay*</td>
<td>7.46</td>
<td>0.61</td>
<td>0.62</td>
<td>0.16</td>
<td>0.22</td>
</tr>
<tr>
<td>Peru</td>
<td>6.49</td>
<td>0.35</td>
<td>0.55</td>
<td>0.14</td>
<td>0.31</td>
</tr>
<tr>
<td>Dominican Rep.</td>
<td>4.30</td>
<td>0.27</td>
<td>0.30</td>
<td>0.23</td>
<td>0.48</td>
</tr>
<tr>
<td>Uruguay</td>
<td>8.33</td>
<td>0.40</td>
<td>0.56</td>
<td>0.17</td>
<td>0.28</td>
</tr>
<tr>
<td>Simple average</td>
<td>6.16</td>
<td>0.41</td>
<td>0.53</td>
<td>0.21</td>
<td>0.26</td>
</tr>
<tr>
<td>OECD**</td>
<td>6.83</td>
<td>0.40</td>
<td>0.59</td>
<td>n.a.</td>
<td>n.a.</td>
</tr>
</tbody>
</table>


* Indexes for Argentina, Chile and Colombia correspond to year 2007, for Jamaica and Paraguay to year 2006, and for Mexico to year 2005.

** OECD data are for 2006.

n.a.: not available

### VAT: Regressive or Progressive Depending on the Calculation Method

<table>
<thead>
<tr>
<th>Country / Region</th>
<th>Accurate rates on Deciles</th>
<th>Indices index</th>
<th>Inefficient index</th>
<th>Revenue-Sensitive Index</th>
</tr>
</thead>
<tbody>
<tr>
<td>Argentina (2006)</td>
<td>15.3, 15.3, 12.8, 10.8, 8.4, 6.1, 3.8, 2.5, 1.2, 0.8, 0.4</td>
<td>0.0176</td>
<td>0.0018</td>
<td>0.0030</td>
</tr>
<tr>
<td>Brazil (2000)</td>
<td>16.5, 16.5, 12.8, 10.8, 8.4, 6.1, 3.8, 2.5, 1.2, 0.8, 0.4</td>
<td>0.0050</td>
<td>0.0028</td>
<td>0.0030</td>
</tr>
<tr>
<td>Chile (2000)</td>
<td>15.3, 15.3, 12.8, 10.8, 8.4, 6.1, 3.8, 2.5, 1.2, 0.8, 0.4</td>
<td>0.0060</td>
<td>0.0028</td>
<td>0.0030</td>
</tr>
<tr>
<td>Costa Rica (2000)</td>
<td>15.3, 15.3, 12.8, 10.8, 8.4, 6.1, 3.8, 2.5, 1.2, 0.8, 0.4</td>
<td>0.0071</td>
<td>0.0028</td>
<td>0.0030</td>
</tr>
<tr>
<td>Colombia (2000)</td>
<td>15.3, 15.3, 12.8, 10.8, 8.4, 6.1, 3.8, 2.5, 1.2, 0.8, 0.4</td>
<td>0.0087</td>
<td>0.0028</td>
<td>0.0030</td>
</tr>
<tr>
<td>Ecuador (2000)</td>
<td>15.3, 15.3, 12.8, 10.8, 8.4, 6.1, 3.8, 2.5, 1.2, 0.8, 0.4</td>
<td>0.0098</td>
<td>0.0028</td>
<td>0.0030</td>
</tr>
<tr>
<td>Guatemala (2000)</td>
<td>15.3, 15.3, 12.8, 10.8, 8.4, 6.1, 3.8, 2.5, 1.2, 0.8, 0.4</td>
<td>0.0109</td>
<td>0.0028</td>
<td>0.0030</td>
</tr>
<tr>
<td>Honduras (2000)</td>
<td>15.3, 15.3, 12.8, 10.8, 8.4, 6.1, 3.8, 2.5, 1.2, 0.8, 0.4</td>
<td>0.0115</td>
<td>0.0028</td>
<td>0.0030</td>
</tr>
<tr>
<td>Nicaragua (2000)</td>
<td>15.3, 15.3, 12.8, 10.8, 8.4, 6.1, 3.8, 2.5, 1.2, 0.8, 0.4</td>
<td>0.0128</td>
<td>0.0028</td>
<td>0.0030</td>
</tr>
<tr>
<td>Panama (2000)</td>
<td>15.3, 15.3, 12.8, 10.8, 8.4, 6.1, 3.8, 2.5, 1.2, 0.8, 0.4</td>
<td>0.0137</td>
<td>0.0028</td>
<td>0.0030</td>
</tr>
<tr>
<td>Peru (2000)</td>
<td>15.3, 15.3, 12.8, 10.8, 8.4, 6.1, 3.8, 2.5, 1.2, 0.8, 0.4</td>
<td>0.0145</td>
<td>0.0028</td>
<td>0.0030</td>
</tr>
<tr>
<td>Dominican Rep. (2000)</td>
<td>15.3, 15.3, 12.8, 10.8, 8.4, 6.1, 3.8, 2.5, 1.2, 0.8, 0.4</td>
<td>0.0153</td>
<td>0.0028</td>
<td>0.0030</td>
</tr>
<tr>
<td>El Salvador (2000)</td>
<td>15.3, 15.3, 12.8, 10.8, 8.4, 6.1, 3.8, 2.5, 1.2, 0.8, 0.4</td>
<td>0.0161</td>
<td>0.0028</td>
<td>0.0030</td>
</tr>
</tbody>
</table>

