Consumption Tax Trends 2010

VAT/GST AND EXCISE RATES, TRENDS AND ADMINISTRATION ISSUES

OECD

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Foreword

This publication is the eighth in the series Consumption Tax Trends. *It presents information relative to indirect taxes in OECD member countries, as at 1 January 2009. Tables on VAT/GST rates and thresholds are updated as at 1 January 2010. Four countries became members of the OECD during 2010. This edition includes data for three new member countries: Chile, Israel and Slovenia. Data on Estonia is not included in this edition because they did not become a member until December 2010 and there was insufficient time to include the relevant information.*

This biennial publication illustrates the evolution of consumption taxes as revenue instruments. They account for 30% of total tax revenues in OECD member countries. It identifies the large number of differences that exist in respect of the consumption tax base, rates and implementation rules while highlighting the features underlying their development. It also notes recent developments in the Value Added Tax/Goods and Services Tax area, including international issues on taxation of services and intangibles.

This publication was written by Stéphane Buydens of the OECD Centre for Tax Policy and Administration.

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Introduction

Consumption taxes form an important source of revenue for an increasing number of governments. They now account for 30% of all revenue collected by governments across the OECD. Value added taxes* (VAT) are the principal form of taxing consumption in 33 of the 34 OECD member countries (the United States continues to deploy retail sales taxes, albeit at the sub-federal level) and account for two thirds of consumption tax revenues. The remaining third is made up of specific consumption taxes such as excise duties.

This results from a trend that reflects a growing preference for broad based taxation of the full range of goods and services, as opposed to taxing specific goods. Increasingly excise is used as a means of influencing consumer behaviour with many countries imposing high rates of excise on tobacco goods and alcohol (see Chapter 5).

Value added tax

The continuing globalisation of trade puts increasing pressure on the international aspects of VAT systems. Differences between VAT systems operated by individual countries create growing difficulties for both businesses and tax administrations. The absence of internationally agreed rules and standards for the treatment of international supplies reduces the capacity of governments to collect taxes and creates uncertainties for businesses. They create distortions of competition and can hinder the development of international trade, generating double taxation or unintended non-taxation as well as opening up opportunities for tax avoidance (OECD, 2004).

Since the late 1990s, tax authorities have recognised that VAT rules require greater international coherence in order to support global trade. Business and tax authorities also recognised that a co-operative approach was required to solve common problems. Governments began the process of establishing guidelines for the VAT treatment of international trade in 1998 at the OECD Ottawa Conference on electronic commerce where Ministers welcomed the *Ottawa Taxation Framework Conditions*. As a result, the OECD's Committee on Fiscal Affairs (CFA) adopted the *Guidelines on Consumption Taxation of Cross-Border Services and Intangible Property in the Context of E-commerce* (2001), which were completed by the *Consumption Tax Guidance Series* (2002).

It became clear rapidly that many of the problems surrounding the application of VAT to e-commerce actually had their roots in the wider VAT treatment of services and intangibles. Further analysis showed that problems caused by inconsistencies in the VAT treatment of international trade were significant enough to require remedies (OECD, 2005).

* This concept includes value added taxes (also called goods and services taxes) but does not cover sales taxes.

As a result, in February 2006 the OECD launched the OECD *International VAT/GST Guidelines* (the Guidelines), which aim at providing guidance for governments on applying VAT more generally to international trade. In the long run, these Guidelines should encompass a wide span of issues relating to the application of VAT to international trade, including determination of the place of taxation, valuation of transactions, prevention of double taxation and compliance. This work has started with analysis of application of VAT to services and intangibles since this appears to be the most pressing issue for both business and tax administrations. Guidelines are being developed to ensure that each international supply is taxed in only one jurisdiction, *i.e.* the jurisdiction of consumption. In parallel, since value added taxes should be borne, in principle, by final consumers, Guidelines are also being developed to ensure that the burden of value added taxes themselves do not lie on taxable businesses, except where explicitly provided for in legislation (the neutrality principle).

Chapter 2 summarises the substance of the draft Guidelines currently under consideration and the underlying concepts. These Guidelines are being developed by OECD governments, together with input from both business and from non-OECD economies. The process includes the publication of consultation documents and drafts of the Guidelines on the OECD website (*www.oecd.org/ctp/ct*).

The economic crisis that has followed the financial crisis of 2008 has caused many governments to find sustainable ways to finance the cost of exiting the crisis, improve the structural balance of their budgets and stimulate growth. This would imply an appropriate balance of revenues from diverse taxes (the "tax mix"), an improved efficiency of taxes and action to combat tax fraud and avoidance.

In June 2009, OECD Ministers agreed that: "Growth-oriented tax reforms would generally involve shifting revenue from corporate and personal income taxation or social security contributions onto consumption and property taxes, including housing taxation (OECD, 2009)". In particular, recent research shows that it would be more efficient to broaden the VAT base at the standard rate by removing most exemptions and by abolishing domestic zero and reduced rates. This would, of course, have political difficulties attached but VAT reforms should not be looked at in isolation from the tax system as a whole. VAT base broadening might therefore be accompanied by other reforms that offset the distributional impact of VAT reforms such as targeted tax expenditures and personal income tax relief (see Chapter 3).

In September 2009, at a meeting in Lucerne, Switzerland, senior tax policy officials from 25 OECD countries, the European Commission and 5 non-member economies confirmed that VAT is likely to maintain its key position and could become even more central as the world emerges from recession. They encouraged countries to modernise their VAT systems and improve the economic efficiency of the tax.

They also recognised that combating VAT fraud was crucial and they encouraged the OECD to develop further work in this area, including the availability of rapid exchange of information between countries. VAT fraud has indeed been a significant trend in recent years. In addition to "traditional" VAT fraud and avoidance (under-declaration, export fraud, carousel fraud with goods), new types of VAT fraud develop with new technologies and markets, in particular criminal attacks against the VAT system. The development of appropriate legislation and practical tools are now critical to protect governments against international VAT fraud and criminal attacks.

Excise taxes and vehicle taxation

While the main purpose of excise duties was originally to raise revenue, they are also used to discourage consumption of certain products considered as harmful. In recent years, excise duties have increasingly been used as a means of influencing consumer behaviour in a number of areas. The case put forward in relation to alcoholic beverages and tobacco products is that drinking and smoking are health hazards and increased excise duties help to reduce consumption. For mineral oils, reasons for determining consumer behaviour reflect a mixture of energy conservation, transport and environmental issues. Over the last decade, environmental issues have also played an increasing role in determining the nature and application of excise duties and taxes on motor vehicles.

Consumption tax statistics

Selected tables from this edition of *Consumption Tax Trends* are updated annually in the *OECD Tax Database* and may be consulted at the following address: *www.oecd.org/ctp/taxdatabase*.

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Consumption Tax Trends 2010 Summary

Chapter 1 – Taxing Consumption

Consumption taxes

Consumption taxes include, on one hand *general* consumption taxes, typically value added taxes (VAT and its equivalent, sometimes called Goods and Services Tax – GST) and retail sales taxes and on the other hand taxes on *specific* goods and services, consisting primarily of excise taxes, customs duties and certain special taxes.

Looking at the unweighted average of revenue from both these categories of taxes as a percentage of overall taxation in the OECD member countries (see Tables 3.2, 3.4 and 3.7), it can be seen that the proportion is roughly 30%. In 2008, this broke down to one-third for taxes on specific goods and services and two-thirds for general consumption taxes.

General consumption taxes

Retail sales taxes

A retail sales tax is a consumption tax charged only once at the last point of sale for products to the final end user. The United States is the only OECD country within which a retail sales tax is employed as the principal consumption tax. However, the retail sales tax in the United States is not a federal tax. Rather, it is a tax imposed at the state level. Currently, 46 of the 50 States impose retail sales taxes. In addition, over 7 500 local tax jurisdictions impose retail sales taxes in accordance with state law requirements. State or sub-federal retail sales and use taxes in place in the United States are not without their own problems, especially in the context of interstate and international trade. New means of communication have made purchasing goods across state borders without collection of tax even easier than it was before. Supreme Court rulings prohibit states from requiring vendors to collect tax on cross-border sales when they are not physically present in the purchaser's state. To address this problem, as well as others caused by the lack of harmonisation in state sales and use taxes, a number of states have entered into the Streamlined Sales and Use Tax Agreement (SSUTA available at *www.streamlinedsalestax.org*).

VAT

VAT is the most widespread general consumption tax in the world having been implemented by over 150 countries and in 33 of the 34 OECD member countries. The value added tax system is based on tax collection in a staged process, with successive taxpayers entitled to deduct input tax on purchases and account for output tax on sales in such a way that the tax finally collected by tax authorities equals the VAT paid by the final consumer to the last vendor. These characteristics ensure the neutrality of the tax, whatever the

nature of the product, the structure of the distribution chain and the technical means used for its delivery. When the destination principle, which is the international norm, is applied, it allows the tax to retain its neutrality in cross-border trade. According to this principle, exports are exempt with refund of input taxes ("tax free") and imports are taxed on the same basis and at the same rates as local production.

The application of the destination principle is relatively easy for the cross-border trade in goods but not always so for services due to their normally intangible nature. Since it is not easy to assess their place of effective consumption, and hence of taxation, most countries have developed a range of proxies and their application can give rise to differences of treatment for cross-border supplies and create areas for potential double taxation, unintended non-taxation and uncertainties for business and tax administrations.

VAT is a neutral tax. The concept of tax neutrality in VAT has a number of dimensions, including the absence of discrimination in a tax environment that is unbiased and impartial and the elimination of undue tax burdens and disproportionate or inappropriate compliance costs for businesses. Neutrality is one of the principles that help to ensure the collection of the right amount of revenue by governments in the right jurisdiction.

In domestic trade, tax neutrality is achieved by the staged payment system: each (fully taxable) business pays VAT to its providers on its inputs and receives VAT from its customers on its outputs. Input VAT incurred by each business is offset against output VAT so that the "right" amount of tax to be remitted to tax authorities by each business is the net amount or balance of those two.

VAT is a consumption tax. From an economic standpoint, VAT is a tax on final consumption by households. Practically, the tax deduction mechanism ensures that the VAT paid by businesses along the value chain does not bear on them but, ultimately, on final consumers only.

From a legal and practical standpoint, VAT is essentially a transaction tax. In a VAT context, the term "consumption" covers two complementary elements: on the one hand business-to-business supplies where businesses use inputs for providing onward supplies and, on the other hand, purchases made by final consumers. The staged payment system operates in such a way that the tax revenue for governments corresponds to the tax applied to the sale to the final consumer.

VAT in cross-border trade. The features of the VAT system allow the tax to keep its neutrality in cross-border trade because the *destination principle* is applied. In the cross-border trade in tangible goods, the destination principle works well because it is underpinned by the filtering role of Customs. Exported goods are free of VAT whilst imports are subject to the same VAT as equivalent domestic goods.

Applying the destination principle to supplies of services and intangible products is more difficult. Their intangible nature is such that there are no customs controls that can confirm their exportation or impose the VAT at importation. According to the staged payment process, the supplier should account for the tax in the jurisdiction where the service or the intangible property is consumed. However, the operation of this principle would be extremely difficult in practice. The solution developed in most jurisdictions consists of identifying the place of consumption by reference to proxies and the application of the reverse charge.

The nature of those proxies and the way they are used vary widely across jurisdictions since they result from local history and legal frameworks. Because this can lead to uncertainties, double taxation or unintended non-taxation, the OECD is developing the *International VAT/GST Guidelines*.

Consumption taxes on specific goods and services: Excise taxes

Excise taxes differ from VAT since they are levied on a limited range of products; are not normally liable to tax until the goods enter free circulation and are generally assessed by reference to the weight, volume, strength or quantity of the product, combined in some cases, with *ad valorem* taxes. As with VAT, excise taxes aim to be neutral internationally since they are normally collected once, in the country of final consumption.

Chapter 2 – Consumption Tax Topics

Taxing international trade

As VAT spread around the world in the last twenty years the international trade in goods and services expanded rapidly. As a result, the interaction between value added tax systems operated by individual countries has come under greater scrutiny as potential for double and unintentional non-taxation has increased.

The first international VAT rules (beyond the European Union) were adopted in 1998 with the *Ottawa Taxation Framework Conditions* and provided that "rules for the consumption taxation of cross-border trade should result in taxation in the jurisdiction where consumption takes place". As a result, the OECD's Committee on Fiscal Affairs (CFA) adopted the *Guidelines on Consumption Taxation of Cross-Border Services and Intangible Property in the Context of E-commerce* in 2001. These Guidelines provide that the place of consumption is deemed to be in the jurisdiction in which the recipient has established its business presence (for business-to-business transactions) or usual place of residence (for business-to-consumer transactions). Further to the development of globalisation and cross-border trade, it became clear that global rules applicable beyond electronic commerce were necessary. In 2005 the CFA adopted a framework for the development of the OECD *International VAT/GST Guidelines*. As a first step, it was agreed that the most pressing issue was the definition of the place of taxation for cross-border trade in services and intangibles and the conditions for the neutrality of the tax. In 2006 the CFA approved the two following basic principles:

- For consumption tax purposes internationally traded services and intangibles should be taxed according to the rules of the jurisdiction of consumption.
- The burden of value added taxes themselves should not lie on taxable businesses except where explicitly provided in legislation.

These principles are currently being developed by OECD governments, together with input from business and from non-OECD economies. This work is subject to a public consultation process and working papers are available on the OECD website (*www.oecd.org/ctp/ct*). Additional work is undertaken on improving the efficiency of tax administration, the fight against VAT fraud and tax administration issues.

Improving VAT efficiency in a post-crisis context

The economic crisis that followed the financial crisis of 2008 has caused many governments to adopt strategies to stimulate their economies as a means of getting out of recession (in the short term) and to consider longer-run policies in order to ensure greater

stability and prevent such crises recurring. In the medium to long term, governments will need to find sustainable ways to finance the cost of exiting the crisis; improve the structural balance of their budgets and stimulate growth. This would imply shifting revenue from corporate and personal income taxation or social security contributions onto consumption and property taxes, including housing taxation.

As regards the efficiency of the VAT system, research shows that it would be more efficient to broaden the VAT base at standard rate by removing most exemptions and by minimising domestic zero and reduced rates. The need to modernise the VAT system was confirmed by senior tax policy officials from 25 OECD countries, the European Commission and 5 non-member economies at a meeting in Lucerne, Switzerland, in September 2009. They also confirmed the key role played by VAT both within the OECD area and beyond.

Tackling VAT Fraud

There has been a significant and worrying trend in recent years for VAT to become a target for serious criminal activity. Despite the measures taken by tax administrations and increased co-operation within the EU, criminal attacks against VAT systems have continued, spreading into new markets such as carbon emission allowances and energy supplies. The development of appropriate legislation and practical tools are therefore critical to protect governments against international VAT fraud.

Chapter 3 – Value Added Tax: Yield, Rates and Structure

There are many differences in the way VAT systems are implemented across countries. This is illustrated by the continued existence of a wide range of lower rates, exemptions and special arrangements that are frequently designed for non-tax policy objectives. While countries' tax sovereignty remains essential, a number of shared basic principles are needed in order to guarantee a measure of coherence that can help prevent double taxation, unintended non-taxation, tax evasion and distortion of competition. A number of factors also allow for improving the efficiency of the tax such as a broad base; minimal exemptions and reduced rates; and a registration threshold that allows tax administration to concentrate on more significant taxpayers.

Tables 3.1 to 3.7 show that the importance of general consumption taxes varies considerably between countries, from the United States and Japan where general consumption taxes account for less than 10 per cent of total taxation and less than 3 per cent of GDP, to Hungary and Israel where they account for more than 25 per cent of total tax and more than 9 per cent of GDP. In the majority of countries, general consumption taxes account for more than 15 per cent of total taxation.

The revenue from taxes on general consumption, mainly in the form of VAT receipts, stabilised after 2000 following a period of many years in which it had gradually increased. Over the longer term, OECD member countries have relied increasingly on taxes on general consumption to the detriment of taxes on specific goods and services, the total of consumption taxes remaining stable over the last 30 years at around 30% of total tax revenues.

Tables 3.8 to 3.11 illustrate the wide diversity in tax rates, exemptions and taxation thresholds. Standard VAT rates (Table 3.8) have remained generally stable since 2000 although some trends in various directions can be observed. Until very recently the average standard rate of VAT has remained stable since 2000 (Table 3.8). Five countries have decreased their standard rate (Canada, the Czech Republic, France, Israel and the

Slovak Republic) while eleven countries increased the rate (Chile, Germany, Greece, Iceland, Mexico, the Netherlands, Norway, Portugal, Slovenia, Switzerland and Turkey). It may be worth noting that twelve of the fifteen countries that have changed their standard rate since 2000 are getting closer to 19%, either by increasing or decreasing their rate. In the last twelve months or so a number of governments have increased their standard VAT rates as a means of tackling deficits incurred when dealing with the financial and economic crises of the last three years. This trend may continue.

Realising the full potential of VAT

Given that VAT has been in operation for more than 60 years in some countries and has spread across the world over the last twenty years means of improving the efficiency of VAT systems has been considered recently. It may well be an opportune time for many countries and institutions to reflect on how existing VAT systems could be reformed at a time when many governments have to deal with significant fiscal imbalances at the same time as finding ways to grow their economies.

In 2008, the *OECD Tax and Growth Study* recommended reducing the distortional effects of taxation, in particular those likely to harm growth prospects, by the following action: changing the structure of tax systems towards VAT and recurrent taxes on residential property; broadening tax bases and reducing rates; increasing environmental taxes and better compliance and simplification.

Reduced rates

Many countries are looking to use increases in VAT rates to help bring fiscal deficits back into balance. It is worth considering the efficiency of such changes compared to broadening the VAT base and reducing the amount of reduced rates. It is recognised that a broad based VAT system, ideally with a single rate, would be quite close to the ideal of a pure consumption tax that minimises compliance costs and would be the best policy choice.

An effective redistribution policy is not implemented through each tax in isolation but should be implemented by considering the entire tax and benefit systems. Because the distributional impact of reduced VAT rates is ambiguous, income distribution goals could better be achieved through means of targeted personal income tax relief and/or targeted benefits. The move towards a simpler VAT structure with less, or no, reduced rates should be subject to wider public discussion where gains and losses can be balanced across society.

Exemptions

Exemptions are contrary to the principle of VAT as a broad-based neutral tax. The continued relevance of many of the existing exemptions is questionable. Broadening the tax base by reducing the number of exemptions would make the tax more efficient and neutral and offers a valid alternative to increasing VAT rates. However, Table 3.10 shows that there is a wide range of exemptions in OECD countries. Financial services, immovable property and health care are the most widespread exemptions. The exemption of financial services from VAT creates a number of distortions with respect to both consumer and business decisions and generates cascading taxation contrary to VAT principles. Exemptions in healthcare can have a negative impact such as increased investment costs for hospitals, in particular for new expensive and sophisticated equipment.

VAT reform should not be seen in isolation from the tax system as a whole. In particular, a broadening of the VAT base through abolition of many reduced rates and exemptions requires a careful analysis of the distributional impacts. Accompanying measures that would compensate the losers of VAT reform would need careful consideration. More work is also required on the wider economic impact of such reforms in areas such as employment, prices and overall economic growth.

Chapter 4 – Measuring Performance of VAT: The VAT Revenue Ratio

Given the diversity in the implementation of VAT between countries, it is reasonable to consider the influence of these features on the revenue performance of VAT systems. One tool considered as an appropriate indicator of such a performance is the VAT Revenue Ratio (VRR), which is defined as the ratio between the actual VAT revenue collected and the revenue that would theoretically be raised if VAT was applied at the standard rate to all final consumption (Table 4.1). In theory, the closer the VAT system of a country is to a "pure" VAT regime (*i.e.* where all consumption is taxed at a uniform rate), the more its VRR is close to 1. On the other hand a low VRR can indicate a reduction of the tax base due to a large number of exemptions or reduced rates or a failure to collect all tax due (*e.g.* tax fraud).

Although the current calculations for the VRR need further refinements, the VRR is an appropriate measure of countries' ability to optimise revenue from the potential tax base for VAT. Few countries have a high VRR and most have a ratio below 0.65, which confirms the impact of the wide range of exemptions and reduced rates applied in OECD countries. However, VRR figures should be used with caution since they result from a combination of the policy efficiency (capacity to tax the full base at the standard rate) and compliance efficiency (the capacity of the tax administration to collect the tax due).

More work is needed to refine the calculations and identify the relative importance of specific factors that influence the VRR.