* Quarters 1, 3 and 5, respectively.

Source: Barreix, Bès, and Roca (2009); Jorrat (2010); Roca (2010); Gómez Sabaini, Harriage, and Rossignolo (2011).
Tax Expenditure and Equity: uncorrelated Tax Evasion: on the decrease

Evasion slow slowdown

Source: Author's calculations based on IDB (2010).

The Cost of Including VAT (tax paid on income of the decile)

<table>
<thead>
<tr>
<th>Deciles</th>
<th>Uruguay</th>
<th>Costa Rica</th>
<th>Mexico</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Basic rate</td>
<td>Minimum rate</td>
<td>Exempt</td>
</tr>
<tr>
<td>1</td>
<td>2.2</td>
<td>2.7</td>
<td>2.5</td>
</tr>
<tr>
<td>2</td>
<td>3.2</td>
<td>3.8</td>
<td>3.0</td>
</tr>
<tr>
<td>3</td>
<td>4.3</td>
<td>5.0</td>
<td>4.0</td>
</tr>
<tr>
<td>4</td>
<td>5.4</td>
<td>5.8</td>
<td>4.7</td>
</tr>
<tr>
<td>5</td>
<td>6.7</td>
<td>7.3</td>
<td>6.1</td>
</tr>
<tr>
<td>6</td>
<td>8.1</td>
<td>9.0</td>
<td>6.9</td>
</tr>
<tr>
<td>7</td>
<td>10.6</td>
<td>11.1</td>
<td>9.5</td>
</tr>
<tr>
<td>8</td>
<td>12.2</td>
<td>13.5</td>
<td>10.9</td>
</tr>
<tr>
<td>9</td>
<td>16.9</td>
<td>16.7</td>
<td>16.4</td>
</tr>
<tr>
<td>10</td>
<td>30.7</td>
<td>25.3</td>
<td>36.2</td>
</tr>
<tr>
<td>Total</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
</tr>
<tr>
<td>40% poorest</td>
<td>15.0</td>
<td>17.2</td>
<td>13.9</td>
</tr>
<tr>
<td>20% richest</td>
<td>47.6</td>
<td>41.9</td>
<td>52.6</td>
</tr>
<tr>
<td>20% richest/40% poorest</td>
<td>3.2</td>
<td>2.4</td>
<td>3.8</td>
</tr>
</tbody>
</table>


Note: Percentage of consumption of goods affected for each decile.