Chapter 5 – Selected Excise Duties in OECD Member Countries

Excise duty, unlike VAT and general consumption taxes, is levied only on specifically defined goods. The three principal product groups that remain liable to excise duties in all OECD countries are alcoholic beverages, mineral oils and tobacco products. While excise duties raise substantial revenue for governments, they are also used to influence customer behaviour with a view to reducing polluting emissions or consumption of products harmful for health such as tobacco and alcohol.

While the main characteristics and objectives ascribed to excise duties are approximately the same across OECD countries, their implementation, especially in respect to tax rates, sometimes gives rise to significant differences between countries (Tables 5.1 to 5.5). For example, excise duties on wine (Table 5.2) may vary from zero (Austria, Italy, Israel, Luxembourg, Portugal, Slovenia, Spain and Switzerland) to more than USD 2.5 a litre (Finland, Iceland, Ireland, Norway and the United Kingdom). Current excise rates for mineral oil products again illustrate the wide disparity. For example, excise taxes on premium unleaded gasoline vary from USD 0.105 in the United States to USD 1.602 in Turkey for 1 litre. A much more significant feature of excise duties on mineral oils is the fact that duty rates have been used to affect consumer behaviour to a greater degree than in other areas. Tobacco products are subject to excise taxes that most often rely on a combination of *ad valorem* and specific elements.

Chapter 6 – Taxing Vehicles

Motoring has been an important source of tax revenue for a long time thanks to a wide range of taxes imposed on users of public roads. Vehicle taxation in its widest definition represents a prime example of the use of the whole spectrum of consumption taxes. These taxes include taxes on sale and registration of vehicles (Tables 6.1 and 6.3); periodic taxes payable in connection with the ownership or use of the vehicles (Table 6.2); taxes on fuel (Table 5.4) and other taxes and charges, such as insurance taxes, road tolls, etc. Increasingly, these taxes are adjusted to influence consumer behaviour in favour of the environment. Table 5.3 illustrates, as an example, the wide differences in the level of taxes on sale and registration of motor vehicles. Indeed, for a standard passenger car, these taxes may vary from less than 7% of the value of the car in Washington DC to 200% of the value of the car in Copenhagen.

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Tendances des impôts sur la consommation 2010 Synthèse

Ce texte est un résumé de l'édition 2010 des Tendances des impôts sur la consommation. *Le texte complet, les tableaux et les graphiques, sont uniquement disponibles en anglais.*

Chapitre 1 – Imposer la consommation

Les impôts sur la consommation

Les impôts sur la consommation comprennent d'une part, les impôts *généraux* sur la consommation, c'est-à-dire essentiellement la taxe sur la valeur ajoutée (TVA)[1] et les « taxes de vente » prélevées par les autorités locales aux États-Unis et, d'autre part, les impôts sur les biens et services *déterminés* qui recouvrent essentiellement les droits d'accise, ainsi que les droits de douane et certaines taxes particulières.

Les impôts sur la consommation y constituaient en 2008, près du tiers des recettes fiscales totales des pays de l'OCDE en moyenne non pondérée (tableaux 3.2, 3.4 et 3.7). Globalement, cette recette se répartit en un tiers pour les impôts sur les biens et services déterminés et en deux tiers pour les impôts généraux sur la consommation (dont la TVA forme l'essentiel).

Les impôts généraux sur la consommation

Les taxes de vente

Les taxes de vente sont des impôts prélevés une seule fois au moment où les produits sont vendus au consommateur final. En principe, les entreprises ne paient pas la taxe de vente à leurs fournisseurs pour les produits destinés à la revente. Dans la mesure où il ne s'agit pas d'une taxe cumulative, ce type d'impôt aboutit à peu près au même type de neutralité que la TVA. Les États-Unis sont le seul pays de l'OCDE qui a conservé une taxe de vente comme principal impôt sur la consommation. Toutefois, il ne s'agit pas d'un impôt fédéral, mais d'un impôt prélevé par les États et par les autorités locales. Actuellement, des taxes de vente sont prélevées dans 46 des 50 États ainsi que dans 7 500 juridictions locales, en association avec les États dont elles relèvent. Ce système pose des problèmes particuliers, surtout depuis l'avènement du commerce électronique. Les technologies de la communication permettent en effet à un grand nombre de consommateurs américains d'acheter des produits à distance dans d'autres États, sans que l'État de résidence du consommateur ne puisse imposer au vendeur de payer la taxe de vente locale dès lors qu'il n'a pas de présence physique dans cet État (« nexus »). Afin de remédier à ces difficultés, ainsi qu'à d'autres liées au manque d'harmonisation des taxes de vente aux États-Unis, un certain nombre d'États ont adhéré à « l'Accord harmonisé sur les taxes de vente et d'usage » (*Streamlined Sales and Use Tax Agreement*) qui vise à établir un corpus uniforme de définitions des produits potentiellement soumis à la taxe dans les États (chaque État restant libre de les imposer ou non). Les membres de l'accord ont aussi développé un système d'enregistrement volontaire des entreprises qui permet aux vendeurs de payer les taxes de vente dans les États où ils n'ont pas de présence physique en contrepartie d'une plus grande certitude juridique quant à leurs obligations fiscales dans ces États. Ce type de système pourrait devenir obligatoire si le Congrès des États-Unis approuvait une législation fédérale en ce sens.

La TVA

La TVA est l'impôt général sur la consommation le plus répandu dans le monde, puisqu'elle existe désormais dans plus de 150 pays et dans 33 des 34 pays membres de l'OCDE (seuls les États-Unis ont conservé un système de taxes de vente). Bien qu'il existe une grande diversité dans la manière dont les régimes de TVA sont mis en œuvre dans la pratique, ils ont tous des caractéristiques communes : c'est un impôt sur la consommation des ménages, mais collecté par les entreprises, qui n'en supportent pas la charge ; il s'appuie sur une assiette large et il est fondé sur un système de paiement fractionné.

La TVA est un système de paiement fractionné. La TVA est caractérisée par un mécanisme de paiement fractionné à chaque étape de la production et de la distribution, jusqu'au consommateur final, de manière telle que le montant total de la taxe perçue par l'État correspond en réalité à la TVA imputée par le dernier vendeur au consommateur final. Ces caractéristiques assurent la neutralité de la taxe quelle que soit la nature du produit, la structure du réseau de distribution ou les moyens techniques mis en œuvre pour sa livraison. Lorsque le principe de destination s'applique, ce qui est la norme généralement acceptée, elles permettent à la taxe de conserver sa neutralité à l'égard du commerce international. Selon ce principe, les exportations sont exonérées, avec remboursement de la taxe payée en amont (« taux zéro ») et les importations sont imposées sur la même base et au même taux que la production intérieure.

En pratique, tous les pays de l'OCDE qui opèrent un régime de TVA imposent les transactions à toutes les étapes du processus de production et de distribution. Ils permettent également la déduction immédiate des taxes d'amont par les entreprises, y compris sur les biens d'investissement.

Il existe cependant un certain nombre de restrictions au principe du droit à déduction. La plupart des limitations sont délibérées comme dans le cas des activités exonérées (santé, services financiers, assurances, certains produits immobiliers) ou des intrants utilisés à des fins non commerciales (par exemple à l'usage privé des employés). D'autres restrictions peuvent être liées à un dysfonctionnement de l'administration fiscale (par exemple lorsque les remboursements de crédits d'impôts sont rendus difficiles ou impossibles en pratique).

La TVA est un impôt neutre. En matière de TVA, le concept de neutralité peut couvrir plusieurs notions comme l'absence de discrimination fiscale entre les entreprises, l'application de niveaux d'imposition similaires à des entreprises qui effectuent des transactions similaires ou l'élimination des charges administratives excessives ou inappropriées. Toutefois, le principe de neutralité se comprend le plus souvent comme celui de la neutralité de l'impôt à l'égard du circuit de production et de distribution et vis-à-vis du commerce international.

En régime intérieur, la neutralité de l'impôt est en grande partie réalisée grâce au système de paiement fractionné qui permet – au moins pour les entreprises avec un droit à déduction total – de ne pas supporter in fine la charge de l'impôt, cette dernière reposant sur le consommateur final. Ainsi, Le montant de l'impôt perçu par les autorités fiscales est toujours exactement proportionnel au prix payé par le consommateur final, quelle que soit la structure de production ou de distribution du produit.

Dans le commerce international, la neutralité du système est assurée par l'application du principe de destination selon lequel les exportations sont exonérées, avec remboursement de la taxe payée en amont (« taux zéro ») et les importations imposées sur la même base et au même taux que la production intérieure.

La TVA est un impôt sur la consommation. D'un point de vue économique, la TVA est un impôt sur la consommation des ménages. En pratique, le mécanisme de déduction de la taxe d'amont permet aux entreprises de ne pas en supporter la charge. Dans un tel contexte, les entreprises ne « consomment » pas leurs intrants au sens économique du terme, mais elles les utilisent dans un processus de production. D'un point de vue juridique cependant, la TVA est essentiellement une taxe perçue sur chaque transaction, ce qui ne recoupe pas nécessairement le concept de consommation. Dans la « vie réelle », les choses peuvent être consommées de différentes manières. Certaines peuvent être consommées immédiatement comme une course en taxi, certaines peuvent être consommées de manière différée (comme un sandwich) ou sur une longue période de temps (comme un bureau où l'accès à une base de données). Toutefois, la TVA ne vise pas à imposer cette consommation « réelle », mais seulement les transactions entre les vendeurs et les acheteurs.

Le concept de consommation ne doit pas être confondu avec la notion de l'« utilisation et exploitation effective » (notion tirée du droit européen), qui est plus proche de la consommation dans la « vie réelle » évoquée plus haut que du monde de la TVA. Dans certaines circonstances, les administrations fiscales peuvent se fonder sur le lieu de consommation effective pour déterminer le lieu d'imposition de manière pratique (par exemple pour un repas au restaurant), mais cela ne signifie pas pour autant que les deux notions se confondent.

La TVA s'applique au commerce international. Si l'application du principe de destination est relativement aisée dans le commerce international des biens, il en va tout autrement pour les services, compte tenu de la nature immatérielle de la plupart d'entre eux. Dans la mesure où il n'est pas aisé de déterminer leur lieu de consommation effective et, partant, de leur imposition à la TVA, la plupart des pays ont mis au point des critères de substitution (« proxies »).

De nouvelles règles de territorialité de l'impôt sont en vigueur dans l'Union européenne depuis le 1er janvier 2010. Selon ces nouvelles règles, les prestations de services entre entreprises sont imposées en principe là où le preneur est établi. Toutefois, si les prestations sont rendues à un établissement stable du preneur situé en un autre lieu, les prestations seront imposées là où se situe cet établissement stable. Cette règle associe deux approches différentes : un critère de substitution (le lieu d'établissement du preneur) et un critère matériel (là où le service est fourni). Cette association est probablement due à une certaine perception des risques de fraude. Les services rendus aux consommateurs finaux (c'est-à-dire les personnes non-assujetties) restent imposées là où le prestataire est établi. Il existe un certain nombre d'exceptions à cette règle, notamment pour les services liés à des biens immeubles (imposés là où se trouve l'immeuble), les services culturels et artistiques ou d'éducation (imposés là où ils sont matériellement rendus) et les services rendus par voie électronique à des consommateurs non assujettis par des entreprises établies hors de l'Union (imposées là où le consommateur réside).

En dehors de l'Union européenne, d'autres critères de substitution peuvent être appliqués. En Nouvelle-Zélande par exemple, le critère principal est la résidence du prestataire. Les prestations rendues par des non-résidents sont présumées être réalisées en dehors du pays, sauf lorsque le service y est matériellement rendu (par le prestataire lui-même ou une autre personne) et que le preneur est soit un consommateur final ou une entreprise qui accepte de considérer le service comme rendu en Nouvelle-Zélande. Les services prestés par des entreprises résidentes sont, quant à eux, présumés se situer en Nouvelle-Zélande. Ces services peuvent toutefois être soumis à un taux zéro (exonération avec droit à déduction des taxes d'amont) lorsqu'ils sont rendus à des preneurs non-résidents. L'Australie, quant à elle utilise le critère de « connexion avec l'Australie » pour déterminer le lieu d'imposition des services. Ce critère couvre les services exécutés en Australie, ceux qui sont rendus par une entreprise australienne ou qui consistent en un droit d'utilisation en Australie. Afin d'éviter l'imposition des services consommés en dehors du pays, il est fait une large application du taux zéro, comme en Nouvelle-Zélande.

À première vue, ces approches semblent différentes, mais elles tendent toutes vers l'application du principe de destination. Le modèle européen semble édicter des principes plus « universels » pour l'attribution des droits d'imposition entre les différents pays fondés sur la nature même des services et le statut du preneur (assujetti ou non) tandis que les modèles australien et néo-zélandais semblent se fonder sur des critères de connexion concrets avec le pays. Toutefois, ces approches ne sont pas si dissemblables en pratique. Il ne faut en effet pas confondre la directive européenne[2] avec les législations nationales des pays européens qui l'appliquent. La directive a pour objet de donner un cadre juridique empêchant les conflits de juridiction entre les pays de l'Union et avec les pays tiers, alors que les lois nationales contiennent souvent des critères de rattachement géographique proches de ceux utilisés par l'Australie et la Nouvelle-Zélande.

Ces exemples (et il en existe beaucoup d'autres) montrent que, bien que tous les pays de l'OCDE ayant TVA appliquent le principe de destination, l'application de ce principe peut comporter des différences pratiques suffisamment importantes aboutissant à des résultats différents et conduisant à des doubles impositions, à des absences d'imposition involontaires et à des incertitudes pour les entreprises et les administrations fiscales. C'est pour cette raison que le Comité des affaires fiscales de l'OCDE a entrepris de développer les Principes directeurs internationaux pour l'application de la TVA (dont le projet de table des matières est repris à l'annexe C de cette publication).

Les impôts sur les biens et services déterminés : les droits d'accise

Les droits d'accise se différencient de la TVA en ce qu'ils sont perçus sur un nombre limité de produits, qu'ils ne sont normalement dus qu'au moment où les marchandises sont mises à la consommation et qu'ils sont généralement calculés sur la base du poids, du volume, de la teneur ou de la quantité de produit, combinés dans certains cas avec des taxes *ad valorem*. Tout comme la TVA, les droits d'accise tendent à la neutralité sur le plan international puisqu'ils ne sont perçus qu'une seule fois, dans le pays de consommation.

Les droits d'accise peuvent s'appliquer aux produits les plus divers tels que le sel, le café, les jus de fruits, les allumettes ou le chocolat. Toutefois, leur nombre a diminué avec l'extension des impôts généraux sur la consommation. Les accises sur les boissons alcooliques, le tabac et les huiles minérales restent celles qui procurent les revenus les plus importants aux gouvernements.

Il existe une tendance claire au cours des dernières décennies pour assigner à ces impôts particuliers un rôle spécifique, au-delà de la génération des recettes fiscales. Un certain nombre d'accises ont été modulées afin d'influencer le comportement du consommateur en vue de décourager, entre autres, les comportements considérés comme nuisibles pour la santé (alcool, tabac) ou pour l'environnement (certains combustibles).

Chapitre 2 – Actualités des impôts sur la consommation

La diffusion de la TVA

La TVA est aujourd'hui reconnue comme le moyen le plus efficace d'imposer la consommation. Elle est appliquée dans plus de 150 pays couvrant quatre milliards de personnes et génère en moyenne 20 % des recettes fiscales des États. Sa neutralité à l'égard du commerce international en a fait l'alternative préférée aux droits de douane dans les pays en développement. Dans les pays de l'OCDE, la part de la TVA dans les recettes fiscales a fortement augmenté passant en vingt ans de 11 % à 19 % des recettes totales, loin devant l'impôt des sociétés (10 %), les impôts sur les biens et services déterminés (10 %) et les impôts sur la propriété immobilière (5 %).

L'imposition des transactions internationales

La diffusion de la TVA comme moyen privilégié pour imposer la consommation s'est produite en parallèle avec la mondialisation des échanges. Dès lors, les gouvernements se sont davantage intéressés à l'interaction entre les régimes de TVA, compte tenu des risques croissants de double imposition et d'absence d'imposition involontaires.

Les premières règles internationales en matière de TVA (en dehors de l'Union européenne) ont été adoptées en 1998 avec les *Conditions cadres d'Ottawa sur la fiscalité*. Celles-ci prévoient notamment que « les règles applicables en matière d'impôt sur la consommation dans le cas d'échanges transfrontières devraient aboutir à une imposition dans le pays où la consommation a lieu ». En conséquence, le Comité des affaires fiscales de l'OCDE (CAF) a adopté en 2001 les Principes directeurs pour la définition du lieu de consommation dans le contexte du commerce électronique. Ils prévoient que le lieu de consommation est celui où le destinataire a établi sa présence commerciale (pour les transactions entre entreprises) ou sa résidence habituelle (pour les transactions entre entreprises et consommateurs privés). Toutefois, avec le développement de la mondialisation, il est apparu que des règles plus globales étaient nécessaires, au-delà du commerce électronique. Le CAF a adopté en 2006 un canevas pour l'élaboration de *Principes directeurs internationaux pour l'application de la TVA/TPS*. Il a également été décidé de traiter en priorité la définition du lieu d'imposition des prestations de services transfrontières et les conditions de neutralité de la taxe. Le CAF a donc adopté les deux principes de base suivants :

- Pour l'application des impôts sur la consommation, les échanges internationaux de services et de biens incorporels doivent être imposés selon les règles en vigueur dans la juridiction de consommation.
- La charge des taxes sur la valeur ajoutée elles-mêmes ne doit pas reposer sur les entreprises assujetties, sauf lorsque cela est explicitement prévu par la législation.

Des travaux sur le développement de ces principes ont été entrepris par les pays membres de l'OCDE, en coopération avec un certain nombre d'économies non membres, des représentants des entreprises et des universitaires. Ces travaux font l'objet de consultations publiques, disponibles sur le site de l'OCDE (*www.oecd.org/ctp/ct*).

En ce qui concerne le lieu d'imposition des fournitures de services et de biens incorporels entre entreprises, les documents publiés en janvier et juin 2008 aux fins de consultation publique proposent les principes suivants :

- En tant que « règle générale », la juridiction de consommation doit être définie comme la juridiction dans laquelle se situe le client, tel que cela ressort normalement de l'accord commercial entre les parties.
- Le lieu d'imposition doit être déterminé individuellement pour chaque prestation de sorte que la détermination du lieu d'imposition d'un service ou d'un bien incorporel aux fins de la TVA ne soit pas influencée par une prestation ultérieure ou par l'absence d'une telle prestation.
- Cela reste normalement le cas, que les deux parties à une transaction aient ou non des liens en capital et qu'elles soient ou non soumises à un contrôle commun.
- Le fait qu'une entreprise se trouvant dans la juridiction du client ait avec le fournisseur des liens en capital n'a pas d'incidence sur ces conclusions dès lors que cette entreprise ne fournit rien à ce client.
- De même, le fait qu'une entreprise située dans la juridiction du fournisseur ait avec le client des liens en capital n'a pas d'incidence sur ces conclusions dès lors que le fournisseur ne fournit rien à cette entreprise.

Les commentaires reçus suite à cette consultation publique approuvent l'application du principe de destination ainsi que la règle générale proposée. Les travaux se sont poursuivis sur cette base et le CAF a soumis les projets de Principes directeurs suivants à consultation publique en février 2010 :

- **Principe directeur 1.** Pour l'application des impôts sur la consommation, les échanges internationaux de services et de biens incorporels doivent être imposés selon les règles en vigueur dans la juridiction de consommation.
- **Principe directeur 2.** Pour les opérations entre entreprises, c'est la juridiction dans laquelle le client est localisé qui est en droit d'imposer les services et les biens incorporels faisant l'objet d'échanges internationaux.
- **Principe directeur 3.** L'identité du client est normalement déterminée par référence à l'accord commercial.

Les accords commerciaux sont constitués des éléments permettant d'identifier les parties à une opération ainsi que les droits et obligations inhérents à cette opération. Ils sont généralement l'expression d'un accord mutuel.

Une fois encore, les résultats de la consultation publique ont montré un accord très large sur ces principes. Le CAF a dès lors entamé des travaux sur l'application de ces principes aux échanges de services et de biens incorporels entre entités disposant de localisations multiples. Il examinera également dans quelle mesure des exceptions à la règle générale doivent être prévues. Les questions de fraude et de réduction artificielle de la base d'imposition seront examinées plus tard.