The "Error of Inclusion" of Reduced Rates and Exemptions
### Improving Equity in Fiscal Policy: Personalizing VAT

1. Attempts to counterbalance the VAT regressive nature

2. Universal System (Indirect)
   - i. Identifies items with incidence in the consumption basket of lower income groups (i.e. food and medicines)
   - ii. Instrumented through exemptions and multiple rates (i.e. reduced rates or 0 rate) to that group of goods and services considered of social merit
   - iii. In practice, this measure is more beneficial for those who spend more
   - iv. In LA we try to solve the fiscal inequity associated with VAT and we end up destroying the revenue capacity of the tax

3. Requirements
   - a. Costly in administration and revenue
   - b. It does not benefit who it is supposed to as it does not intend to personalize

### Results of Simulating a Generalization of VAT, with Refund by Direct Transfer to the Poorest Groups

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1. VAT revenue increase and transfer</td>
<td>Reform</td>
<td>Change</td>
<td>Reform</td>
<td>Change</td>
</tr>
<tr>
<td>VAT revenue increase (percentage)</td>
<td>0.0</td>
<td>0.3</td>
<td>0.0</td>
<td>0.3</td>
</tr>
<tr>
<td>VAT revenue increase (percentage)</td>
<td>0.0</td>
<td>0.3</td>
<td>0.0</td>
<td>0.3</td>
</tr>
<tr>
<td>Transfer (actual VAT revenue) (percentage)</td>
<td>13.0</td>
<td>13.4</td>
<td>8.3</td>
<td>8.7</td>
</tr>
<tr>
<td>2. Who pays net VAT?</td>
<td>Reform</td>
<td>Change</td>
<td>Reform</td>
<td>Change</td>
</tr>
<tr>
<td>Deciles 1 to 4</td>
<td>33.2</td>
<td>-12.6</td>
<td>11.9</td>
<td>-9.2</td>
</tr>
<tr>
<td>Deciles 5 to 6</td>
<td>33.2</td>
<td>-12.6</td>
<td>11.9</td>
<td>-9.2</td>
</tr>
<tr>
<td>Deciles 7 to 8</td>
<td>33.2</td>
<td>-12.6</td>
<td>11.9</td>
<td>-9.2</td>
</tr>
<tr>
<td>Deciles 9 to 10</td>
<td>33.2</td>
<td>-12.6</td>
<td>11.9</td>
<td>-9.2</td>
</tr>
<tr>
<td>Total</td>
<td>100.0</td>
<td>90.0</td>
<td>90.0</td>
<td>90.0</td>
</tr>
<tr>
<td>3. Income distribution</td>
<td>Reform</td>
<td>Change</td>
<td>Reform</td>
<td>Change</td>
</tr>
<tr>
<td>Gini</td>
<td>0.5481</td>
<td>-0.0320</td>
<td>0.4685</td>
<td>-0.0293</td>
</tr>
<tr>
<td>Deciles 1 to 4</td>
<td>10.1</td>
<td>0.9</td>
<td>12.9</td>
<td>0.7</td>
</tr>
<tr>
<td>Deciles 5 to 6</td>
<td>10.1</td>
<td>0.9</td>
<td>12.9</td>
<td>0.7</td>
</tr>
<tr>
<td>Deciles 7 to 8</td>
<td>10.1</td>
<td>0.9</td>
<td>12.9</td>
<td>0.7</td>
</tr>
<tr>
<td>Deciles 9 to 10</td>
<td>62.1</td>
<td>-0.4</td>
<td>52.2</td>
<td>-0.3</td>
</tr>
<tr>
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<td>100.0</td>
<td>90.0</td>
<td>90.0</td>
<td>90.0</td>
</tr>
<tr>
<td>4. Indigence</td>
<td>Reform</td>
<td>Change</td>
<td>Reform</td>
<td>Change</td>
</tr>
<tr>
<td>Number of indigents</td>
<td>166,458</td>
<td>-72,796</td>
<td>114,661</td>
<td>-63,967</td>
</tr>
<tr>
<td>Percentage of indigents</td>
<td>3.9</td>
<td>-1.2</td>
<td>2.3</td>
<td>-1.2</td>
</tr>
<tr>
<td>5. Poverty</td>
<td>Reform</td>
<td>Change</td>
<td>Reform</td>
<td>Change</td>
</tr>
<tr>
<td>Number of poor</td>
<td>755,817</td>
<td>-233,434</td>
<td>588,383</td>
<td>-183,444</td>
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<tr>
<td>Percentage of poor</td>
<td>17.7</td>
<td>-5.7</td>
<td>10.8</td>
<td>-5.1</td>
</tr>
</tbody>
</table>


- Net VAT: Generalized VAT transfer discounted. After actual VAT.
- Revenue - generalized VAT + transfer.
Personalizing VAT: Conclusions

1. Proposal provides relief to low income groups
   a. Country simulations show promising poverty outcomes
   b. Avoids costly generalizations to those that do not need it

2. Implementation is based on existing administrative processes and technology
   a. Conditional Cash Transfers (CCT) beneficiary targeting mechanisms
   b. Transfer amount determined by incidence of VAT on income decile’s consumption basket (household survey data)

3. Preserves VAT’s revenue potential
   a. Tax base generalization generates resources that will be redistributed
   b. Tax base generalization improves tax administration

4. Limitations: Administrative (high poverty levels) and composition of the basket.

5. Compensation criteria: a) Progressive (sub Bureaucratic compromise); b) Pro-Pension; and c) Regressive (sub Administrative easy)
SESSION 5

MANAGING VAT COMPLIANCE AND ADMINISTRATION

**********

Chair: David Hollinrake, Southern African Development Community

Panellists:
Michael Walpole, University of New South Wales
Richard Highfield, OECD
Arthur Kerrigan, European Commission
Gabriele Hinsel, Germany
ASSESSMENT OF ADMINISTRATIVE AND TAX COMPLIANCE BURDEN & STRATEGIES AND MEASURES FOR REDUCTION

Michael WALPOLE
Atax, University of New South Wales
Visiting Professor OECD, CTP

Setting the scene
- Compliance costs and Administrative Costs
  - Standard Cost Model

The cost challenges of VAT
- Costs are high (much higher than collection costs)
  - Drivers can be:
    - self-assessment
    - invoice/credit features
    - refunds
    - complexity
    - multiple rates
- Costs are (very) regressive
  - Offset by managerial benefits (?)
• Setting the scene
  – Governments have set targets to reduce costs
  – The challenges associated with measuring costs
    • Definitions
    • Scale
    • Practicalities
    • Cooperation

• Present available methods of assessment and current state of tax literature
• Common methods
  – Surveys
  – Case studies
  – Diaries
  – Interviews
  – Models
ASSESSMENT OF ADMINISTRATIVE AND TAX COMPLIANCE BURDEN
WITH STRATEGIES AND MEASURES FOR ITS REDUCTION

• Present past and current experiences
• Examples (not comprehensive)
  – Haig (1935)
  – UK (1970’s – present)
  – Australasia (1980’s – present)
  – Canada (1980’s – present)
  – South Africa (2000’s – present)
• Many others
  – Note: e.g. Doing Business Report;
  – Cost of Compliance Survey 2012

ASSESSMENT OF ADMINISTRATIVE AND TAX COMPLIANCE BURDEN
WITH STRATEGIES AND MEASURES FOR ITS REDUCTION

• The challenges in current assessments and needs for improvement
  – Scale
  – Measurement & verification
  – Privacy
  – Sheer practicality
• Some suggested ways of improvement
  – Engagement of Researcher and Revenue authority
    • And the taxpayer/professional sectors
    • Expectations management
  – Mix of methods
    • See e.g. Standard Cost Model, HMRC 2005
  – Appropriate sample sizes
  – Realistic budgets
WHY THIS ISSUE IS BEING EXPLORED

- Tax compliance burden - the costs borne by taxpayers and other parties to comply with tax laws is an important & topical issue in many countries.
- Various countries have mounted exercises to measure “tax compliance costs” or “administrative burden” of their major taxes.
- Some research findings suggest that tax compliance costs are significantly higher than government tax administration costs and are growing.
- The VAT consistently ranks as the tax with the highest compliance costs, and these costs are regressive.
- Some governments have, arguably, been slow to respond or made inadequate responses.
- The World Bank's widely referenced ‘Doing Business Series/ Paying Taxes (PT)’ indicator raises some concerns in a tax compliance cost context.
THE DOING BUSINESS/ PAYING TAXES INDICATOR