L'application du principe de neutralité

Normalement, l'application du principe de destination et de la règle générale définie ci-dessus devraient assurer le maintien de la neutralité de la taxe dans le commerce international. En effet, selon ces principes, les exportations sont exonérées avec remboursement des taxes d'amont et les importations sont imposées sur la même base et aux

mêmes taux que les transactions intérieures. Cela signifie que le montant total de la taxe payée pour une transaction est déterminé par les règles en vigueur dans la juridiction de consommation, et par conséquent toutes les recettes reviennent à la juridiction où a lieu la livraison ou la prestation au consommateur final. Les exportations de services sont exonérées.

Toutefois, les inévitables exceptions à la règle générale impliquent que des entreprises supportent une TVA dans des juridictions où elles ne sont pas établies et se trouvent donc dans l'impossibilité d'opérer un mécanisme de droit à déduction normal. Dans ce cas, des mécanismes spécifiques doivent permettre à ces entreprises de récupérer ces montants de TVA de manière à assurer l'application du principe selon lequel « la charge des taxes sur la valeur ajoutée elles-mêmes ne doit pas reposer sur les entreprises assujetties, sauf lorsque cela est explicitement prévu par la législation ».

En fait, il existe différentes méthodes pour assurer l'application de ce principe. La méthode la plus utilisée consiste à rembourser à l'entreprise étrangère la TVA facturée par le prestataire ou le fournisseur établi dans le pays. Ce remboursement peut s'opérer par un remboursement direct, *via* une immatriculation du demandeur ou *via* un représentant fiscal local. Certains pays prévoient des mécanismes d'exemption spécifiques qui évitent que la TVA due sur l'opération ne soit facturée au client étranger.

Il existe cependant des pays (principalement en dehors de l'OCDE) où la TVA payée par des entreprises étrangères n'est pas remboursable, ces dernières devant donc supporter la charge de la taxe en contradiction avec les principes de destination et de neutralité. Dans certains pays où la TVA est en principe remboursable aux entreprises étrangères les procédures administratives peuvent être tellement complexes qu'elles rendent ce remboursement très difficile en pratique. Une étude sur plus de 300 entreprises dans 33 pays menée par l'OCDE publiée en février 2010 révèle que 72 % des entreprises sondées considèrent que les procédures de remboursement sont difficiles à utiliser et près de 21 % d'entre elles ne peuvent pas récupérer toute la TVA supportée à l'étranger.

Le CAF a considéré que ce problème était suffisamment sérieux pour nécessiter le développement de principes directeurs appropriés. En décembre 2010, le CAF a publié un projet de principes directeurs sur la neutralité de la TVA aux fins de consultation publique. Ces principes directeurs sont les suivants :

- **Principe directeur 1.** La charge des taxes sur la valeur ajoutée elles-mêmes ne doit pas reposer sur les entreprises assujetties, sauf lorsque cela est explicitement prévu par la législation.
- **Principe directeur 2.** Les entreprises qui se trouvent dans des situations similaires et qui effectuent des transactions similaires devraient être soumises à des niveaux d'imposition similaires.
- **Principe directeur 3.** Les règles relatives à la TVA doivent être définies de manière à ne pas être le principal facteur qui influence les décisions des entreprises.
- **Principe directeur 4.** S'agissant du niveau d'imposition, les entreprises étrangères ne doivent être ni désavantagées, ni avantagées par rapport aux entreprises de la juridiction dans laquelle la taxe est due ou acquittée.
- **Principe directeur 5.** Les pouvoirs publics doivent pouvoir choisir parmi plusieurs approches pour éviter que les entreprises étrangères ne supportent une TVA non récupérable.

- **Principe directeur 6.** Lorsque des obligations administratives spécifiques sont jugées nécessaires pour les entreprises étrangères, elles ne doivent pas leur imposer une charge administrative disproportionnée ou injustifiée.

Ces principes sont soumis à consultation publique jusqu'au 22 mars 2011, consultation dont les résultats seront publiés en mai 2011 sur le site de l'OCDE (*www.oecd.org/ctp/ct*).

Améliorer l'efficacité de la TVA dans un contexte d'après-crise

La crise économique qui a suivi la crise financière de 2008 a amené les gouvernements à adopter deux types de réaction : à court terme des mesures ont été prises pour stimuler l'économie et sortir de la récession ; à plus long terme il s'agit d'assurer une plus grande stabilité et empêcher ce type de crise de se répéter. Lors de la réaction à court terme, certains États ont adapté leur taux de TVA, soit pour stimuler la consommation en baissant temporairement leur taux (Royaume-Uni, Portugal), soit pour augmenter leurs recettes fiscales en augmentant le taux (Irlande). D'autres mesures ont également été prises dans le domaine de la TVA (extension du taux réduit, facilités de paiement pour les entreprises, remboursements accélérés). Le TVA a été dans ce cas utilisée comme instrument à court terme compte tenu de sa capacité à générer des effets plus rapides et plus ciblés que d'autres impôts.

Dans le moyen ou long terme, les gouvernements vont devoir trouver des moyens durables pour leur permettre de supporter le coût budgétaire de la sortie de crise, rééquilibrer leurs budgets et stimuler la croissance. En 2009, le Conseil de l'OCDE au niveau ministériel a considéré qu'une réforme fiscale en faveur de la croissance impliquerait un transfert de la fiscalité des entreprises, des impôts sur les revenus ou des contributions de sécurité sociale vers les impôts sur la consommation et les taxes immobilières.

En ce qui concerne l'efficacité de la TVA il est démontré que celle-ci serait accrue si l'on en élargissait l'assiette au taux normal en supprimant la plupart des exonérations et en abolissant les taux réduits. Bien que les implications politiques d'une telle réforme soient reconnues, il faut l'envisager comme faisant partie d'une réforme fiscale plus large et non de manière isolée. Ainsi, une politique de redistribution effective ne peut être mise en œuvre grâce à un impôt en particulier mais doit résulter du système fiscal dans son ensemble, y compris le système d'allocations. Ainsi, un élargissement de l'assiette de la TVA au taux normal pourrait être accompagné de mesures de redistribution ciblées telles que des dépenses fiscales adaptées et un allègement des impôts sur les revenus.

En septembre 2009, de hauts responsables de la politique fiscale de 25 pays de l'OCDE, de la Commission européenne et de 5 économies non membres se sont réunis à Lucerne, en Suisse afin de réfléchir à l'évolution de la TVA dans les années à venir, compte tenu de leur importance croissante. Ils sont arrivés aux conclusions suivantes :

- La position centrale de la TVA pourrait perdurer, et même se renforcer à mesure que le monde sortira de la récession et que les pays chercheront à résorber leur dette publique.
- Les gouvernements sont encouragés à moderniser leurs régimes de TVA afin de tenir compte des transformations économiques et des progrès technologiques. Il faut accroître l'efficience économique de cet impôt, tout en étant conscients des difficultés politiques qu'entraîne toute augmentation d'impôt.

- Les gouvernements sont encouragés à simplifier leur système de TVA dans les années à venir sans mettre en péril la lutte contre la fraude fiscale. Les administrations fiscales sont encouragées en particulier à garantir aux entreprises que l'application de la taxe obéit à des règles claires et sûres et que les coûts liés au respect des obligations fiscales soient aussi réduits que possible.
- Les travaux entrepris par l'OCDE concernant l'application de la TVA au secteur des services internationaux doivent être poursuivis avec l'engagement des milieux d'affaires. Les risques de double imposition ou d'absence involontaire d'imposition doivent être minimisés.
- Afin de combattre la fraude à la TVA, l'OCDE est encouragée à poursuivre ses travaux dans ce domaine, notamment la possibilité d'échanger rapidement des renseignements entre pays en utilisant, par exemple la Convention conjointe de l'OCDE et du Conseil de l'Europe concernant l'assistance administrative mutuelle en matière fiscale.

Le rôle croissant joué par l'OCDE dans ces domaines est reconnu, en particulier grâce à sa capacité unique de travailler à l'amélioration des systèmes de TVA dans un environnement mondialisé avec ses pays membres et en dialogue avec les économies non membres et les entreprises.

Lutter contre la fraude à la TVA

Au cours des dernières années, la TVA a été de manière croissante la cible d'attaques criminelles. Malgré les mesures prises par les administrations fiscales et la coopération renforcée au sein de l'Union européenne, la fraude fiscale organisée a touché de nouveaux secteurs d'activité. Dans l'Union européenne, la perte fiscale atteint 12 % des recettes en moyenne soit un montant de 106 milliards d'euros en 2006.

En plus de la fraude « traditionnelle », de nouveaux modèles de fraude à la TVA se développent grâce aux nouvelles technologies et aux nouveaux marchés. Par exemple, dans certains pays, près de 90 % des transactions sur les marchés de permis d'émissions de CO_2 sont d'origine criminelle et ont pour but de soustraire illégalement des recettes TVA. Des fraudes similaires peuvent se développer sur le marché du gaz, de l'électricité et de la téléphonie par Internet.

L'OCDE travaille à l'amélioration et au développement des instruments juridiques pour l'échange d'informations fiscales entre les administrations (article 26 de la *Convention Modèle sur le revenu et la fortune* désormais applicable à tous les impôts, y compris la TVA, Convention conjointe de l'OCDE et du Conseil de l'Europe sur l'assistance administrative mutuelle).

Les droits d'accise

Après un déclin progressif, les impôts sur les produits spécifiques se sont stabilisés au cours des dernières années. En plus de leur capacité à procurer des recettes fiscales, ils sont de plus en plus utilisés pour influencer le comportement des consommateurs, en particulier dans le domaine de l'environnement.

Chapitre 3 – Taxe sur la valeur ajoutée : rendement, taux et structure

Importance et tendances des impôts généraux sur la consommation

Les systèmes de TVA varient largement d'un pays à l'autre. En témoigne le maintien d'un vaste éventail de taux réduits, d'exonérations et de dispositions spéciales qui répondent à des objectifs autres que fiscaux. Si la souveraineté des États en matière

d'imposition est cruciale, on peut néanmoins établir un certain nombre de principes communs qui permettent d'éviter la double imposition, la non-imposition involontaire, la fraude fiscale et les distorsions de concurrence. Certains facteurs permettent également d'améliorer l'efficacité de la taxe, tels qu'une base d'imposition large, un nombre minimal d'exonérations et de taux réduits et un seuil d'assujettissement suffisant pour permettre à l'administration fiscale de se concentrer sur les contribuables plus importants.

Les tableaux 3.1 à 3.7 montrent que l'importance des impôts généraux sur la consommation varie considérablement d'un pays à l'autre, avec les États-Unis et le Japon d'un côté où les impôts généraux sur la consommation comptent pour moins de 10 % du total des recettes fiscales et moins de 3 % du PIB, et la Hongrie et Israël où ces impôts comptent pour plus de 25 % du total des recettes fiscales et plus de 9 % du PIB. Cependant, dans la plupart des pays de l'OCDE, les impôts généraux sur la consommation comptent pour plus de 15 % du total des recettes fiscales, avec un taux moyen de 19.5 %.

Le produit des impôts généraux sur la consommation, constitué principalement du produit de la TVA, s'est stabilisé depuis 2000, après avoir augmenté graduellement pendant plusieurs années. Sur le plus long terme, on constate que les pays membres de l'OCDE ont compté de manière croissante sur les impôts généraux à la consommation, au détriment des impôts sur les biens et services spécifiques, le total des impôts sur la consommation restant stable depuis trente ans, autour de 30 % du total des recettes fiscales.

Les tableaux 3.8 à 3.11 illustrent la grande variété des taux en vigueur ainsi que des exemptions et des seuils d'imposition. Les taux normaux de la TVA (tableau 3.8) sont restés relativement stables depuis 2000, bien que des tendances diverses aient pu être observées. Cinq pays ont réduit leur taux normal (Canada, France, Israël, République slovaque et République tchèque) tandis que onze pays l'ont augmenté (Allemagne, Chili, Grèce, Islande, Pays-Bas, Mexique, Norvège, Portugal, Slovénie, Suisse et Turquie). Notons toutefois que douze des quinze pays qui ont modifié leur taux normal depuis 2000 l'ont rapproché du taux de 19 pour cent.

Il existe également une grande diversité dans l'application des exemptions et des taux réduits, même s'il existe des secteurs dans lesquels ceux-ci sont très répandus (alimentation et médicaments, médecine et protection sociale, transports publics, culture, sport, services financiers). Les exonérations simples (sans droit à déduction de la TVA d'amont) peuvent être source d'inefficacité et de distorsions de concurrence. Les exonérations créent des impôts en cascade et perturbent la neutralité de la taxe, y compris à l'égard du commerce international. La Commission européenne a récemment remis en question la pertinence de la plupart des exonérations dans l'Union européenne.

Les seuils d'assujettissement sont également très variables d'un pays à l'autre. Les pays de l'OCDE peuvent être divisés en trois groupes : ceux qui ont un seuil élevé (plus de 30 000 USD – Australie, Autriche, République tchèque, France, Hongrie, Irlande, Italie, Japon, Nouvelle-Zélande, Pologne, Slovaquie, Slovénie, Suisse, Royaume-Uni) ; ceux qui ont un seuil relativement faible (Belgique, Canada, Danemark, Finlande, Allemagne, Grèce, Islande, Israël, Luxembourg, Pays-Bas, Norvège, Portugal et Suède) ; et ceux qui n'ont pas de seuil d'assujettissement (Chili, Corée, Mexique, Espagne, Turquie).

Réaliser le plein potentiel de la TVA

La TVA existe depuis plus de soixante ans et s'est largement répandue dans le monde au cours des vingt dernières années. Elle se trouve régulièrement citée comme l'un des impôts qui peuvent le mieux contribuer à rééquilibrer les finances publiques dans un contexte d'après crise. Le moment est sans doute venu de réfléchir aux moyens d'en améliorer le productivité. Comme indiqué au chapitre 2, l'un des moyens le plus efficaces d'améliorer le rendement de la TVA serait de supprimer la plupart des taux réduits et des exonérations.

Les taux réduits

Comme le montrent les tableaux 3.8 et 3.10, les taux réduits existent dans la plupart des pays de l'OCDE et couvrent une large palette de biens et services. Bien qu'ils soient liés à l'histoire socio-économique des pays, la plupart des taux réduits ont, en principe, pour objectif d'améliorer l'équité de l'impôt ou de promouvoir les « biens d'intérêt social » (en anglais *merit goods*, ce sont les biens et services que le gouvernement estime sous-consommés et qui devraient être subventionnés afin que leur consommation ne dépende pas principalement du prix du marché).

Pour promouvoir l'équité, beaucoup de gouvernements appliquent un taux de TVA réduit sur les produits de première nécessité comme la nourriture, l'eau et les médicaments. Toutefois, il n'est pas sûr que ces taux réduits soient le moyen le plus efficace – et le moins coûteux pour les finances publiques – d'atteindre cet objectif. En effet, les ménages aisés bénéficient davantage, en termes absolus, des taux réduits que les ménages modestes dans la mesure où ils consomment davantage de produits et achètent des produits généralement plus chers. Ainsi, une partie significative de la dépense fiscale profite à ceux qui en ont le moins besoin. Cela ne signifie pas que rien ne doit être fait pour compenser les problèmes d'équité, mais les moyens les plus efficaces de le faire se trouvent probablement en dehors du champ de la TVA. L'un des moyens les plus efficaces consisterait à octroyer une allocation spécifique de consommation pour les ménages modestes.

En ce qui concerne les produits d'intérêt social (musées, théâtre, produits culturels), l'application de taux réduits de TVA profite généralement davantage aux milieux aisés, qui tendent à en être de plus gros consommateurs que les ménages modestes.

Les taux réduits de TVA sont parfois aussi utilisés pour corriger les externalités liées à la consommation de certains produits. Ainsi des taux réduits sont-ils appliqués aux produits qui économisent l'énergie. Toutefois, la TVA est considérée comme un instrument assez « brut » dans ce domaine. Ils sont également utilisés pour promouvoir la consommation des services à haute intensité de main d'œuvre fournis localement (travaux de bricolage, réparation de bicyclettes, etc.) et pour réduire le recours au travail au noir. Si une certaine efficacité est reconnue à ces mesures, il existe d'autres moyens d'atteindre ces objectifs.

En conclusion, les avantages de l'application d'un taux unique à l'ensemble de l'assiette de la TVA sont supérieurs aux bénéfices, ou aux bénéfices supposés, de l'application de taux réduits. Outre le coût élevé des taux de TVA réduits en matière de recettes fiscales et l'incertitude quant à leur efficacité réelle comparée à des mesures alternatives, la gestion de taux de TVA multiples (en particulier de la limite entre les produits qui bénéficient de taux réduits et ceux qui n'en bénéficient pas) implique des coûts administratifs non négligeables pour les administrations fiscales et les entreprises.

Si l'on considère le système fiscal dans son ensemble (y compris les transferts sociaux), il apparaît que l'application d'un taux de TVA uniforme à l'ensemble de l'assiette d'imposition serait plus efficace que les taux réduits pour atteindre des objectifs similaires.

Les exonérations

Le tableau 3.10 montre qu'il existe de nombreuses exonérations dans les pays de l'OCDE, en particulier pour les services financiers, l'immobilier et les soins de santé.

L'exonération des services financiers (banque et assurance) pourrait être réexaminée dans un avenir proche. Cette exonération a été décidée le plus souvent lors de la mise en œuvre de la TVA en raison de la difficulté d'établir une base d'imposition pour chaque transaction dans des domaines complexes comme les services d'intermédiation financière. Toutefois, cette exonération est la source de plus en plus de difficultés dans la mesure où elle cause des phénomènes de taxe rémanente, réduit la neutralité de l'impôt et crée une incitation fiscale à la concentration verticale. Elle crée aussi une incitation à l'évasion fiscale par la « canalisation » (*channelling*) de certains services *via* certaines juridictions afin de réduire artificiellement les montants de TVA dus. Des techniques d'imposition des services financiers à la TVA ont été développées au cours de la dernière décennie, mais sans recueillir de consensus jusqu'à présent en raison de la complexité de la matière et des charges administratives induites. Dans ce domaine, il faut également tenir compte de la sensibilité politique liée à l'imposition des banques. Toutefois, les technologies de l'information et les nouvelles normes comptables pourraient contribuer à développer des méthodes qui assureraient un juste équilibre entre la simplicité de l'impôt et la complexité de la matière imposable.

L'exonération des soins de santé couvre principalement des services au consommateur final et les effets de taxe en cascade sont réduits. Toutefois, l'exonération peut avoir un effet négatif notamment sur le poids des investissements pour les hôpitaux dans la mesure où ils doivent supporter le poids de la TVA sur l'acquisition du matériel médical de plus en plus sophistiqué et coûteux. L'assujettissement de ce secteur à la TVA permettrait une telle déduction, compensant ainsi en partie l'application d'un taux positif sur les services rendus.

Les exonérations sont contraires aux principes de la TVA, en particulier à la neutralité. La Commission européenne a récemment entamé un processus de consultation publique concernant l'élargissement de l'assiette de la TVA par la réduction du nombre d'exonérations.

En conclusion, l'efficacité de la TVA pourrait être accrue de manière significative par l'élargissement de l'assiette de l'impôt, l'application d'un minimum de taux réduits et d'exonérations et un seuil d'assujettissement adapté.

Toutefois, la réforme de la TVA ne doit pas être considérée isolément mais dans le cadre d'une réforme fiscale plus large. Par exemple, la suppression des taux réduits et de certaines exonérations nécessite des mesures compensatoires en matière de redistribution. Il serait également utile d'entreprendre des travaux plus approfondis sur l'impact économique de ces réformes notamment sur l'emploi, les prix et la croissance économique.

Chapitre 4 – Mesurer l'efficacité de la TVA : le ratio de recettes TVA

Compte tenu de la diversité des régimes de TVA décrite au chapitre 3, il est utile de s'interroger sur l'influence de ces caractéristiques sur le rendement de la TVA en termes de recettes. L'un des outils considérés comme un indicateur capable de mesurer ce rendement

est le « ratio de recettes TVA » (RRT) qui désigne le rapport entre les recettes effectivement perçues et les recettes qui seraient générées par l'application du taux normal à l'ensemble de la consommation finale (tableau 4.1).

En théorie, plus un pays est proche d'un système de TVA « pur » (c'est-à-dire où toute la consommation est imposée à un taux uniforme) plus le RRT sera proche de 1. En revanche, un RRT très inférieur à 1 peut être le signe d'une érosion de la base d'imposition en raison de l'ampleur des exemptions ou des taux réduits ou encore de difficultés à percevoir l'impôt (par exemple en raison de la fraude fiscale).