- The “Doing Business” series has rightly brought attention to the issue of ‘compliance burden/red tape’ arising from government regulations (incl. tax).
- The series’ PT indicator is based on three factors: 1) total tax rate (TTR); 2) number of tax payments; & 3) time required to comply with major taxes.
- There are critics of the series’ PT indicator & it has some limitations:
  - The “representativeness” of the hypothetical entity used to make assessments.
  - Use of TTR is at odds with the general understanding of “tax compliance burden”.
  - Assumptions re ‘number of tax payments’ & ‘e-filing use’ raise integrity issues.
  - Estimates of time required to comply with the three major taxes are made by in-country private sector firms, raising issues of consistency and completeness.
  - The series produces little hard evidence at an individual country level of the key drivers of tax compliance costs for each of the taxes included.

OECD WORK CONSIDERATIONS AND STATUS

- Considerations in identifying possible options for work:
  - OECD’s acknowledged role in comparative analysis.
  - OECD’s membership: many big economies with large and complex tax systems.
  - Tax compliance costs ≠ administrative burden/costs.
  - Impractical to ask members to carry out detailed compliance cost measurements.
  - Important to have a product that is sufficiently robust and identifies the main drivers of tax compliance costs- _defensible but not definitive_.
  - Growing use ‘composite indicators’ approaches to garner action by governments.
  - Reasonably quick to implement.
- The CFA recently endorsed a proposal for exploratory work on developing a diagnostic tool for assessing and understanding VAT compliance costs.
- Additional exploratory work on other taxes (e.g. employment) to start soon.
Four factors are identified as the main source of VAT compliance costs:
- Complexity of the law.
- Nature and scale of administrative and compliance obligations.
- The quality of revenue bodies’ administrative capabilities.
- Others (not covered by above categories).

A robust set of indicators is developed for each factor, & (possibly) weighted.

Nature and scale of administrative and compliance obligations.

Each country’s VAT is assessed against the set of agreed indicators & scored.

A country’s score would determine its “compliance burden” classification:

- The tool identifies the main cost drivers at an individual country level, and
- Others (not covered by above categories).

An aggregate score is derived for each factor, and an overall score is derived.

- The quality of revenue bodies’ administrative capabilities.

A TOTAL REFUNDS >40% GROSS VAT

3. TOTAL REFUNDS >20% GROSS VAT

2. TOTAL REFUNDS >10% GROSS VAT

1. TOTAL REFUNDS <10% GROSS VAT

The most commonly occurring negative cost issues for “best practice” work.

A TOTAL PAYMENT FREQUENCY

4. 90% PAID IN OVER 3 MONTHS

3. 90% PAID IN 3 MONTHS

2. 90% PAID IN 2 MONTHS

1. 90% PAID IN 1 MONTH

The most widely occurring negative cost issues for “best practice” work.

A TOTAL REFUNDS TIMELINESS

4. > TWO REDUCED RATES

3. TWO REDUCED RATES

2. ONE REDUCED RATE

1. NO REDUCED RATES

The most commonly occurring negative cost issues for “best practice” work.

A TOTAL VAT RATE STRUCTURE

4. > THREE BENCHMARK RATES

3. TWO BENCHMARK RATES

2. ONE BENCHMARK RATE

1. NO BENCHMARK RATES

The most widely occurring negative cost issues for “best practice” work.

A TOTAL EXEMPTIONS BASIS

4. > 30% GROSS VAT

3. 20% GROSS VAT

2. 10% GROSS VAT

1. NO EXEMPTIONS

The most commonly occurring negative cost issues for “best practice” work.

A TOTAL USE OF CASH BASED PAYMENT

4. > TWO TIMES BENCHMARK

3. TWO TIMES BENCHMARK

2. ONE TIMES BENCHMARK

1. < ONE TIMES BENCHMARK

The most widely occurring negative cost issues for “best practice” work.