La principale difficulté méthodologique pour calculer le RRT porte sur le calcul de la base d'imposition théorique à la TVA. En l'absence d'une définition standardisée de la base d'imposition à la TVA pour l'ensemble des pays de l'OCDE, les chiffres qui sont utilisés sont ceux de la consommation finale des ménages, tels qu'ils ressortent des comptes nationaux. Toutefois, ceux-ci n'ont pas été conçus dans la perspective de déterminer la base d'imposition à la TVA et un certain nombre de corrections doivent être effectuées. Ainsi, les dépenses de consommation collective (justice, police, etc.) et l'imputation d'un loyer fictif aux propriétaires-occupants, qui sont considérés comme dépense de consommation des ménages par les comptes nationaux devraient-ils être déduits de la base d'imposition théorique à la TVA. En sens contraire, l'achat de logements par les ménages devrait-il être ajouté à la base théorique d'imposition dans la mesure où il est considéré comme un investissement dans les comptes nationaux et non comme une consommation. Enfin, l'effet de taxe en cascade lié à l'exonération des services financiers et d'assurance, particulièrement important pour certains pays, doit également faire l'objet d'une correction si l'on veut estimer avec précision l'efficacité d'un système de TVA.

Compte tenu des données disponibles, il n'est pas possible de faire ces corrections pour tous les pays de l'OCDE et elles ne sont donc pas prises en compte pour le calcul du RRT repris au tableau 4.1. Des travaux seront engagés pour obtenir ces données et produire une version affinée du RRT lors de l'édition 2012 des *Tendances des impôts sur la consommation*.

Le RRT mesure donc la capacité des pays à générer des recettes de TVA à partir de sa base d'imposition naturelle. En théorie, le RRT optimal est égal à 1, mais c'est très rarement le cas en pratique. En effet, beaucoup de pays ont adopté des taux réduits, des exonérations et des seuils d'imposition qui réduisent le rendement de l'impôt. En outre, il est presque impossible d'obtenir un respect total de leurs obligations fiscales par les entreprises. Ainsi, le RRT est-il influencé par une combinaison de facteurs liés à la politique fiscale (taux réduits, exonérations, etc.) et à l'administration de l'impôt (lutte contre la fraude, capacité à obtenir le paiement des sommes dues, efficacité de l'administration) dont l'influence respective est difficile à discerner. En outre, certaines mesures peuvent avoir une influence contradictoire sur le RRT. Un seuil d'assujettissement élevé réduit les recettes mais augmente l'efficacité de l'administration à collecter l'impôt dû par des grandes entreprises. Enfin, certains pays ont une marge de manœuvre réduite dans la détermination de l'assiette de l'impôt, en particulier au sein de l'Union européenne où ils sont soumis à une directive commune.

Toutefois, même si les chiffres doivent être manipulés avec prudence, ces limitations ne sont pas considérées comme suffisantes pour disqualifier le RRT comme mesure de l'efficacité des pays à collecter les recettes potentielles de la TVA.

L'analyse des chiffres reproduits au tableau 4.1 montre une variabilité très grande du RRT selon les pays allant de 0.35 au Mexique à 0.98 en Nouvelle-Zélande. Toutefois, une majorité de pays (23 sur 32) ont un RRT en dessous de 0.65 et huit pays en dessous de 0.50. Ces chiffres confirment l'impact des nombreux taux réduits et exemptions décrits au chapitre 3 sur les recettes de TVA et, partant, de l'efficacité de l'impôt. Ces chiffres montrent également que le niveau du taux normal a une influence très faible sur le RRT. Des pays à taux comparables peuvent avoir des RRT très différents.

Globalement, le niveau moyen du RRT est resté relativement stable depuis 2000 et les variations dans chaque pays sont restées limitées. En particulier, il est difficile d'estimer la part réelle de l'influence de la grande fraude fiscale sur ce ratio.

La performance des systèmes de TVA dépend de trois facteurs principaux : la structure de l'impôt (taux, exonérations, seuils), la capacité de l'administration fiscale à le gérer efficacement et le degré de respect de leurs obligations fiscales par les contribuables. Des travaux devraient être entrepris pour mesurer l'impact de ces facteurs sur l'évolution du RRT.

Chapitre 5 – Sélection d'accises dans les pays membres de l'OCDE

À la différence de la TVA et des impôts généraux sur la consommation, les droits d'accise ne visent que des biens spécifiquement définis. Les trois principales catégories de produits qui sont soumis à des accises dans tous les pays de l'OCDE sont les boissons alcooliques, les huiles minérales et les produits du tabac. Les droits d'accise sur ces produits génèrent des recettes substantielles pour les États, mais ils sont aussi utilisés pour influencer le comportement des consommateurs en vue notamment de réduire les émissions polluantes ou la consommation de produits nocifs pour la santé tels que le tabac et l'alcool.

Bien que les caractéristiques générales et les objectifs assignés aux droits d'accise soient les mêmes à peu près partout, leur application donne lieu à des différences parfois substantielles d'un pays à l'autre, notamment en matière de taux (tableaux 5.1 à 5.5). Ainsi l'accise sur les vins (tableau 5.2) peut-elle varier de zéro (Autriche, Espagne, Grèce, Israël, Italie, Luxembourg, Portugal Slovénie et Suisse) à plus de 2.5 USD le litre (Finlande, Islande, Irlande, Norvège et Royaume-Uni). Des différences similaires apparaissent dans l'imposition des huiles minérales. Ainsi, les taux d'accise pour l'essence sans plomb peut-elle varier de 0.105 USD le litre aux États-Unis à 1.602 USD en Turquie. Les accises sur les combustibles fossiles sont souvent plus utilisées que d'autres pour modifier le comportement des consommateurs. Les produits du tabac, quant à eux, font également l'objet d'accises qui reposent le plus souvent sur une combinaison d'éléments spécifiques et *ad valorem*.

Chapitre 6 – Les impôts sur les véhicules

Les impôts sur l'automobile sont depuis longtemps une source importante de revenus grâce à un large éventail d'impôts appliqués aux utilisateurs du réseau routier. La fiscalité des véhicules dans son sens le plus large fournit un bon exemple d'utilisation de l'ensemble de la panoplie des impôts sur la consommation. Ces impôts comprennent les impôts sur la vente et l'immatriculation (tableaux 6.1 à 6.3) ; les impôts récurrents sur la propriété ou l'usage des véhicules (tableau 6.2) ; les impôts sur les carburants (tableau 5.4) et les autres taxes et redevances, tels les taxes sur l'assurance ou les péages routiers. De manière croissante, ces impôts sont modulés afin d'influencer le comportement du

consommateur en faveur d'un meilleur respect de l'environnement. Le tableau 6.3 illustre, de manière exemplative, les très grandes différences qui existent dans les impôts sur la vente et l'immatriculation des véhicules. Ainsi, pour un véhicule familial de moyenne cylindrée, ces impôts peuvent-ils varier de moins de 7 % de la valeur hors taxes du véhicule à Washington à près de 200 % à Copenhague.

Notes

1. Dans certaines juridictions, la TVA est appelée Taxe sur les produits et services (TPS). Toutefois, pour des raisons pratiques, seul l'acronyme TVA est utilisé dans cette publication.
2. Directive (2006/112/CE) du Conseil du 28 novembre 2006.

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Chapter 1

Taxing Consumption

Consumption taxes

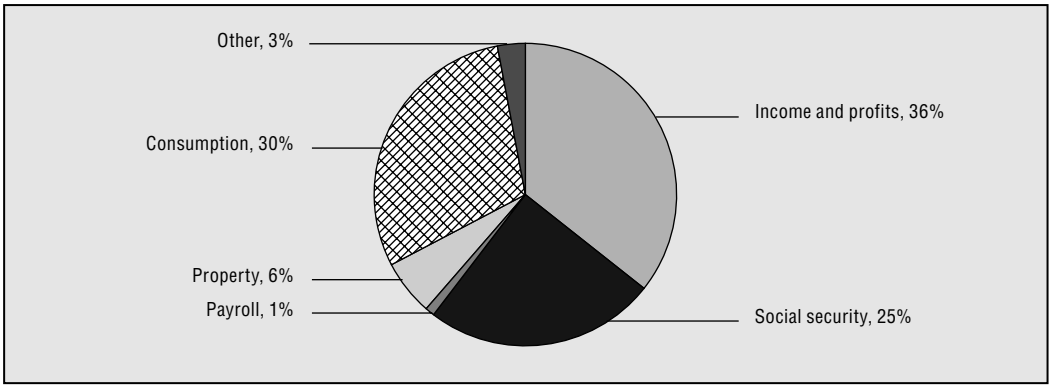
In the OECD classification, "taxes" are confined to compulsory, unrequited payments to general government. They are divided into five broad categories: taxes on income (1000), profits and capital gains (2000); social security contributions (3000); taxes on payroll and workforce; property taxes (4000); and taxes on goods and services (5000) (OECD, *Revenue Statistics 1965-2008*).

In the statistical nomenclature of the OECD, consumption taxes (identified as "Taxes on production, sale, transfer, leasing and delivery of goods and rendering of services") fall mainly into two sub-categories:

- *General taxes (5110)* on consumption. This category includes value added taxes (5111), *i.e.* VAT and its equivalent in several jurisdictions, the Goods and Services Tax (GST),[1] sales taxes (5112), and other general taxes on goods and services (5113).
- *Taxes on specific goods and services (5120)*, consisting primarily of excise taxes (5121), customs and import duties (5123) and taxes on specific services (*e.g.* taxes on insurance premiums and financial services).

Looking at the unweighted average of revenue from the five broad categories of taxes as a percentage of overall taxation in the OECD member countries (see Tables 3.2, 3.4 and 3.7), it can be seen that the proportion of consumption taxes is roughly 30%. In 2008, this broke down to one-third for taxes on specific goods and services and two-thirds for general consumption taxes.

Figure 1.1. **Average tax revenue as a percentage of aggregate taxation, by category of tax**



StatLink http://dx.doi.org/10.1787/888932369771

General consumption taxes

Retail sales taxes

A retail sales tax is a consumption tax charged only once at the last point of sale for products to the final end user. In principle, only consumers are charged the tax; resellers are exempt if they do not act as final end users of the products. To achieve this, business purchasers are normally required to provide the seller with a "resale certificate", which states that the seller is purchasing an item to resell it. The tax is charged on each item sold to purchasers who do not provide such a certificate. The retail sales tax covers not only retailers, but all businesses dealing directly with final end users.

The basis for taxation is the sale price. Unlike multi-stage cumulative taxes, this system allows the tax burden to be calculated exactly and it does not discriminate between different forms of production or distribution channels.

The United States is the only OECD country within which a retail sales tax is employed as the principal consumption tax. However, the retail sales tax in the United States is not a federal tax. Rather, it is a tax imposed at the state level. Currently, 46 of the 50 States impose retail sales taxes. In addition, over 7 500 local tax jurisdictions impose retail sales taxes in accordance with state law requirements. The local taxes are almost always identical in coverage to the state-level tax, are administered at the state level and amount in substance simply to an increase in the state rate, with the additional revenues distributed to the localities. Retail sales taxes are complemented in every state by functionally identical "use" taxes imposed on goods purchased from out-of-state vendors, because the state has no power to tax out-of-state "sale" and therefore imposes a complementary tax on the in-state "use".

State or sub-federal retail sales and use taxes in place in the United States are not without their own problems, especially in the context of interstate and international trade. New means of communication have made purchasing goods across state borders without collection of tax even easier than it was before. Supreme Court rulings prohibit states from requiring vendors to collect tax on cross-border sales when they are not physically present in the purchaser's state. To address this problem, as well as others caused by the lack of harmonisation in state sales and use taxes, a number of states have entered into the Streamlined Sales and Use Tax Agreement (SSUTA available at *www.streamlinedsalestax.org*).This agreement aims at establishing a uniform set of definitions of potentially taxable items that states can choose to tax or not (*e.g.* digital products). The Streamlined member states have also developed a Streamlined Sales Tax Registration System (SSTRS) that enables taxpayers to register voluntarily in order to participate in SSUTA. Voluntary registration requires sellers to collect sales and use taxes in all states into which they make sales, regardless of their physical presence there, and it permits sellers to benefit from increased legal certainty as regards their tax liability. This scheme could become mandatory if the US Congress approves proposed legislation providing congressional consent to SSUTA.

Value added taxes

VAT is the most widespread general consumption tax. The spread of this tax has been the most important development in taxation over the last half-century. Limited to less than ten countries in the late 1960s, it has now been implemented by over 150 countries (see Annex B) where it often accounts for one-fifth of total tax revenue. In addition, 20 of the 33 OECD member countries are members of the European Union[2] and share a common legal framework for VAT. The recognised capacity of VAT to raise revenue in a neutral and

transparent manner has drawn all OECD member countries (except the United States) to adopt this broad-based consumption tax. Its neutrality towards cross-border trade has also made it the preferred alternative to customs duties in the context of trade liberalisation.

Although there is a wide diversity in the way VAT systems are implemented, the key features of VAT can be defined as follows:

- It is a tax on consumption, paid, ultimately, by final consumers and collected by businesses.
- The tax is levied on a broad base (as opposed to, *e.g.* excise duties that cover specific products).
- In principle, business should not bear the burden of the tax itself since there are mechanisms in place that allow for a refund of the tax levied on intermediate transactions between businesses.
- The system is based on tax collection in a staged process, with successive taxpayers entitled to deduct input tax on purchases and account for output tax on sales. As the final consumer is unable to recover the tax, the amount of tax actually collected through the staged collection process should be equal to the amount of VAT charged by the last vendor in the supply chain. In practice, VAT can also be described as a transaction tax.

Indirect tax

VAT is often categorised as an *indirect tax*. Although the distinction between direct and indirect taxes is not always clear, a basic distinction can be made between direct taxes as taxes levied "directly" on income and (possibly) wealth while indirect taxes are levied on the expenditures that the income and wealth finance. Sometimes VAT is also categorised as an indirect tax in that the person who is liable to pay the tax (the business) is someone other than the person who actually bears the cost of the tax (the final consumer).

The staged collection process

The value added tax system is based on tax collection in a staged process, with successive taxpayers entitled to deduct input tax on purchases and account for output tax on sales. Each business in the supply chain takes part in the process of controlling and collecting the tax, remitting the proportion of tax corresponding to the margin realised on transactions, or the difference between the VAT paid to suppliers and the VAT charged to customers. It is because of this characteristic that the tax is called "value added tax".

There are two main approaches for operating the staged collection process:

- The ***invoice credit method*** ("transaction based method") under which each trader charges VAT at the specified rate on each sale and passes to the purchaser an invoice showing the amount of tax thus charged. The purchaser, if subject to VAT on his own sales, is in turn able to credit such payment of input tax against the output tax charged on his sales, remitting the balance to the tax authorities and receiving refunds when there are excess credits. This method is based on invoices that could, in principle, be cross-checked to pick up any overstatement of credit entitlement. By linking the tax credit on the purchaser's inputs to the tax paid by the purchaser, the invoice credit method is designed to discourage fraud.

- The ***Subtraction method*** ("entity based method") under which tax is levied directly on an accounts-based measure of value added calculated for each firm by subtracting VAT calculated on allowable purchases from VAT on taxable turnover. This method is less suited to deal with differential rates structures. Of the OECD countries employing VAT, only Japan uses the subtraction method.

In practice, OECD countries with value added taxes impose the tax at all stages and normally allow immediate deduction of taxes on purchases by all but the final consumer. These features give value added taxes their main economic advantage, that of neutrality. The full right to deduction of input tax through the supply chain, with the exception of the final consumer, ensures the neutrality of the tax, whatever the nature of the product, the structure of the distribution chain and the technical means used for its delivery (stores, physical delivery, Internet).

When the right of deduction covers all inputs, the final burden of the tax does not lie on businesses but on consumers. This is not always the case since some non-OECD economies do not grant credits for the tax on purchases of capital goods or do not refund excess credits (any excess of tax paid on inputs over tax chargeable on outputs). In these circumstances some of the tax burden lies on business. It can also be argued that the economic burden of the VAT can lie in variable proportion on business and consumers. Indeed, the effective incidence of VAT, like that of any other tax, is determined not by the formal nature of the tax but by market circumstances, including the elasticity of demand for consumption and the nature of competition between suppliers (Ebrill, Keen, Bodin and Summers, 2001).

There are a number of other ways in which restrictions are imposed in practice on the right to deduct input tax. Some are deliberate and some result from imperfect administration. Deliberate limitations can result from the exemption of a number of activities. In most countries a number of services are exempt from VAT without right to deduct input tax for social (health, education and charities), practical (financial services, insurance) or historical (immovable property, land) reasons (see Chapter 3). Another set of restrictions to the right of deduction relates – or is deemed to relate- to purchases used for the private consumption of employees or clients of the business such as cars and entertainment. It may also happen that restrictions to the right of deduction are imposed on VAT incurred on investment goods or capital assets. This implies that an irrecoverable tax is embedded in the VAT base of final consumption and leads to a form of cumulative tax. Such a system is often called a "production-type VAT". However, most countries operate a "consumption-type VAT" where VAT is normally deductible on all inputs, including fixed assets.

Although VAT systems implemented in most countries are based on common characteristics, there remain many differences in the way they are operated, including between OECD member countries and even between European Union countries whose VAT laws share the same legislative root.

Neutrality

The concept of tax neutrality in VAT has a number of dimensions, including the absence of discrimination in a tax environment that is unbiased and impartial and the elimination of undue tax burdens and disproportionate or inappropriate compliance costs for businesses. Neutrality is one of the principles that help to ensure the collection of the right amount of revenue by governments in the right jurisdiction.

In domestic trade, tax neutrality is achieved by the staged payment system: each (fully taxable) business pays VAT to its providers on its inputs and receives VAT from its customers on its outputs. Input VAT incurred by each business is offset against output VAT so that the "right" amount of tax to be remitted to tax authorities by each business is the net amount or balance of those two. In some cases, the result of the offset gives rise to a refund due by the tax authorities to the business. Examples include businesses that incur more tax on their inputs than is due on their outputs (such as exporters, as their output is free of VAT under the destination principle) and businesses whose purchases are larger than their sales in the same period (such as new or developing businesses or seasonality). As a result of the staged payment system, VAT normally "flows through the business" to tax the supplies to the final consumer. It is important therefore that at each stage, the supplier is entitled to a full right to deduction of input tax, meaning that the tax burden eventually rests with the final consumer rather than the intermediaries in the supply chain.

This ensures that the tax ultimately collected along a particular supply chain 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.

Consumption tax

From an economic standpoint, VAT is a tax on final consumption by households. Practically, the tax deduction mechanism ensures that the VAT paid by businesses along the value chain does not bear on them but, ultimately, on final consumers only. Therefore, *as economists understand and use the term, only people consume. Businesses buy and use capital goods, office supplies and the like – but they do not consume them in this sense* (Keen and Hellerstein, 2010). In other words, final consumption is only made by private persons (as well as legal persons and governments when they do not act as businesses).

From a legal and practical standpoint, VAT is essentially a transaction tax. In "real life" things can be consumed in many ways. Some can be consumed fully and immediately (like a taxi ride); some can be bought and fully consumed later (like a sandwich); some can be consumed over a longer period of time (like a desk or a subscription to an online database). However, VAT does not actually tax such material consumption. Its subject is rather the whole of the transactions made across the value chain up to and including the final consumer.

In a VAT context, the term "consumption" covers two complementary elements: on the one hand the business-to-business supplies where businesses use inputs for providing onward supplies and, on the other hand, the purchases made by final consumers. The staged payment system is built in such a way that the tax revenue for governments corresponds to the tax applied to the sale to the final consumer only.

This concept of consumption should not be confused with the term "use and enjoyment" (an expression found in the VAT system of the EU), which is closer to the meaning of the term consumption in "real life" as opposed to the VAT world. In some instances, these two events will take place simultaneously, *e.g.* a meal in a restaurant or access to a fair. In such circumstances, the place of the use and enjoyment may be considered by tax administrations as a proxy to ascertain the appropriate payment of the tax (see the section on the destination principle below), but this does not mean that the use and enjoyment is taxed as such.

VAT in cross-border trade

Destination principle *versus* origin principle. The features of the VAT system allow the tax to keep its neutrality in cross-border trade because the *destination principle* is applied. According to this principle, which is the international norm, exports are exempt with refund of input taxes (that is, "free of VAT"[3]) and imports are taxed on the same basis and with the same rates as local supplies. This implies that the total tax paid in relation to a supply is determined by the rules applicable in the jurisdiction of its consumption and therefore all revenue accrues to the jurisdiction where the supply to the final customer occurs.

Sales tax systems, although they work differently in practice, also set out to tax consumption of goods, and to some extent services, within the jurisdiction of consumption. Exported goods are usually relieved from sales tax to provide a degree of neutrality for cross-border trade. However, in most sales tax systems, businesses do incur some irrecoverable sales tax and, if they subsequently export goods, there will be an element of sales tax embedded in the price.