A TOTAL FILING FREQUENCY

4. > TWO TIMES BENCHMARK

3. TWO TIMES BENCHMARK

2. ONE TIMES BENCHMARK

1. < ONE TIMES BENCHMARK

The most commonly occurring negative cost issues for “best practice” work.

A TOTAL EXTENT OF ONLINE FILING

4. > TWO TIMES BENCHMARK

3. TWO TIMES BENCHMARK

2. ONE TIMES BENCHMARK

1. < ONE TIMES BENCHMARK

The most widely occurring negative cost issues for “best practice” work.

A TOTAL EXTENT OF ONLINE PAYMENT

4. > TWO TIMES BENCHMARK

3. TWO TIMES BENCHMARK

2. ONE TIMES BENCHMARK

1. < ONE TIMES BENCHMARK

The most commonly occurring negative cost issues for “best practice” work.

A TOTAL REGISTRATION THRESHOLD FILING FREQUENCY

4. > THREE TIMES BENCHMARK

3. TWO TIMES BENCHMARK

2. ONE TIMES BENCHMARK

1. < ONE TIMES BENCHMARK

The most widely occurring negative cost issues for “best practice” work.
LIKELY NEXT STEPS

• Further develop/ refine the set of indicators.
• Test the necessity/ feasibility of weighting each set of indicators.
• Examine the role of external input for this work.
• Conduct a pilot test in 6-8 volunteer countries.
• Evaluate the findings of the pilot.
• Report the findings of the pilot study to relevant parties along with recommendations for further action.
• If approved, plan and undertake a wider (whole of OECD?) study.
MEASURING THE PERFORMANCE OF A VAT SYSTEM

• The VAT gap – what does it measure?
• Top-down comparison of total accrued tax receipts with a theoretical liability calculated from general economic data.
• Gap attributable to:
  – mischief,
  – legitimate tax management measures, unintentional mistakes,
  – insolvency,
  – taxable activities outside the scope of national accounts.
• Adjustments required for thresholds, special schemes, restrictions on recovery, etc.
VAT gap across a range of EU Member States - ranges between 1% and 30%, average 12%

- VAT gap is really the measure of compliance efficiency – EU average is 12% but with significant variations.
- How much is attributable to fraud – perhaps 11% (PwC 2011).
- Has to be read against a long list of assumptions and caveats, mainly because there is very little data available on VAT losses.
- Significant variations against comparable figures published by a few EU Member States – these variations are both positive and negative.
- VAT gap study is not of much use in identifying what sectors and types of business are more prone to VAT fraud (a basic shortcoming in the top-down approach).
- Relatively stable over time – but showing some small improvements.
- Identifies some correlation between higher VAT and poorer compliance.
- Number of VAT rates also makes a negative contribution to compliance.
• VAT revenue ratio (VRR) measures actual VAT receipts as a proportion of theoretical receipts if all consumption is taxed at standard rate.
• Reflects +/- both the elements which make up the VAT gap plus policy options regarding reduced rates, exemptions, etc.
• VRR measures both compliance efficiency and efficiency of policy choices in maximising VAT receipts.
• Requires certain assumptions and caveats (like VAT gap), particularly in relation to potential tax base.
• Tax base (goods and services subject to VAT) may not always correspond to consumption as measured for national accounts.
• Impact of exemptions, notably when these create non-recoverable VAT (cascading), may be difficult to quantify.

VAT Gap (Series 1 blue) and VRR (Series 2 red) comparison across a range of EU Member States show some evidence of correlation between Member States with a high VAT gap and those with a low VRR.
WHAT FACTORS INFLUENCE THE PERFORMANCE OF A VAT SYSTEM?

- Reckon report (2009) found no statistical relationship between the VAT gap and the burden of VAT (i.e., the ratio between theoretical VAT liability and GDP).
- Strong relationship identified between the size of the VAT gap and the perceived level of corruption in the country implies that lower perceived corruption is associated with a lower VAT gap.
- Relationship between the performance of the VAT system (as measured) and compliance costs?
- Non-compliance – do measures taken to deal with this contribute to increased compliance or administrative costs with negative consequences for the overall performance of the VAT system?
- Within EU - the borderless intra-EU internal market introduced 20 years ago and the application of subsidiarity to the transposition of EU legislation into national legislation present challenges in both administrative/compliance costs and the overall performance of the tax system.