The destination principle contrasts with the *origin principle*[4] according to which each jurisdiction would levy the VAT on the value created within its own borders. This means that exporting jurisdictions would tax exports on the same basis and at the same rate as local supplies while importing jurisdictions would give a credit against their own VAT for the hypothetical tax that would have been paid at the importing jurisdiction's own rate. Tax paid on a supply would then reflect the pattern of its origins and the aggregate revenue would be distributed in that pattern. This would run counter to one of the core features of VAT: as a tax on consumption, the revenue should accrue to the jurisdiction where the final consumption takes place. Under the origin principle these revenues are shared amongst jurisdictions where value is added. In addition, as a neutral tax the total amount of VAT collected should not be influenced by the economic or geographical structure of the value chain. However, under the origin principle this amount reflects the various rates applicable in countries where value is added.

The application of the destination principle, although it is more consistent with the main VAT principles and is accepted as the international norm, is not without its own difficulties. First, as already noted, the usual way of implementing this principle for VAT involves exemption of exports, which means that goods and services circulate free of tax in cross-border trade. The possibilities of fraud are evident. Second, the way it is actually implemented across countries is different which can, in some instances, lead to double taxation or unintended non-taxation and create uncertainties for both business and tax administrations. This issue is becoming increasingly important as globalisation allows greater development of cross-border trade and economic integration.

Cross-border trade in goods. In the cross-border trade in tangible goods, the destination principle works well because it is underpinned by the filtering role of Customs. Exported goods are free of VAT (and are freed of any residual VAT via successive taxpayers' deductions of input tax), whilst imports are subject to the same VAT as equivalent domestic goods. The VAT on imports is generally collected at the same time as customs duties, although in some countries collection is postponed until declared on the importer's next VAT return. Deduction of the VAT incurred at importation, in the same way as input tax deduction on a domestic supply, ensures neutrality and limits distortion in relation to cross-border trade.

Within the European Union, which abolished internal customs barriers and tax frontiers in 1993, the system of intra-Community delivery (exempt in the goods' country of origin) and intra-Community acquisition (taxed in the country of destination) performs the filtering role that operates in normal imports/export regimes.

However, this system does not always ensure the absence of any distortion. For example, double taxation issues may arise in cross-border trade of second hand goods since the goods that have been taxed once in the jurisdiction of export (logically without right to deduction of input tax by the final consumer) are taxed a second time in the jurisdiction of import. Such double taxation may not be consistent with to the VAT principles. In domestic trade, some jurisdictions have solved the issue by implementing a margin tax scheme but the issue remains for cross-border trade. Double taxation can also arise when goods are bought or imported in a jurisdiction by a foreign taxpayer, which is not established or registered there. This is the case for example when a foreign business requires a local producer to produce washing machines, which are subsequently exported. This production requires the local manufacturing of moulds that remain the property of the foreign business. These moulds are destroyed after production is finished. Since those moulds are never exported from the jurisdiction of production, they are taxed in that jurisdiction but the foreign taxpayer is unable to recover that input tax since it is not registered there, nor is it required to be registered. This tax is then embedded in the basis for taxation in the country where the washing machines are imported. This creates an element of double taxation, which may not be consistent with the VAT principles. To avoid this double taxation, some jurisdictions ensure that mechanisms are in place to allow foreign businesses to recover the tax or to avoid VAT being charged on those transactions (see Chapter 2).

Cross-border trade in services and intangibles. Applying the destination principle to supplies of services and intangible products[5] is more difficult. The nature of services and intangibles is such that there are no customs controls that can confirm their exportation or impose the VAT at importation. According to the staged payment process, the supplier should account for the tax in the jurisdiction where the service or the intangible property is consumed. However, the operation of this principle would be extremely difficult in practice: registration of suppliers in every single jurisdiction where their supplies are consumed would prove extremely burdensome, if not impracticable. In addition, it is often not easy for the supplier to determine where services and intangibles are likely to be consumed, in particular in an increasingly globalised environment.

The solution developed in most jurisdictions consists of identifying the place of consumption by reference to proxies. The nature of those proxies and the way they are used vary widely across jurisdictions since they result from local history and legal frameworks.

The rules of the European Union. From 1 January 2010, new rules have been introduced to ensure that place of taxation rules for VAT on services are adapted to current communication technologies and market developments. According to the VAT Directive (Council Directive 2006/112/EC of 28 November 2006), the place of taxation depends on the status of the customer receiving the service and, for a number of exceptions, on the nature of the service supplied.

The supply of services between businesses (B2B services) is in principle taxed at the customer's place of establishment. However, if those services are provided to a fixed establishment of the taxable person in another place, the place of taxation for those services shall be the place where that fixed establishment is located. It is interesting to note that this rule associates two different approaches: a proxy (customer location) and consumption (service "provided to"). Such an association is probably due to the perceived need to protect against fraud. This rule applies to both intra-EU supplies (between different Member States) and supplies to and from non-EU countries. Services supplied to final consumers (B2C services) are in principle taxed where the supplier is located.

However, several exceptions have been introduced for both B2B and B2C services according to their nature. For example, services connected to immovable property are taxed where the immovable property is located; services relating to cultural, artistic, sporting, scientific, educational, entertainment and similar activities are taxed at the place where those services are physically carried out. Specific exceptions also apply to B2C supplies only, such as electronically supplied services provided by non-EU suppliers: these are taxed at the place where the customer resides or has a permanent address. Television broadcasting and telecommunications services supplied by non-EU suppliers are taxable at the place where the private customer effectively uses and enjoys the service. From 1 January 2015 onwards, B2C telecommunications, broadcasting and electronically supplied services provided by suppliers established in the EU will be taxed at the place where the customer resides or has a permanent address. As a result, EU and non-EU suppliers will then be placed on an equal footing as regards the place of taxation for such services and, hence, the VAT rates applicable.

The rules beyond the European Union. Although the EU model has been adopted by a large number of countries in Europe, it should be borne in mind that other systems are in place. The New Zealand GST (adopted in 1986) for example involves a different approach, based on the residence of the supplier. The place of taxation for supplies made by non-residents is presumed to be outside New Zealand, except when the service is physically performed in New Zealand (by the provider or by someone else) and the recipient is either a final consumer or a registered business who has agreed to have the transaction treated as being made in New Zealand. In contrast, the place of taxation for supplies by residents is presumed to be New Zealand, unless the supply is a zero-rated export of services. As a result, "the broad inclusion of supplies by resident suppliers necessitates fairly extensive zero-rating rules and the list of zero-rated services includes most situations where consumption is likely to take place offshore" (Millar, 2007). These services include international transport and related services; services physically performed outside New Zealand; services supplied to a non-resident who is outside New Zealand at the time the services are performed (provided that it is not reasonably foreseeable that the services will be provided to a person in New Zealand); services directly in connection with land or goods located outside New Zealand and supplies in relation to intellectual property rights for use outside New Zealand. Unlike the EU approach (which determines the place of taxation by reference of the nature of the supply and the status of the customer) the New Zealand approach results from a combination of proxies such as location of the provider; location of the customer; relationship with the tangible world (goods or land); intended use of the supply and physical performance. However, "the

European and New Zealand models use a similar range of proxies for identifying the place of taxation. What differs is the way they combine these proxies, the order of application, and the priority given to each proxy" (Millar, 2007).

In the Australian GST approach, supplies are taxable in Australia when they are "connected with Australia". According to that proxy, supplies of services performed in Australia, provided through an Australian enterprise, or consisting of rights to receive supplies in Australia are considered to be potentially taxable in Australia. To prevent GST applying to services not consumed in Australia, the Australian GST law includes broad, proxy-based zero-ratings ("GST-free") similar to those used in New Zealand. Australia's most significant variation from the New Zealand GST is its extensive application to non-residents, who may be required to remit GST for services performed in Australia, irrespective of whether their customer is a registered business or a final consumer. Similarly, services supplied from Australia to a non-resident cannot be zero-rated if the services are delivered to another person (whether a business or a consumer) in Australia. Further to a report issued in 2009 by the Australian Board of Taxation, the Government has agreed to make amendments to the Australian GST cross-border rules with effect from 1 July 2012. Notably, the rules will be amended to limit the circumstances where supplies of goods, services and intangibles by non-residents will require them to register for GST in Australia.

At first sight, the approach of the EU VAT Directive and those of the tax laws in New Zealand and Australia seem different. The VAT Directive apparently provides "universal" principles for the allocation of the tax base between the member states and with the rest of the world, based on the nature of the supplies and the status of the customer, whereas the tax laws in Australia and New Zealand rely on concrete proxies for connecting supplies with their own jurisdiction. However, in practice, these approaches are not that dissimilar. One of the main objectives of the EU VAT Directive is to provide a legislative framework for avoiding conflicts on the jurisdiction where cross-border supplies are taxed, both within the EU and with third countries. It is up to each Member State to transpose the Directive into its national law in order to obtain the appropriate tax result. The practical implementation of the Directive into national law is often made through the definition of concrete place of taxation proxies, which are quite close in nature to those employed in Australia and New Zealand (place were the supplier and/or the customer are established; place where the goods or land are located; physical performance).

These examples (and there are many others) show that, although all OECD countries (and beyond) attempt to implement the destination principle, the practical approaches for such implementation can be somewhat different, creating areas for potential double taxation, unintended non-taxation and uncertainties for both business and tax administrations. These issues were considered serious enough to require remedies (OECD, 2005) and the OECD's Committee on Fiscal Affairs agreed that work should be undertaken to develop internationally agreed approaches. OECD Guidelines on these issues are currently being developed (see Chapter 2).

Reverse charge. Making exports free of VAT and taxing imports introduce a breach in the staged collection process. In most countries where an invoice credit method is used, tax on services and intangibles provided from abroad are usually collected by the so-called *reverse charge mechanism*. Normally, taxpayers that deliver services in countries where they are not established have to register for VAT purposes and fulfil all VAT obligations in that country. To avoid such administrative burdens on foreign providers, the reverse charge mechanism

allows (or sometimes requires) the VAT-registered customer to account for the tax on supplies received from foreign traders. Generally, when the recipient uses the input for VAT taxable outputs, the amount of tax is deductible so that this does not lead to any actual payment to the tax authorities. However, the reverse charge mechanism is not applied in all jurisdictions and, where it is implemented, the rules may differ across countries. The reverse charge mechanism also implies a difference of treatment for sales to domestic and foreign customers and has a cash-flow impact as, when applied, it avoids the customer having to pay the VAT to the supplier before being able to deduct it in its tax return. It is clear that the reverse charge mechanism is not appropriate for business-to-consumer supplies.

Neutrality in cross-border trade. The general principles underpinning neutrality described above also apply to cross-border trade. In principle, the rules applicable to cross-border supplies should not produce a tax advantage for comparable domestic transactions. The application of the destination principle, including the refund or credit of the tax incurred by businesses on exports, ensures there is no unfair competitive advantage afforded to domestic businesses, hence customer choice is not distorted.

However, there are inevitably a number of cases where supplies made to foreign businesses will not be free of tax so that they will incur VAT in a jurisdiction where they are neither established nor registered. Normally, the right to deduction of VAT is exercised by reducing the net tax payable. However, when foreign businesses incur VAT on business expenditures in a jurisdiction where they are not registered (or required to be registered) for VAT, this process cannot be applied. Many countries ensure, at least in theory, that foreign businesses are not discriminated against compared to domestic businesses and they have developed approaches to ensure foreign businesses do not incur irrecoverable VAT, which would not be incurred by domestic businesses. There is no standard approach for applying this principle in practice; these depend on the legal and administrative traditions of each country.

It is also true that tax administrations legitimately impose specific compliance requirements on foreign businesses. Indeed, dealing with foreign businesses with no "legal" presence in a jurisdiction inevitably brings an element of risk and appropriate measures are developed to protect against fraud or avoidance. However, in practice, the compliance burden involved with such specific rules may constitute a form of unjustified discrimination against foreign businesses. The OECD undertook a survey in 2007 of more than 300 businesses in 33 countries (OECD, 2010 a). The outcomes showed that the issue was serious enough to deserve remedies. As a result Guidelines on Neutrality were developed and further work is being done on ways to minimise excess taxation in cross-border trade (see Chapter 2).

Consumption taxes on specific goods and services

In the OECD nomenclature, taxes on specific goods and services (5120) include a range of taxes such as excises, customs and import duties, taxes on exports and taxes on specific services. *Consumption Tax Trends* focuses on excise duties only.

A number of general characteristics differentiate excise duties from value added taxes:

- They are levied on a limited range of products.

- They are not normally liable to tax until the goods enter free circulation, which may be at a late stage in the supply chain.
- Excise charges are generally assessed by reference to the weight, volume, strength or quantity of the product, combined in some cases, with *ad valorem* taxes.

Consequently, and unlike VAT, the excise system is characterised by a small number of taxpayers at the manufacturing or wholesale stage.

As with VAT, excise taxes aim to be neutral internationally. As the tax is normally collected when the goods are released into free circulation, neutrality is often ensured by holding exports under controlled regimes (such as bonded warehouses) and certification of final export (again under controlled conditions) by Customs. Similarly, imported excise goods are levied at importation although frequently the goods enter into controlled tax-free regimes until released into free circulation.

Excise taxes may cover a very wide range of products like salt, sugar, matches, fruit juice or chocolates. However, the range of products subject to excise has declined with the expansion of general consumption taxes. Excise taxes on alcohol, tobacco and hydrocarbon oils continue to raise significant revenues for governments.

There has been a discernible trend in recent decades to ascribe to these taxes characteristics other than simply revenue raising. A number of excise duties have been adjusted with a view to discouraging certain behaviours considered harmful, especially for health reasons. This is particularly the case for excise duties on tobacco and alcohol (so-called "sin taxes") whose rates have been increased in such a way they aim to reduce consumption of these products. The structure of certain excise duties has also gradually changed to encourage more responsible behaviour towards the collective welfare, especially the environment. This is the case for taxes on fuels, cars and other products which produce environmentally harmful emissions.

Such a trend can be regarded as a change in tax policy of governments. Governments have long been conscious that the tax system has an influence on the decisions of firms and individuals. They know the impact of the tax system on employment, business formation and expansion, and consumption patterns and thus have generally tried to raise revenues without distorting consumption patterns or inhibiting investment decisions. Many of the same ideas can be used in the field of environmentally related taxation; however, a goal of environmentally related taxation is to skew consumption and production patterns and reduce the size of the tax base, which is quite different from the goals of most types of taxation (OECD, 2010b). Wider work has been undertaken by the OECD on the impact of taxation on the environment and a full report was issued in 2010 (OECD, 2010b).

Notes

1. For ease of reading, all value added taxes will be referred to as VAT in this chapter.
2. At the time of going to press Estonia, a member state of the EU, was about to become the 34th member of the OECD.
3. "Free of VAT" may be termed zero-rated, exempt with credit, or some other local terminology depending on the jurisdiction. Whatever the description used, the effect should be the same – no VAT is added by the supplier but the supplier is entitled to input tax credits, to the extent that the jurisdiction allows, in respect of such supplies.

4. This should be distinguished from the term used in the EU for a proposed system (but never implemented) in which the VAT would have been collected by the member state of origin and the revenue later channelled to the member state of destination for transactions within the EU.
5. Unlike in the European Union, where there are just two categories of supplies (goods and services) for VAT purposes, some OECD countries have other categories such as intellectual property rights and other intangibles. For ease of reference these are referred to as "intangible products".

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Chapter 2

Consumption Tax Topics

Value added taxes

Spread of VAT

The spread of Value Added Tax (VAT,[1] also called Goods and Services Tax – GST) has been the most important development in taxation over the last half century. Limited to less than ten countries in the late 1960s, it has now been implemented by more than 150 countries (Annex B). VAT now raises 20 per cent of the world's tax revenue and affects about 4 billion people (Keen and Lockwood, 2007). The recognised capacity of VAT to raise revenue in a neutral and transparent manner has drawn all OECD member countries to adopt this broad-based consumption tax, except the United States, which continues to employ retail sales taxes at the state level (and below) rather than apply a federal consumption tax (see Chapter 1). Its neutrality principle towards international trade has also made it the preferred alternative to customs duties in the context of trade liberalisation.

OECD member countries have relied increasingly on VAT as a source of revenues. Over the last twenty three years, the share of VAT as a percentage of total taxation has grown by more than 65% passing from 11.2% on average in 1985 to 18.7% in 2008, this share remaining stable since 2000. This source of revenue is globally third in importance behind personal income taxes (26%) and social security contributions (25%) but far above corporate income tax (10%); specific consumption taxes (10%) and property taxes (5%) (see Chapter 3). These ratios vary considerably between countries, but in 28 of the 32 OECD countries with VAT, the tax accounts for more than 15 per cent of total taxation. Following its adoption by a growing number of countries, a shift occurred within the category of taxes on consumption so that while the share of VAT rose, the revenue from consumption taxes on specific goods and services (mainly excise taxes) fell from 16% to 10% over the same period.

Developments in cross-border trade taxation

From the Ottawa Taxation Framework Conditions to the OECD International VAT/GST Guidelines

At the same time as VAT was spreading across the world, the international trade in goods and services was expanding rapidly as part of globalisation developments. As a result, the interaction between VAT systems operated by countries has come under greater scrutiny as potential for double and unintended non-taxation.

Even though the basic principles of VAT are broadly the same across countries, in that they aim to tax consumption in the jurisdiction where it occurs according to the destination principle (see Chapter 1), differences exist as to how this is achieved in practice. These differences result from local history, differing legal traditions and the need to achieve specific policy objectives. As a result, countries operate VAT systems with their own exemptions and special arrangements but also with differences in approaches regarding the place of taxation for cross-border transactions. In addition, there are a number of variations in the application of value added taxes, and other consumption

taxes, such as different interpretations of the same or similar concepts; different approaches to time of supply and its interaction with place of supply; different definitions of services and intangibles and inconsistent treatment of bundled supplies.

Since the late 1990s, tax authorities have recognised that VAT rules require greater international coherence in order to support global trade. Business and tax authorities also recognised that a co-operative approach was required to solve common problems.

Governments began the process of establishing common guidelines for international VAT issues in 1998 at the OECD Ottawa Conference on electronic commerce. At this Conference, Ministers welcomed the *Ottawa Taxation Framework Conditions*, which can be summarised 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.

As a result, the OECD's Committee on Fiscal Affairs (CFA) adopted the *Guidelines on Consumption Taxation of Cross-border Services and Intangible Property in the Context of E-Commerce* (2001), which were completed by the *Consumption Tax Guidance Series* (2002). These Guidelines 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.

Originally aimed at solving the problems caused by the development of electronic commerce, this work has laid down the foundations for the first international norms (outside the European Union) in the field of VAT. Further to the development of globalisation and cross-border trade, it became clear that many of the problems surrounding the application of VAT to e-commerce actually had their roots in the wider area of services and intangibles and that the remaining differences of approaches amongst jurisdictions still had potential for double taxation and unintended non-taxation (OECD, 2003).

Further analysis showed that that this situation was creating obstacles to business activity, hindering economic growth and distorting competition (OECD, 2004) and that those problems were significant enough to require remedies (OECD, 2005).

The OECD therefore launched a new project in February 2006: the OECD *International VAT/GST Guidelines* (the Guidelines), which aim at providing guidance for governments on applying VAT more generally to cross-border trade.

The development of the International VAT/GST Guidelines

The Guidelines are developed by the CFA in co-operation with a number of non-OECD economies and the business community, with the support of a number of academics. This is a long term project, whose ultimate aim is to cover a large range of issues on the application of VAT to cross-border trade. A provisional Table of Contents (see Annex C) gives an overview of the issues potentially to be covered, but this will evolve and be amended in the light of experience over time.

There is no international framework (outside the European Union) that imposes legally binding VAT rules on countries, and this is probably not necessary, nor desirable. Indeed, it is not the OECD role to draft detailed consumption taxes legislation. Rather, the aim of the Guidelines, when completed, is to provide guidance to help countries develop practical rules to ensure a smooth interaction between national VAT systems, with a view to minimising the potential for double taxation or unintended non-taxation and provide more certainty for business and tax authorities.

In order to progress the work, the Guidelines are being developed in a staged process. As each stage is completed the CFA publishes them for public consultation. When the process of consultation is completed, all comments are carefully considered and the documents are reviewed as appropriate. Work then continues on the basis of the progress achieved. Each document – which constitutes part of the future Guidelines – should be regarded as a building block and should not be considered in isolation. Each building block will be reviewed over time in the light of the subsequent elements in order to form a coherent whole.