MEASURING THE PERFORMANCE OF A VAT SYSTEM – OTHER UNRESOLVED QUESTIONS

- Are higher VAT rates conducive to lower compliance?
- What is the role of effective judicial and legal systems in increasing compliance?
- Sectoral issue – e.g., does a large proportion of GDP dependent on travel/tourism contribute to a lower level of tax compliance?
- Is it possible to measure "civic spirit" as a contributory factor in tax compliance?
- Is non-compliance in VAT more or less than under other tax systems?
- Is there an observable or measureable "Laffer Curve" effect whereby increased compliance burdens or tax rates will discourage tax compliance?
CONCLUSION

• Both compliance efficiency and the impact of policy choices are important in measuring the performance of a VAT system.
• Neither VAT gap nor VRR give a complete picture of both aspects.
• Performance measurement tools should address as wide a range of observable criteria as is reasonably possible, including sectoral aspects.
IMPLEMENTING STRATEGIES TO REDUCE VAT FRAUD AND AVOIDANCE

Gabriele HIMSEL, Federal Ministry of Finance (Germany)

Analysis of reasons for VAT fraud and avoidance

– Excessive complexity of the VAT law
  • Tax exemptions
  • Reduced rates
  • Special schemes
  • Options for taxable persons
– Weakness of the current VAT system in the EU
  • The deduction of the input tax is not connected with the payment of the corresponding output tax
IMPLEMENTING STRATEGIES TO REDUCE VAT FRAUD AND AVOIDANCE

– Consequence of the complexity
  • Legal uncertainty
  • Sufficient control by tax administration is difficult to grant
  • Incentive for VAT fraud and avoidance
– Consequence of the weakness of the VAT system
  • Carrousel fraud

“Remedy” for excessive complexity/weakness of the VAT system
– Simplification of the VAT law
  • Concentration on the essential of VAT: collecting revenue
  • Renunciation to use VAT as an instrument to reach policy goals
  • (long term) aim:
    – broadening the tax base
    – less/no tax exemption
    – no reduced rates
    – no special schemes
    – no options (neither for taxable persons nor States)
– Reverse Charge
  • Coincidence of output tax and the right of deduction of input tax
IMPLEMENTING STRATEGIES TO REDUCE VAT FRAUD AND AVOIDANCE

Consequences of a simplification of the VAT law/application of reverse charge
- Committing tax fraud will be more risky
  - legal uncertainty no longer a possibility to hide behind
  - controls and audits easier to conduct
  - carousel fraud no longer possible
- increasing revenues - when applied to reduce the standard rate incentive for VAT fraud will decrease additionally
- additional effects
  - decreasing compliance costs – increasing competitiveness of the companies
  - no distortion of competition caused by fraudulent companies – increasing competitiveness of the legitimate companies
  - decreasing costs for the tax administration – money can be used to increase additionally the competitiveness of business

IMPLEMENTING STRATEGIES TO REDUCE VAT FRAUD AND AVOIDANCE

Conclusion:
- Simplification means a win – win - situation for all parties
- Problem: political reality/pressure
  - Tax exemptions, reduced rates, special schemes, options for taxpayers are beneficiary measures
  - Abolishing beneficiary measures means loud protest of the groups concerned
  - Need for a strategy to grant “political survival”
IMPLEMENTING STRATEGIES TO REDUCE VAT FRAUD AND AVOIDANCE

German Measures to reduce VAT fraud
- Reverse Charge Mechanism/area of application i.a.
  - Mobile phones, electric storage media and similar electronic devices
  - Scrap and garbage (metal, glass, synthetic material)
  - Allowances to emit greenhouse gases
  - Gas and electricity (requested)
- Prevention/better information about taxable persons
  - Registration for VAT purposes – questionnaire and checklists/risk assessment
  - VAT returns on a monthly basis – obligation for newly registered traders
  - Check without advance notice in companies
- Coordination/Centralizing
  - Central databank with information concerning VAT fraud
  - Special unit to coordinate cross boarder VAT audits