As a first step, it was agreed that the more pressing issue was the definition of the place of taxation for cross-border trade in services and intangibles.[2] It was also agreed that the right to deduct input tax, an essential element in VAT systems that underpins the tax's neutral character, should also be assured for cross-border trade. In January 2006, after a successful consultation process with number of non-OECD economies and the business community, the CFA approved the two following basic principles:

- For consumption tax purposes internationally traded services and intangibles should be taxed according to the rules of the jurisdiction of consumption.
- The burden of value added taxes themselves should not lie on taxable businesses except where explicitly provided for in legislation.

The first principle expresses the destination principle (see Chapter 1). The second principle expresses the neutrality principle applied to cross-border trade (see Chapter 1). These principles are currently being developed by the OECD, with input from business and non-OECD economies, into Guidelines that would help governments in the drafting of legislation that minimise uncertainties and barriers to cross-border trade (OECD, 2010).

Definition of the place of taxation. Initially, the focus is on the key factors affecting taxation of services and intangibles, in particular the rules that allow for the implementation of the destination principle in practice.

According to the destination principle approved by the CFA, services and intangibles should be taxed in the jurisdiction of consumption. Although VAT primarily taxes household consumption (see Chapter 1), the multi-staged nature of the tax requires that each supply has to be subject to the rules of the relevant jurisdiction, including

business-to-business supplies. Thus, for the purposes of the Guidelines, in a business-to-business context, "consumption" refers to the use of a supply of services and intangibles at each stage of the value chain rather than "consumption" in the economic sense.

Until fairly recently, most services were consumed where they were performed. Consequently, there was not so much cross-border trade for services consumed outside the supplier's jurisdiction. Therefore, the general rule in many jurisdictions led to taxation where the supplier was located. In the new world that emerged from the Internet revolution and globalisation, the application of this traditional rule became problematic. The difficulty was exacerbated by a number of factors: the enormous growth in cross-border trade in services; the emergence of multinational corporations that render services in a large number of jurisdictions through complex structures; and the diversity of new supply chain processes (cost centres, management centres, etc.) where logistical flows are often different from the legal and invoicing flows.

In addition, most services exchanged today are of an intangible nature, *i.e.* "capable of delivery from a remote location" (OECD, 2001) and, it should be added, "capable of being used in more than one jurisdiction". Indeed, services are frequently ordered by one entity of a business and used in the production process by other entities of that business disseminated across the world (*e.g.* software, management services or intellectual property).

In this context, it has become obvious that the taxation at the place where the supplier is located would no longer give the appropriate tax result. It would imply that business customers should pay VAT on their inputs in foreign countries and would be obliged to use complex and expensive procedures (if they exist) to exert their right to deduct input tax. As a result, many countries have amended their tax legislation in order to maintain the application of the destination principle by making exports of services free of VAT and imports subject to tax. However, although these changes aim at the same goal, it is necessary to develop a consistent set of approaches that maintain tax neutrality for B2B supplies and ensure the application, as far as possible, of the destination principle for B2C supplies.

The main problem for the design of a common standard lies in the difficulty to determine precisely, for each supply, the location where it is consumed. According to the logic of VAT, business-to-business supplies should be taxed where they are used by the business customer in order to make onwards supplies. However, it would often be difficult to identify clearly the place where the customer actually uses the service. By their nature many intangible supplies can be used at different locations, especially by multinational enterprises, so it is necessary to use proxies. In this context, the term "consumption" should not be confused with the concepts of "use and enjoyment" or "actual consumption", which do not match with the transactional nature of the VAT (see Chapter 1).

Such proxies should include a "Main Rule" for the taxation of internationally traded services and intangibles that ensures that they are not subject to VAT in more than one jurisdiction. It would then be up to the jurisdiction that has the right to tax the supply to decide whether or not any tax is due. It is recognised that there will be situations where the "Main Rule" will not work or where it would not achieve a logical result. In those cases, specific rules and proxies will be needed, but these should be limited as far as possible.

As part of this work, a first paper was issued in January 2008 for public consultation (available on *www.oecd.org/ctp/ct*). This paper sets out some of the basic approaches to applying value added taxes to cross-border supplies of services and intangibles in a

business-to-business context. It provides a number of business scenarios and suggests how the "jurisdiction of consumption" might be determined, *i.e.*:

- As a "Main Rule" the jurisdiction of consumption should be defined as the place where the customer is located as supported by the relevant business agreement.
- The place of taxation should be decided for each supply individually so that the determination of the place of taxation of a service or intangible for VAT/GST purposes will not be influenced by any subsequent supply or lack of such supply.
- This normally remains the case whether or not the two parties to a transaction are related in terms of ownership and control.
- A business in the customer's jurisdiction which is related through common ownership to the supplier does not affect these conclusions as long as there is no supply from that business to this customer.
- Similarly, a business in the supplier's jurisdiction which is related through common ownership to the customer does not affect these conclusions as long as there is no supply from the supplier to that business.

All the comments received agreed on the "destination principle" adopted by the CFA and on the proxy adopted as a Main Rule for cross-border business-to-business transactions in services and intangibles. There was also agreement on the principle that each transaction should be treated independently.

The work continued with the publication of a second consultation document in June 2008, describing the how the principles above could apply to more complex situations.

As a result of this work, the CFA released in February 2010 draft Chapter II of the OECD *International VAT/GST Guidelines* for public consultation. These draft Guidelines implement the draft principles set out in January 2008 and propose that:

- **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 principle adopted by the CFA in 2006. It maintains neutrality within the VAT system as it applies to international trade by implementing the destination principle. Guideline 1 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 jurisdiction of consumption.

  To avoid unnecessary burdens 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. Accordingly, the supplier should not be required to be identified for VAT or account for tax 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 consumption. It is indeed long established that taxing internationally traded services and intangibles at the place where they are actually used would be impracticable. More specifically, Guideline 2 provides that the customer location is the most appropriate proxy to determine consumption for business-to-business supplies of services and intangibles. This proxy is referred to in these Guidelines as the "Main Rule".

This means that different proxies could be used only in specified or exceptional circumstances still to be determined by future work.

- **Guideline 3. *The identity of the customer is normally determined by reference to the business agreement.***

  Guideline 3 provides the main element that should assist the supplier, the customer and tax administrations in identifying the nature of the supply, the identity of the parties and their rights and obligations with respect to that supply. The term "business agreement" has been 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.

The Guidelines provide a number of practical examples to illustrate how they apply to the supplier, the customer and tax administrations.

The results from the public consultation confirmed a wide acceptance of the proposed Guidelines. They now constitute a first building block of a wider construction and still need to be completed. They are valid only under the following important assumptions: all supplies are business-to-business, are legitimate and have economic substance. It is also assumed that no tax avoidance or artificial tax minimisation is taking place. Further, all supplies are deemed to be between separate legal entities with single locations only.

The CFA is now working on expanding the Guidelines to cover supplies between entities with multiple locations. It will also consider appropriate exceptions to the Main Rule. Avoidance and artificial tax minimisation issues will be dealt with later.

Cross-border VAT/GST neutrality. Normally, the right to recovery of input tax incurred in the furtherance of taxable business is operated by the deduction of the tax paid on inputs from the tax due on outputs. For cross-border trade, in most cases, the application of the destination principle implies that exports of goods and services are made free of VAT, which ensures that businesses customers do not bear the VAT burden on inputs in countries where they are not established. This principle is confirmed by the "Main Rule" described above under Guideline 2. However there are inevitably situations where taxpayers incur VAT in countries where they are not established (*e.g.* where exceptions to the "Main Rule" are in place). These situations may vary from one country to another according to local legislation. In such a case, mechanisms are often in place to allow foreign taxpayers to recover the input VAT incurred in the country or to avoid VAT being initially charged. This follows from the general principles of value-added tax, which imply that the burden of value added taxes themselves should not lie on taxable businesses but on the final consumer.

Currently, there are different ways of removing the VAT burden on foreign taxpayers. Many countries rely on the standard VAT mechanism, *i.e.* involve the payment of the VAT to the supplier followed by a deduction or refund mechanism (*e.g.* through direct refund procedures, through a registration mechanism or through the appointment of a tax representative). Some others avoid VAT being actually charged to foreign customers (*e.g.* through the application of a general zero-rate for some supplies made to foreign customers or through more specific measures such as one-off zero-rating of supplies to authorised customers). There are also countries – mainly outside the OECD – where the tax relief is extremely limited or denied to foreign taxpayers. Such an absence of right to deduct input tax may lead to double taxation and create distortion of competition.

The conditions and procedures for relief or recovery vary considerably between countries. The lack of consistency in these procedures across countries and their current complexity involve significant compliance and administrative burdens for businesses and tax administrations.

The importance of the issue was confirmed by a recent OECD survey of more than 300 businesses around the world issued in February 2010, *VAT/GST Relief for Foreign Businesses: The State of Play* (*www.oecd.org/ctp/ct*). The report shows that, although most OECD countries have implemented VAT relief procedures, these are frequently complex. 72% of the businesses surveyed said that they found these procedures "difficult" and that more than 20% are unable to recover any foreign VAT. Many businesses said that they recover less than 25% of the VAT incurred in foreign countries and one third said that these difficulties influence decisions on investment. The replies indicate that businesses would like to see improved communication with tax administrations. Greater harmonisation and standardisation of the procedures would speed up and improve these refund systems.

The CFA considered that the issue was significant enough to require remedies and undertook development of appropriate Guidelines in this area. This work is being done in two stages. The CFA has first developed the Guidelines on Neutrality. These will constitute the new Chapter I, Section 3 of the OECD *International VAT/GST Guidelines* and set out the principles of VAT neutrality in the context of cross-border trade. As a second step, the CFA will develop Guidelines on Avoidance of Excess Taxation, which will describe appropriate approaches to ensuring that the neutrality principles are applied in practice.

As a result of this work, in December 2010 the CFA released draft Chapter I, Section 3 of the OECD *International VAT/GST Guidelines* for public consultation. These draft Guidelines propose that:

- **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 October1998. It confirms that the tax should be 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 do 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 Joint Council of Europe/OECD 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.

A summary of the outcomes from the public consultation on these draft Guidelines will be issued on the OECD website (*www.oecd.org/ctp/ct*) in May 2011.

Improving VAT efficiency in a post-crisis context

The economic crisis that has followed the financial crisis of 2008 has caused many governments to adopt two strategies – firstly to stimulate their economies as a means of getting out of recession – the short-run response; and secondly, to consider longer-run policies in order to ensure greater stability and prevent such crises recurring. As a short term reaction several countries have adjusted their VAT tax base and rates either to stimulate consumption or to raise additional revenues. A number of countries have temporarily decreased (the United Kingdom, Portugal) or increased (Ireland) their standard VAT rates. Others have increased it more definitively (Hungary, the Czech Republic, Greece,

Italy, Israel and Mexico) (see Chapter 3). A number of other countries have also undertaken more focused adjustments (*e.g.* extension of reduced rate, postponement of VAT payments, faster repayments, and other administrative measures to ease liquidity problems encountered by businesses). It would appear that countries have used VAT as a short term adjustment tool because of its capacity to take more targeted measures with a more immediate effect than, *e.g.* corporate income taxes.

In the medium to long term, governments will need to find sustainable ways to finance the cost of exiting the crisis, improve the structural balance of their budgets and stimulate growth. This would imply an appropriate balance of revenues from diverse taxes (the "tax mix"), an improved efficiency of taxes to raise revenues and consistent action to combat tax fraud and avoidance.

In June 2009, OECD Ministers agreed that "Growth-oriented tax reforms would generally involve shifting revenue from corporate and personal income taxation or social security contributions onto consumption and property taxes, including housing taxation". This recommendation was supported by recent research on how tax structures could best be designed to support economic growth (OECD, 2010b).

As regards the efficiency of the VAT system, research shows that it would be more efficient to broaden the VAT base at standard rate by removing most exemptions and by abolishing the domestic zero and reduced rates. Although the political difficulties attached to such policy are recognised, VAT reforms should not be looked at in isolation from the tax system as a whole. According to the *OECD Tax Policy Studies* (OECD, 2010b) "an effective redistribution policy is not implemented through each tax in isolation but should be implemented by considering the entire tax system as well as the benefit system". VAT base broadening might therefore be accompanied by other reforms that offset the distributional impact of VAT reforms such as targeted tax expenditures and personal income tax relief (see Chapter 3).

In September 2009, at a meeting in Lucerne, Switzerland, senior tax policy officials from 25 OECD countries, the European Commission and 5 non-member economies recognised and confirmed the key role played by VAT both within the OECD area and beyond (see *Lucerne Communiqué*: OECD, 2009). Considering the ways in which VAT can fulfil its role as effectively as possible, they concluded that:

- VAT is likely to maintain its key position and could become even more central as the world emerges from recession and countries seek to deal with their public debt imbalances.
- Countries are encouraged to modernise their VAT systems to keep pace with economic and technological changes. Participants recognise that their economic efficiency should be improved while recognising the political difficulties attached to any increases in taxes.
- Countries are encouraged to ensure that simplification of VAT, without putting the fight against VAT fraud at risk, is carried through in the years ahead. In particular, tax administrations are encouraged to ensure that they provide business with certainty and clarity in the way that the tax is applied and that the compliance costs can be minimised.
- The work being undertaken by the OECD on the application of VAT internationally to the service sector should be completed with the involvement of the business community. Risks for double taxation and unintended double non-taxation should be minimised.

- In order to combat VAT fraud, the OECD is encouraged to develop further work in this area, including the availability of rapid exchange of information between countries using, for example, the Joint Council of Europe/OECD Convention on Mutual Administrative Assistance in Tax Matters.

The increasing role played by the OECD is recognised as it has a unique capacity to work with member countries to secure effective VAT systems in a global environment and to develop a dialogue with non-OECD economies and businesses to improve the design and operation of consumption tax systems.

Tackling VAT fraud

There has been a significant and worrying trend in recent years for VAT to become a target for serious criminal activity. Despite the measures taken by tax administrations and increased co-operation within the EU, criminal attacks against VAT systems have continued, covering new markets and areas. A survey made by Reckon for the European Commission (Reckon, 2009) estimates the average VAT gap in the EU at 12% of VAT liability (varying from 3% to 28% across individual countries), *i.e.* EUR 106.7 billion for the year 2006.

In addition to "traditional" VAT fraud and avoidance (under-declaration, export fraud, carousel fraud with goods), new types of VAT fraud develop with new technologies and markets, in particular criminal attacks against the VAT system. For example, the development of new markets for CO_2 emission allowances provided opportunities for fraudsters. Due, in part, to the weaknesses in the market registration procedures, and zero-rating of cross-border supplies followed by taxed transactions in domestic markets, fraudulent traders caused billions of euros of tax losses in some countries. Europol also estimated that in some countries, up to 90% of the whole CO_2 allowances market volume was fraudulent (Europol, 2010). The countries concerned have changed the VAT treatment of such supplies and tightened their registration procedures to put an end to such criminal activities. In March 2010 the Council of the European Union adopted a Directive allowing member states to implement, on an optional and temporary basis, a reverse charge mechanism for supplies of greenhouse gas emission allowances (Directive 2010/23/EU of 16 March 2010).

Earlier in 2010, the first suspected cases of attempted missing trader fraud in the gas and power sector were identified by the tax authorities in a number of countries. This type of fraud is similar to that with CO_2 allowances markets. There are also some indications that new types of acquisition fraud may develop in the telephony market (Voice over the Internet Protocol – VoIP). In addition, recent research showed that a large number of accounting software products contained hidden tools (zappers) for manipulation of VAT receipts (Ainsworth, 2010).

The development of appropriate legislation and practical tools are critical to protect governments against international VAT fraud. At the EU level, the Council of the European Union adopted a regulation on 7 October 2010 (Regulation 904/2010) enabling Member States to reinforce co-operation against VAT fraud and approved the creation of Eurofisc, a network of national officials to detect and combat new cases of cross-border VAT fraud. However, it is likely that the development of criminal attacks against the VAT system will not be limited to the European Union.

The OECD has also worked over the last ten years on improving the legal framework for exchange of information for both direct and indirect tax purposes. In 2000, Article 26 of the *Model Tax Convention on Income and Capital* was expanded to include "taxes of any kind" into the exchange of information provisions of bilateral tax treaties. The joint Council of Europe/OECD Convention on Mutual Administrative Assistance in Tax Matters also provides for exchange of information on all taxes and the fourteen countries which are already parties to the Convention can exchange VAT information under this instrument. Other tools for exchange of information in tax matters (including VAT) also exist at regional level such as, *e.g.* the Nordic Mutual Assistance Convention on Mutual Administrative Assistance in Tax Matters.

Key administrative issues

Developments in information technology have enabled governments across the OECD countries to improve services to taxpayers and performance of tax administrations. Given the regular contact businesses have with tax authorities it is not surprising that many countries have introduced online registration and reporting facilities for VAT. Most countries now allow for electronic VAT returns. Overall, the progressive use of technology should lead to reduced compliance costs for business and better use of resources for tax administrations. Work in this area is developed by the OECD Forum on Tax Administration, which publishes Tax Guidance Series and reports (available at *www.oecd.org/ctp/ct*) in areas such as effective compliance risk management techniques, trends in the delivery of taxpayer services and comparative data on revenue administration.

Excise taxes

After a lengthy decline, specific consumption taxes have stabilised in recent years as a proportion of aggregate taxation (see Chapter 3). Apart from their role as a source of tax revenue, excise taxes also fulfil social and environmental functions, since changes in the rates and structure of excise taxes influence consumer behaviour in certain areas. Even so, while they share similar objectives, excise tax rates and bases still vary widely from one OECD country to another, something that can affect cross-border shopping and have a significant impact on certain businesses located in border areas.

Notes

1. For ease of reading, all value added taxes will be referred to as VAT in this chapter.
2. Unlike in the European Union, where there are just two categories of supplies (goods and services) for VAT purposes, some OECD countries have other categories such as intellectual property rights and other intangibles. For ease of reference these are referred to as "intangibles".

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Chapter 3

Value Added Taxes Yield, Rates and Structure

The rise of VAT

It is probably unprecedented in the long history of taxes that a specific – and somewhat conceptually complex – tax mechanism has spread around the world in less than a half century. Limited to less than 10 countries in the late 1960s, Value Added Tax (VAT or, in several countries, Goods and Services Tax – GST),[1] is today an essential source of revenue in more than 150 countries (Annex B).

A number of factors have contributed to these developments. First, globalisation facilitates the rapid spread of ideas and techniques, including taxation. Second, VAT is regarded as a particularly neutral tax with respect to international trade, which is an essential quality in the context of the current free-trade globalisation model. Its neutrality is also one of the main reasons why the adoption of VAT in developing countries is strongly supported by the IMF. Last, but not least, VAT is rightly considered as a particularly efficient tax for raising revenue. It now accounts for almost 20 per cent of the tax revenues of OECD governments.

Additional elements have also played a role in the implementation of VAT in different parts of the world. In the European Union, VAT is directly associated with the development of its internal market. Indeed, VAT avoids the trade distortions associated with cascading indirect taxes that it has replaced (Ebrill, Keen, Bodin and Summers, 2001). For emerging economies, VAT is a more efficient revenue raising tax that supports greater integration in the global market place because it removes taxes on exports through the application of the destination principle (see Chapter 2). In many developing countries, adoption of VAT has been given additional impetus as revenues from customs duties have come under pressure following greater trade liberalisation.

However, although most countries have adopted the same core VAT principles, there are many differences in the way they are implemented.

Importance of, and trends in, general consumption taxes

Tables 3.1 and 3.2 present respectively revenues from general consumption taxes as a percentage of Gross Domestic Product (GDP) and as a percentage of total taxation. These ratios vary considerably between countries, from the United States and Japan where general consumption taxes account for less than 3 per cent of GDP and less than 10 per cent of total taxation, to Hungary and Israel where they account for more than 9 per cent of GDP and more than 25 per cent of total tax. Nevertheless, in the vast majority of countries (28 of 33) general consumption taxes account for more than 15 per cent of total taxation, with an OECD unweighted average of 19.5 per cent.

The revenue from taxes on general consumption, mainly in the form of VAT receipts, stabilised after 2000 as a percentage of both GDP and total taxation. This followed a period of many years during which it had gradually increased. Between 2000 and 2008, Chile, the Czech Republic, Denmark, Korea, Mexico, Poland and Sweden are the countries where

Table 3.1. **Taxes on general consumption (5110) as percentage of GDP**[1]

	1965	1975	1985	1990	1995	2000	2005	2006	2007	2008	Difference 2000-08
Australia	1.5	1.7	2.2	2.3	2.5	3.7	4.1	4.0	4.0	3.5	–0.2
Austria[2]	6.3	7.3	8.6	8.2	7.7	8.1	8.0	7.7	7.7	7.7	–0.4
Belgium	6.6	6.4	7.0	6.9	6.7	7.3	7.2	7.4	7.1	7.0	–0.3
Canada	4.6	4.0	4.3	5.1	5.0	5.1	5.0	4.7	4.5	4.3	–0.8
Chile	. .	. .	. .	6.6	7.7	8.1	8.1	7.4	7.9	8.9	0.8
Czech Republic	. .	. .	. .	. .	6.3	6.5	7.2	6.6	6.6	7.1	0.6
Denmark[2]	3.0	6.6	9.3	9.5	9.4	9.5	10.0	10.3	10.4	10.1	0.6
Finland	5.6	5.7	7.3	8.4	7.9	8.2	8.7	8.6	8.4	8.4	0.2
France[2]	7.9	8.3	8.5	7.9	7.5	7.5	7.5	7.3	7.4	7.3	–0.2
Germany	5.2	5.0	5.7	5.8	6.5	6.8	6.2	6.4	7.0	7.1	0.3
Greece[2]	1.8	3.6	4.4	6.9	6.6	7.4	7.0	7.5	7.5	7.6	0.2
Hungary	. .	. .	. .	. .	8.0	9.9	10.5	9.8	10.3	10.3	0.4
Iceland	4.4	8.6	9.3	10.0	9.9	10.6	11.1	11.3	10.6	9.1	–1.5
Ireland	1.4	4.2	7.1	6.8	6.9	6.9	7.5	7.6	7.4	7.0	0.1
Israel[4]	. .	. .	. .	. .	11.1	9.8	9.9	9.5	9.8	9.6	–0.2
Italy	3.3	3.6	4.9	5.6	5.5	6.5	6.0	6.3	6.2	6.0	–0.5
Japan	0.0	0.0	0.0	1.3	1.5	2.4	2.6	2.6	2.5	2.5	0.1
Korea	. .	1.8	3.3	3.6	3.5	3.8	4.2	4.2	4.2	4.3	0.5
Luxembourg	3.4	4.0	5.0	4.9	5.2	5.6	6.2	5.7	5.7	5.9	0.3
Mexico	. .	. .	2.5	3.3	2.6	3.1	3.5	3.7	3.7	3.8	0.7
Netherlands	4.1	5.8	6.9	7.1	6.5	6.9	7.5	7.2	7.4	7.2	0.3
New Zealand	1.8	2.6	3.2	8.4	8.3	8.4	8.9	8.9	8.4	8.6	0.2
Norway	6.4	8.0	7.8	7.7	8.7	8.4	7.9	8.0	8.3	7.3	–1.1
Poland	. .	. .	. .	. .	6.2	6.9	7.6	8.0	8.2	7.9	1.0
Portugal	0.0	2.2	3.2	5.4	7.1	8.0	8.7	8.8	8.8	8.4	0.4
Slovak Republic	. .	. .	. .	. .	. .	7.0	7.9	7.5	6.7	6.9	–0.1
Slovenia	. .	. .	. .	. .	11.6	8.9	8.6	8.6	8.5	8.5	–0.4
Spain[2]	3.3	2.8	4.1	5.2	5.1	6.0	6.2	6.3	6.0	5.2	–0.8
Sweden	3.4	4.9	6.6	7.8	9.2	8.8	9.2	9.2	9.3	9.4	0.6
Switzerland	1.9	2.1	2.7	3.0	3.3	3.9	3.9	3.9	3.8	3.7	–0.2
Turkey	0.0	0.0	2.7	3.0	5.2	5.8	5.3	5.5	5.1	4.9	–0.9
United Kingdom	1.8	3.1	5.9	6.0	6.5	6.6	6.7	6.6	6.6	6.4	–0.2
United States	1.2	1.8	2.0	2.2	2.2	2.3	2.2	2.2	2.2	2.1	–0.2
Unweighted average[3]											
OECD total	**3.3**	**4.2**	**5.2**	**5.9**	**6.5**	**6.8**	**7.0**	**6.9**	**6.9**	**6.8**	**0.0**

1. Nomenclature: The tables are based on a common nomenclature for all OECD countries. Heading 5110 (general taxes on goods and services) is used for Tables 3.1 and 3.2. It includes VAT, sales taxes and other general taxes on goods and services. Heading 5120 (taxes on specific goods and services) consists primarily of excise taxes, but also includes certain specific taxes such as customs duties and taxes on insurance and certain financial operations in particular. Heading 5111 value added taxes is used for Tables 3.5 and 3.6. It includes all consumption taxes charged on value-added, irrespective of the method of deduction of input tax and the stages at which the taxes are levied. In some countries the heading may include some taxes on financial and insurance activities.
2. Capital transfer: The total tax revenues have been reduced by the amount of capital transfer. The capital transfer has been allocated between tax headings in proportion to the report tax revenue.
3. Averages: All member counties are taken into account for the calculation of the unweighted averages, including countries that had not implemented the relevant taxes for the year considered. They are counted with a value of zero in the numerator and 1 in the denominator. However, countries that did not exist at the time considered (Czech and Slovak Republics before 1993; Slovenia before 1991) are not included in the calculation of the averages. Are also excluded from the calculation of the averages the countries for which no data is available for the time considered (Chile before 1990, Hungary before 1995; Israel before 1995, Korea before 1975; Mexico before 1980; Poland before 1995; and the Slovak Republic before 2000).
4. The statistical data for Israel are supplied by and under the responsibility of the relevant Israeli authorities. The use of such data by the OECD is without prejudice to the status of the Golan Heights, East Jerusalem and Israeli settlements in the West Bank under the terms of international law.

Source: OECD, *Revenue Statistics 2009* and the national statistics offices of the three new member counties (Chile, Israel and Slovenia).

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Table 3.2. **Taxes on general consumption (5110) as percentage of total taxation**[1]

	1965	1975	1985	1990	1995	2000	2005	2006	2007	2008	Difference 2000-08
Australia	7.4	6.7	7.9	8.0	8.7	12.0	13.4	13.2	13.0	12.9	0.9
Austria[2]	18.7	19.8	21.0	20.8	18.6	18.8	18.8	18.4	18.3	18.1	–0.7
Belgium	21.1	16.3	15.8	16.5	15.4	16.3	16.2	16.6	16.3	15.9	–0.4
Canada	17.8	12.5	13.2	14.1	14.0	14.3	14.9	14.0	13.6	13.3	–1.0
Chile	. .	. .	. .	37.4	40.6	41.8	37.8	32.0	32.9	39.4	–2.4
Czech Republic	. .	. .	. .	. .	16.7	18.3	19.2	17.9	17.6	19.6	1.3
Denmark[2]	10.1	17.3	20.2	20.5	19.3	19.3	19.7	20.8	21.4	20.9	1.6
Finland	18.5	15.6	18.3	19.3	17.4	17.4	19.8	19.9	19.5	19.5	2.1
France[2]	23.3	23.4	20.0	18.8	17.4	16.9	17.2	16.9	17.0	16.8	–0.1
Germany	16.5	14.6	15.8	16.6	17.4	18.4	18.0	17.8	19.4	19.2	0.8
Greece[2]	10.3	18.3	17.2	26.5	23.0	21.8	22.2	24.0	23.4	23.2	1.4
Hungary	. .	. .	. .	. .	19.4	26.1	28.1	26.3	26.0	25.6	–0.5
Iceland	16.7	28.6	33.0	32.3	31.7	28.5	27.3	27.2	25.9	24.7	–3.8
Ireland	5.7	14.7	20.6	20.6	21.2	23.1	24.6	24.7	24.1	24.3	1.2
Israel[4]	. .	. .	. .	. .	29.9	26.6	27.7	26.4	27.1	28.5	1.9
Italy	12.9	14.3	14.5	14.7	13.8	15.4	14.6	14.9	14.2	13.8	–1.6
Japan	0.0	0.0	0.0	4.4	5.4	9.1	9.5	9.2	8.8	8.9	–0.2
Korea	. .	12.7	21.1	19.7	18.9	17.0	17.5	16.8	15.8	16.1	–0.9
Luxembourg	12.4	12.1	12.8	13.9	14.0	14.3	16.4	16.0	15.7	16.7	2.4
Mexico	. .	. .	15.9	20.8	16.9	18.7	19.1	20.2	20.4	18.0	–0.7
Netherlands	12.4	14.4	16.2	16.5	15.6	17.4	19.5	18.6	19.8	18.5	1.1
New Zealand	7.7	9.0	10.4	22.4	22.8	24.9	23.8	24.4	23.5	25.4	0.5
Norway	21.5	20.5	18.2	18.8	21.2	19.8	18.2	18.2	19.1	17.1	–2.7
Poland	. .	. .	. .	. .	17.1	22.0	22.9	24.2	23.5	23.0	1.0
Portugal	0.0	11.2	12.6	19.6	22.5	23.4	25.1	24.8	24.1	23.8	0.4
Slovak Republic	. .	. .	. .	. .	. .	20.5	25.0	25.4	22.9	23.4	2.9
Slovenia	. .	. .	. .	. .	29.5	23.7	22.4	22.3	22.5	22.9	–0.8
Spain[2]	22.2	15.3	14.7	16.0	15.9	17.8	17.4	17.4	16.2	15.5	–2.3
Sweden	10.4	12.0	14.0	14.9	19.4	17.0	18.5	18.8	19.3	20.3	3.3
Switzerland	10.6	8.7	10.7	11.6	12.0	13.1	13.4	13.2	13.1	12.8	–0.3
Turkey	0.0	0.0	23.3	20.1	31.1	24.2	21.8	22.2	21.3	20.3	–3.9
United Kingdom	5.9	8.9	15.9	16.9	19.0	18.1	18.6	18.1	18.2	17.8	–0.3
United States	4.8	7.0	7.9	8.0	8.0	7.6	8.0	7.8	7.7	8.1	0.5
Unweighted average[3]											
OECD total	**11.9**	**13.4**	**15.8**	**18.1**	**19.2**	**19.5**	**19.9**	**19.7**	**19.4**	**19.5**	**0.0**

1. Nomenclature: The tables are based on a common nomenclature for all OECD countries. Heading 5110 (general taxes on goods and services) is used for Tables 3.1 and 3.2. It includes VAT, sales taxes and other general taxes on goods and services. Heading 5120 (taxes on specific goods and services) consists primarily of excise taxes, but also includes certain specific taxes such as customs duties and taxes on insurance and certain financial operations in particular. Heading 5111 value added taxes is used for Tables 3.5 and 3.6. It includes all consumption taxes charged on value-added, irrespective of the method of deduction of input tax and the stages at which the taxes are levied. In some countries the heading may include some taxes on financial and insurance activities.
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3. Averages: All member counties are taken into account for the calculation of the unweighted averages, including countries that had not implemented the relevant taxes for the year considered. They are counted with a value of zero in the numerator and 1 in the denominator. However, countries that did not exist at the time considered (Czech and Slovak Republics before 1993; Slovenia before 1991) are not included in the calculation of the averages. Are also excluded from the calculation of the averages the countries for which no data is available for the time considered (Chile before 1990, Hungary before 1995; Israel before 1995, Korea before 1975; Mexico before 1980; Poland before 1995; and the Slovak Republic before 2000).
4. The statistical data for Israel are supplied by and under the responsibility of the relevant Israeli authorities. The use of such data by the OECD is without prejudice to the status of the Golan Heights, East Jerusalem and Israeli settlements in the West Bank under the terms of international law.

Source: OECD, *Revenue Statistics 2009* and the national statistics offices of the three new member counties (Chile, Israel and Slovenia).

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Table 3.3. **Taxes on specific goods and services (5120) as percentage of GDP**[1]

	1965	1975	1985	1990	1995	2000	2005	2006	2007	2008	Difference 2000-08
Australia	4.8	5.0	5.9	4.4	4.2	4.4	3.7	3.6	3.5	3.3	–1.1
Austria[2]	6.1	5.1	4.1	3.6	3.5	3.5	3.4	3.3	3.2	3.1	–0.4
Belgium	4.0	3.9	3.6	3.6	3.7	3.2	3.3	3.3	3.2	3.1	–0.1
Canada	4.3	4.3	4.2	3.7	3.5	3.1	3.0	2.8	2.8	2.8	–0.3
Chile	. .	. .	. .	4.0	3.6	3.6	2.4	2.1	2.1	1.9	–1.7
Czech Republic	. .	. .	. .	. .	4.9	3.9	3.7	3.7	3.8	3.7	–0.2
Denmark[2]	8.7	5.8	6.0	5.1	5.6	5.5	5.4	5.3	5.1	4.7	–0.8
Finland	7.1	5.8	6.0	5.6	5.7	5.1	4.7	4.5	4.2	4.2	–0.9
France[2]	4.9	3.2	3.7	3.7	4.0	3.6	3.3	3.2	3.1	3.0	–0.6
Germany	4.6	3.7	3.2	3.2	3.5	3.3	3.5	3.3	3.2	3.1	–0.2
Greece[2]	6.0	4.6	5.3	4.1	4.7	3.4	2.9	2.8	2.9	2.8	–0.6
Hungary	. .	. .	. .	. .	8.6	5.3	4.0	4.2	4.3	4.3	–1.0
Iceland	11.8	10.1	7.5	5.2	4.4	4.1	4.3	4.4	4.2	3.4	–0.7
Ireland	10.8	8.5	7.6	6.6	5.7	4.3	3.4	3.3	3.2	3.1	–1.2
Israel[4]	. .	. .	. .	. .	1.6	1.6	1.9	2.0	2.0	2.1	0.5
Italy	6.2	3.5	3.1	4.0	4.5	4.1	3.8	3.8	3.7	3.5	–0.6
Japan	4.5	3.1	3.3	2.2	2.2	2.1	2.1	2.1	2.0	2.0	–0.1
Korea	. .	6.8	5.9	4.7	4.1	4.4	3.8	3.7	3.8	3.9	–0.5
Luxembourg	3.1	2.6	4.4	3.8	4.7	4.9	4.6	4.2	4.0	3.8	–1.1
Mexico	. .	. .	7.5	5.4	5.4	5.6	6.6	6.4	5.7	8.5	2.9
Netherlands	4.8	3.3	3.1	3.2	3.7	3.5	3.6	3.5	3.3	3.4	–0.1
New Zealand	4.5	4.0	3.6	3.4	3.1	2.5	2.3	2.2	2.1	2.0	–0.5
Norway	5.5	6.3	7.7	6.3	6.3	4.1	3.4	3.3	3.3	3.0	–1.1
Poland	. .	. .	. .	. .	6.3	4.4	4.4	4.2	4.4	4.7	0.3
Portugal	7.0	5.7	7.5	6.6	5.7	4.5	4.8	5.0	4.6	4.3	–0.2
Slovak Republic	. .	. .	. .	. .	. .	4.7	3.9	3.1	3.8	2.9	–1.8
Slovenia	. .	. .	. .	. .	3.3	4.5	4.2	4.1	4.1	4.2	–0.3
Spain[2]	2.7	1.6	3.5	3.4	3.3	3.3	3.0	2.9	2.8	2.6	–0.7
Sweden	6.4	4.4	5.5	4.8	3.9	3.6	3.4	3.2	3.1	2.9	–0.7
Switzerland	3.7	2.8	2.4	2.1	2.3	2.4	2.3	2.2	2.1	1.8	–0.6
Turkey	5.6	4.9	1.4	1.1	1.0	4.0	6.2	6.0	5.8	5.6	1.6
United Kingdom	7.7	5.2	5.1	4.5	4.9	4.5	3.7	3.6	3.5	3.5	–1.0
United States	3.7	2.6	2.1	1.9	2.1	1.9	1.8	1.7	1.7	1.6	–0.3
Unweighted average[3]											
OECD total	**5.8**	**4.7**	**4.7**	**4.1**	**4.2**	**3.8**	**3.7**	**3.5**	**3.5**	**3.4**	**–0.4**

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Source: OECD, *Revenue Statistics 2009* and the national statistics offices of the three new member counties (Chile, Israel and Slovenia).

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Table 3.4. **Taxes on specific goods and services (5120) as percentage of total taxation**[1]

	1965	1975	1985	1990	1995	2000	2005	2006	2007	2008	Difference 2000-08
Australia	22.7	19.1	20.7	15.3	14.5	14.1	12.0	11.8	11.3	12.1	–2.0
Austria[2]	18.0	14.0	9.9	9.0	8.5	8.1	8.1	7.9	7.6	7.4	–0.7
Belgium	13.0	9.8	8.2	8.5	8.5	7.1	7.3	7.3	7.2	7.0	–0.1
Canada	16.8	13.6	13.0	10.3	9.9	8.6	8.9	8.5	8.4	8.6	0.0
Chile	. .	. .	. .	23.0	19.2	18.8	10.9	9.0	8.7	8.7	–10.1
Czech Republic	. .	. .	. .	. .	13.0	11.0	9.9	10.1	10.1	10.2	–0.8
Denmark[2]	28.9	15.0	13.0	11.0	11.4	11.1	10.6	10.6	10.4	9.8	–1.3
Finland	23.4	16.0	15.2	12.9	12.5	10.9	10.8	10.5	9.8	9.7	–1.2
France[2]	14.3	9.0	8.7	8.7	9.2	8.2	7.6	7.3	7.0	7.0	–1.2
Germany	14.6	10.8	8.7	9.2	9.5	8.8	9.9	9.4	8.8	8.3	–0.5
Greece[2]	33.8	23.9	20.9	15.6	16.4	10.1	9.4	9.0	9.2	8.6	–1.5
Hungary	. .	. .	. .	. .	20.9	13.8	10.8	11.3	10.9	10.8	–3.0
Iceland	45.0	33.6	26.5	16.9	14.0	11.0	10.6	10.5	10.2	9.1	–1.9
Ireland	43.4	29.7	22.0	20.1	17.5	13.9	11.1	10.3	10.3	10.7	–3.2
Israel[4]	. .	. .	. .	. .	4.4	4.3	5.3	5.5	5.4	6.1	1.8
Italy	24.1	14.0	9.1	10.6	11.1	9.6	9.2	9.0	8.5	8.2	–1.4
Japan	25.0	15.1	12.1	7.5	8.3	8.0	7.7	7.4	7.1	7.0	–1.0
Korea	. .	47.3	37.4	25.7	21.9	19.7	15.9	14.9	14.5	14.5	–5.2
Luxembourg	11.1	8.0	11.1	10.8	12.6	12.5	12.3	11.6	10.9	10.8	–1.7
Mexico	. .	. .	48.6	34.0	35.8	33.4	36.6	35.1	31.6	40.3	6.9
Netherlands	14.7	8.1	7.2	7.5	9.0	8.9	9.3	9.0	8.7	8.6	–0.3
New Zealand	18.5	13.8	11.7	9.2	8.6	7.5	6.2	6.1	5.9	6.1	–1.4
Norway	18.4	16.1	18.1	15.3	15.5	9.6	7.9	7.6	7.7	7.0	–2.6
Poland	. .	. .	. .	. .	17.5	13.5	13.3	12.4	12.7	13.8	0.3
Portugal	44.0	28.9	29.7	23.8	17.6	13.1	13.9	14.0	12.7	12.1	–1.0
Slovak Republic	. .	. .	. .	. .	. .	13.7	12.3	10.6	12.9	10.0	–3.7
Slovenia	. .	. .	. .	. .	8.4	12.1	10.8	10.7	10.9	11.2	–0.9
Spain[2]	18.4	8.7	12.8	10.5	10.3	9.6	8.3	7.8	7.5	7.8	–1.8
Sweden	19.2	10.7	11.6	9.2	8.3	7.0	6.8	6.5	6.4	6.4	–0.6
Switzerland	21.3	11.9	9.5	8.2	8.4	8.0	7.8	7.5	7.3	6.2	–1.8
Turkey	53.5	40.9	12.4	7.3	6.0	16.4	25.5	24.6	24.3	23.2	6.8
United Kingdom	25.2	14.8	13.8	12.6	14.5	12.4	10.5	9.8	9.8	9.8	–2.6
United States	15.1	10.0	8.4	7.0	7.5	6.3	6.6	6.2	6.0	6.3	0.0
Unweighted average[3]											
OECD total	**24.3**	**17.7**	**16.2**	**13.3**	**12.8**	**11.5**	**11.0**	**10.6**	**10.3**	**10.4**	**–1.1**

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3. Averages: All member counties are taken into account for the calculation of the unweighted averages, including countries that had not implemented the relevant taxes for the year considered. They are counted with a value of zero in the numerator and 1 in the denominator. However, countries that did not exist at the time considered (Czech and Slovak Republics before 1993; Slovenia before 1991) are not included in the calculation of the averages. Are also excluded from the calculation of the averages the countries for which no data is available for the time considered (Chile before 1990, Hungary before 1995; Israel before 1995, Korea before 1975; Mexico before 1980; Poland before 1995; and the Slovak Republic before 2000).
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Source: OECD, *Revenue Statistics 2009* and the national statistics offices of the three new member counties (Chile, Israel and Slovenia).

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taxes on general consumption in relation to GDP increased the most (by at least 0.5 percentage points), while in Canada, Iceland, Italy, Norway, Spain and Turkey the percentage has fallen by at least 0.5 percentage points.

Over the longer term, OECD member countries have relied increasingly on taxes on general consumption. Since 1965, the share of taxes on general consumption as a percentage of GDP has more than doubled as an unweighted average, rising from 3.3% to 6.8%. The share has also risen by almost two thirds as a percentage of total taxation (up from 11.9% to 19.5%).

This is especially true of VAT (see Tables 3.5 and 3.6), which exists in all but one of the OECD countries, the United States being the only OECD country not to have adopted a VAT. In 1977, fourteen of the current OECD member countries had a VAT. Greece, Iceland, Spain, Portugal, Turkey, Mexico, Japan and New Zealand introduced VAT in the 1980s while Switzerland followed shortly afterwards. The eastern European economies introduced VAT in the late 1980s and early 1990s, some of them adopting the EU model with their future membership of the Union in mind. The tendency for VAT rates to rise over the long term (see Table 3.8) also contributed to the growing share of general consumption taxes in the tax mix.

Tables 3.3 and 3.4 show that revenue from taxes on specific goods and services, the bulk of which are excise taxes, fell as a percentage of GDP (from 5.8% in 1965 to 3.4% in 2008) and as a percentage of total taxation (from 24.3% in 1965 to 10.4% in 2008) over the last forty years coinciding with the rise of VAT (excise taxes are discussed in greater detail in Chapter 4).

As a result, the mix of consumption taxes has fundamentally changed (see Figure 3.1). The share of all taxes on consumption (general consumption taxes plus specific consumption taxes) hardly changed between 1980 and 2008, but general consumption taxes, especially VAT, now dominate in the mix. General consumption taxes presently produce 19.5 per cent of total tax revenue, compared with less than 12 per cent in the mid-1960s. In fact, the increased importance of VAT has served to counteract the diminishing share of specific consumption taxes, such as excise and customs duties

Figure 3.1. **Share of consumption taxes as percentage of total taxation**

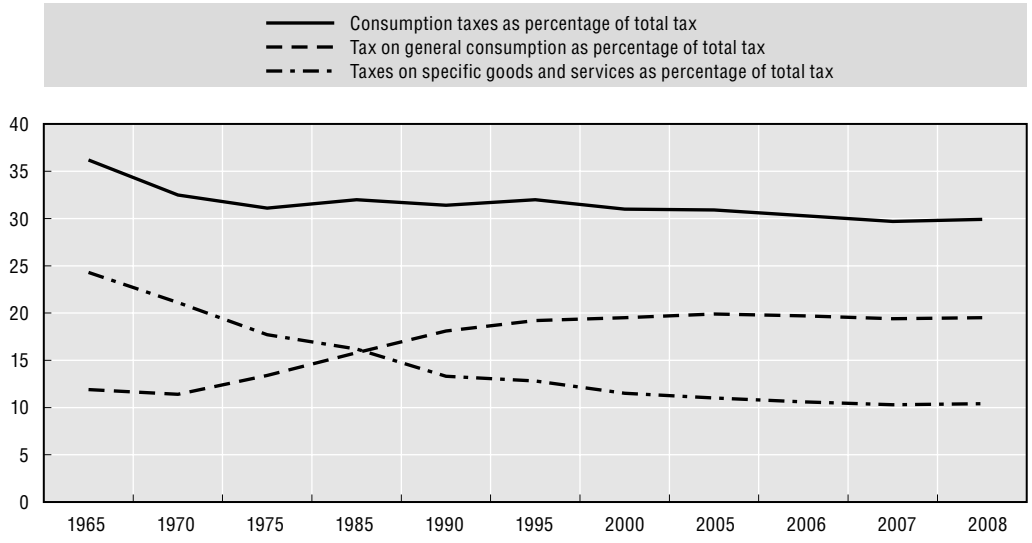

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Table 3.5. **Value added taxes (5111) as percentage of GDP**[1]

	1965	1975	1985	1990	1995	2000	2005	2006	2007	2008	Difference 2000-08
Australia	0.0	0.0	0.0	0.0	0.0	3.4	3.9	3.8	3.8	3.4	0.0
Austria[2]	0.0	7.3	8.6	8.2	7.7	8.1	8.0	7.7	7.7	7.8	–0.4
Belgium	0.0	6.4	7.0	6.9	6.7	7.3	7.1	7.3	7.1	7.0	–0.3
Canada	0.0	0.0	0.0	0.0	3.0	3.3	3.4	3.1	3.0	2.7	–0.7
Chile	. .	. .	. .	6.6	7.7	8.1	8.1	7.4	7.9	8.9	0.7
Czech Republic	. .	. .	. .	. .	6.3	6.5	7.2	6.6	6.6	7.1	0.6
Denmark[2]	. .	6.6	9.3	8.5	9.4	9.5	10.0	10.3	10.4	10.1	0.6
Finland	5.6	5.7	7.3	8.4	7.9	8.2	8.7	8.7	8.4	8.4	0.2
France[2]	6.8	8.2	8.4	7.7	7.3	7.3	7.3	7.1	7.2	7.0	–0.3
Germany	0.0	5.0	5.7	5.8	6.5	6.8	6.2	6.3	7.0	7.1	0.3
Greece[2]	0.0	0.0	0.0	6.4	6.4	7.2	6.9	7.2	7.3	7.2	0.0
Hungary	. .	. .	. .	. .	7.4	8.6	8.5	7.6	8.0	7.7	–0.9
Iceland	0.0	0.0	0.0	8.8	9.3	10.6	11.1	11.3	10.5	9.1	–1.5
Ireland	0.0	4.2	7.1	6.8	6.9	6.9	7.5	7.6	7.5	7.1	0.2
Israel[4]	. .	. .	. .	. .	8.6	7.8	8.0	7.7	7.8	7.8	0.0
Italy	0.0	3.5	4.9	5.6	5.5	6.5	6.0	6.3	6.2	6.0	–0.5
Japan	0.0	0.0	0.0	1.3	1.5	2.5	2.6	0.0	2.5	2.5	0.0
Korea	. .	0.0	3.3	3.6	3.5	3.8	4.2	0.0	4.2	4.3	0.4
Luxembourg	0.0	4.0	4.4	4.2	4.5	5.2	6.0	5.6	5.6	5.8	0.6
Mexico	. .	. .	2.5	3.3	2.6	3.1	3.5	3.7	3.7	3.8	0.6
Netherlands	0.0	5.8	6.9	7.1	6.5	6.9	7.5	7.2	7.5	7.2	0.3
New Zealand	0.0	0.0	0.0	8.4	8.3	8.4	8.8	9.0	8.3	8.6	0.1
Norway	0.0	8.0	7.8	7.7	8.7	8.4	7.9	8.0	8.3	7.3	–1.0
Poland	. .	. .	. .	. .	6.2	6.9	7.6	8.0	8.2	7.9	0.9
Portugal	. .	0.0	0.0	5.4	7.1	7.7	8.5	8.6	8.5	8.4	0.7
Slovak Republic	. .	. .	. .	. .	. .	7.0	7.9	7.5	6.7	6.9	–0.1
Slovenia	. .	. .	. .	. .	0.0	8.7	8.6	8.6	8.5	8.5	–0.2
Spain[2]	0.0	0.0	0.0	5.1	5.1	6.0	6.2	6.3	6.1	5.3	–0.7
Sweden	0.0	4.9	6.6	7.8	9.2	8.7	9.0	9.0	9.0	9.3	0.6
Switzerland	0.0	0.0	0.0	0.0	2.4	3.9	3.9	3.9	3.7	3.7	–0.2
Turkey	. .	. .	2.6	2.7	4.1	5.8	5.3	5.5	5.1	4.9	–0.9
United Kingdom	0.0	3.1	5.9	6.0	6.5	6.6	6.7	6.6	6.6	6.4	–0.2
United States	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Unweighted average[3]											
OECD total	**0.6**	**2.7**	**3.8**	**5.3**	**5.7**	**6.5**	**6.7**	**6.5**	**6.6**	**6.5**	**0.0**

1. Nomenclature: The tables are based on a common nomenclature for all OECD countries. Heading 5110 (general taxes on goods and services) is used for Tables 3.1 and 3.2. It includes VAT, sales taxes and other general taxes on goods and services. Heading 5120 (taxes on specific goods and services) consists primarily of excise taxes, but also includes certain specific taxes such as customs duties and taxes on insurance and certain financial operations in particular. Heading 5111 value added taxes is used for Tables 3.5 and 3.6. It includes all consumption taxes charged on value-added, irrespective of the method of deduction of input tax and the stages at which the taxes are levied. In some countries the heading may include some taxes on financial and insurance activities.
2. Capital transfer: The total tax revenues have been reduced by the amount of capital transfer. The capital transfer has been allocated between tax headings in proportion to the report tax revenue.
3. Averages: All member counties are taken into account for the calculation of the unweighted averages, including countries that had not implemented the relevant taxes for the year considered. They are counted with a value of zero in the numerator and 1 in the denominator. However, countries that did not exist at the time considered (Czech and Slovak Republics before 1993; Slovenia before 1991) are not included in the calculation of the averages. Are also excluded from the calculation of the averages the countries for which no data is available for the time considered (Chile before 1990, Hungary before 1995; Israel before 1995, Korea before 1975; Mexico before 1980; Poland before 1995; and the Slovak Republic before 2000).
4. The statistical data for Israel are supplied by and under the responsibility of the relevant Israeli authorities. The use of such data by the OECD is without prejudice to the status of the Golan Heights, East Jerusalem and Israeli settlements in the West Bank under the terms of international law.

Source: OECD, *Revenue Statistics 2009* and the national statistics offices of the three new member counties (Chile, Israel and Slovenia).

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Table 3.6. **Value added taxes (5111) as percentage of total taxation**[1]

	1965	1975	1985	1990	1995	2000	2005	2006	2007	2008	Difference 2000-08
Australia	0.0	0.0	0.0	0.0	0.0	11.1	13.1	12.9	12.7	12.6	1.4
Austria[2]	0.0	19.8	21.0	20.8	18.6	18.8	18.8	18.4	18.3	18.1	–0.7
Belgium	0.0	16.3	15.8	16.5	15.3	16.2	15.9	16.4	16.1	15.8	–0.4
Canada	0.0	0.0	0.0	0.0	8.4	9.2	10.0	9.2	8.8	8.3	–0.9
Chile	. .	. .	. .	37.4	40.6	41.8	37.8	31.9	32.9	39.4	–2.4
Czech Republic	. .	. .	. .	. .	16.7	18.3	19.2	17.9	17.6	19.7	1.5
Denmark[2]	. .	17.3	20.2	18.3	19.2	19.3	19.7	20.7	21.4	20.9	1.6
Finland	18.5	15.6	18.3	19.3	17.4	17.4	19.8	19.9	19.5	19.5	2.1
France[2]	20.1	23.1	19.7	18.4	17.0	16.5	16.6	16.1	16.4	16.2	–0.3
Germany	0.0	14.6	15.8	16.6	17.4	18.4	18.0	17.8	19.4	19.2	0.8
Greece[2]	0.0	0.0	0.0	24.6	22.0	21.2	21.6	22.8	22.6	21.8	0.6
Hungary	. .	. .	. .	. .	17.8	22.4	22.6	20.4	20.0	19.4	–3.1
Iceland	0.0	0.0	0.0	28.4	29.9	28.5	27.3	27.2	25.9	24.7	–3.8
Ireland	0.0	14.7	20.6	20.6	21.2	22.1	24.6	24.0	24.1	24.3	2.2
Israel[4]	. .	. .	. .	. .	23.3	21.3	22.5	21.6	21.7	23.2	1.9
Italy	0.0	13.7	14.5	14.7	13.8	15.4	14.6	14.8	14.2	13.8	–1.6
Japan	0.0	. .	. .	4.4	5.4	9.1	9.5	9.2	8.8	9.2	0.2
Korea	. .	0.0	21.1	19.7	18.9	17.0	17.5	16.8	15.8	16.1	–0.9
Luxembourg	0.0	12.1	11.1	11.8	12.2	13.3	16.0	15.7	15.3	16.4	3.1
Mexico	. .	. .	15.9	20.8	16.9	18.7	19.1	20.2	20.4	18.0	–0.7
Netherlands	0.0	14.4	16.2	16.5	15.6	17.4	19.5	18.6	19.8	18.5	1.1
New Zealand	0.0	0.0	0.0	22.4	22.8	24.9	23.8	24.4	23.5	25.4	0.6
Norway	0.0	20.5	18.2	18.8	21.2	19.7	18.1	18.1	19.0	17.1	–2.6
Poland	. .	. .	. .	. .	17.0	21.2	22.9	23.5	23.5	23.0	1.8
Portugal	. .	0.0	0.0	19.6	22.2	23.4	25.1	24.9	24.1	23.8	0.5
Slovak Republic	. .	. .	. .	. .	. .	20.4	25.0	25.4	22.9	23.4	3.0
Slovenia	. .	. .	. .	. .	0.0	23.3	22.4	22.3	22.5	22.9	–0.4
Spain[2]	0.0	0.0	0.0	15.7	15.8	17.5	17.4	17.1	16.2	15.5	–2.0
Sweden	0.0	12.0	14.0	14.9	19.4	16.9	18.3	18.5	19.1	20.0	3.1
Switzerland	0.0	0.0	0.0	0.0	8.6	13.1	13.4	13.2	13.1	12.8	–0.3
Turkey	. .	. .	22.3	18.3	24.3	24.2	21.8	22.2	21.3	20.3	–3.9
United Kingdom	0.0	8.9	15.9	16.9	19.0	18.1	18.6	18.1	18.2	17.8	–0.3
United States	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Unweighted average[3]											
OECD total	**1.8**	**8.8**	**11.2**	**16.1**	**16.8**	**18.7**	**19.1**	**18.8**	**18.6**	**18.7**	**0.0**

1. Nomenclature: The tables are based on a common nomenclature for all OECD countries. Heading 5110 (general taxes on goods and services) is used for Tables 3.1 and 3.2. It includes VAT, sales taxes and other general taxes on goods and services. Heading 5120 (taxes on specific goods and services) consists primarily of excise taxes, but also includes certain specific taxes such as customs duties and taxes on insurance and certain financial operations in particular. Heading 5111 value added taxes is used for Tables 3.5 and 3.6. It includes all consumption taxes charged on value-added, irrespective of the method of deduction of input tax and the stages at which the taxes are levied. In some countries the heading may include some taxes on financial and insurance activities.
2. Capital transfer: The total tax revenues have been reduced by the amount of capital transfer. The capital transfer has been allocated between tax headings in proportion to the report tax revenue.
3. Averages: All member counties are taken into account for the calculation of the unweighted averages, including countries that had not implemented the relevant taxes for the year considered. They are counted with a value of zero in the numerator and 1 in the denominator. However, countries that did not exist at the time considered (Czech and Slovak Republics before 1993; Slovenia before 1991) are not included in the calculation of the averages. Are also excluded from the calculation of the averages the countries for which no data is available for the time considered (Chile before 1990, Hungary before 1995, Israel before 1995, Korea before 1975, Mexico before 1980, Poland before 1995 and the Slovak Republic before 2000).
4. The statistical data for Israel are supplied by and under the responsibility of the relevant Israeli authorities. The use of such data by the OECD is without prejudice to the status of the Golan Heights, East Jerusalem and Israeli settlements in the West Bank under the terms of international law.

Source: OECD, *Revenue Statistics 2009* and the national statistics offices of the three new member counties (Chile, Israel and Slovenia).

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(Figure 3.1). Between 1965 and 2008 the share of specific taxes on consumption (mostly on tobacco, alcoholic drinks and fuels, including some newly introduced environment-related taxes) was more than halved. Only Mexico and Turkey still collect a relatively large part of their revenues by way of taxes on specific goods and services (respectively 40.3% and 23.2%).

The general tax mix has also evolved over the same period (see Table 3.7). The relative fall in the share of consumption taxes in total taxation between 1965 and 1975 was balanced by an increase in the share of taxes on income. This rise has come mainly from an increase in the share of social security contributions (by 7 percentage points between 1965 and 2008). Personal plus corporate income taxes show no consistent trend over the period as a whole, with the share of personal income tax rising and then falling. In contrast, the share of property taxes (which are difficult to classify as either taxes on consumption or taxes on income) has suffered a slight fall. As a result VAT has become one of the three most important taxes in terms of revenue in most OECD countries, ahead of corporate income taxes, payroll and property taxes.

Table 3.7. **Tax structures in the OECD area**[1]

	1965	1975	1985	1995	2000	2008
Personal income tax	26	30	30	27	25	26
Corporate income tax	9	8	8	8	10	10
Social security contributions[2]	18	22	22	25	24	25
(employee)	*(6)*	*(7)*	*(7)*	*(9)*	*(9)*	*(9)*
(employer)	*(10)*	*(14)*	*(13)*	*(14)*	*(14)*	*(14)*
Payroll taxes	1	1	1	1	1	1
Property taxes	8	6	5	6	6	5
General consumption taxes	12	13	16	19	19	20
(of which: *VAT)*	*(2)*	*(9)*	*(11)*	*(17)*	*(19)*	*(19)*
Specific consumption taxes	24	18	16	13	12	10
Other taxes[3]	2	2	2	3	3	3
Total	**100**	**100**	**100**	**100**	**100**	**100**

1. Percentage share of major tax categories in total tax revenue.
2. Including social security contributions paid by the self-employed and benefit recipients (heading 2300) that are not shown in the breakdown over employees and employers.
3. Including certain taxes on goods and services (heading 5200) and stamp taxes.

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Despite strong economic arguments (see below) supporting uniform commodity taxation, in practice VAT preferential treatments are widely used in OECD countries. Most of these differentiated rate structures and exemptions appear to have been introduced for equity and social objectives (*e.g.* exemptions or reduced rates on essentials or specific sectors such as health, education or charities). In addition, specific exemptions were introduced for practical (insurance and financial services) or historical reasons (postal services, immovable property).

Evolution of VAT rates

The average standard rate of VAT has remained stable since 2000 (Table 3.8) although some trends in various directions can be observed. Five countries have decreased their standard rate (Canada, the Czech Republic, France, Israel and the Slovak Republic) while eleven countries increased the rate (Chile, Germany, Greece, Iceland, Mexico, the Netherlands, Norway, Portugal, Slovenia, Switzerland and Turkey). It may be worth noting that twelve of the fifteen countries that have changed their standard rate since 2000 are

Table 3.8. **VAT/GST rates in OECD member countries**[1]

	Implemented	Standard rate																				Reduced rates[2]	Specific rates in specific regions
		1976	1980	1984	1988	1990	1992	1994	1996	1998	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010		
Australia	2000	–	–	–	–	–	–	–	–	–	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	0.0	–
Austria[3]	1973	18.0	18.0	20.0	20.0	20.0	20.0	20.0	20.0	20.0	20.0	20.0	20.0	20.0	20.0	20.0	20.0	20.0	20.0	20.0	20.0	10.0/12.0	19.00
Belgium	1971	18.0	16.0	19.0	19.0	19.0	19.5	20.5	21.0	21.0	21.0	21.0	21.0	21.0	21.0	21.0	21.0	21.0	21.0	21.0	21.0	0.0/6.0/12.0	–
Canada[4]	1991	–	–	–	–	–	7.0	7.0	7.0	7.0	7.0	7.0	7.0	7.0	7.0	7.0	7.0	6.0	5.0	5.0	5.0	0.0	13.00
Chile	1975	20.0	20.0	20.0	16.0	16.0	18.0	18.0	18.0	18.0	18.0	18.0	18.0	18.0	19.0	19.0	19.0	19.0	19.0	19.0	19.0	–	–
Czech Republic	1993	–	–	–	–	–	–	23.0	22.0	22.0	22.0	22.0	22.0	22.0	22.0	19.0	19.0	19.0	19.0	19.0	20.0	10.0	–
Denmark	1967	15.0	22.0	22.0	22.0	22.0	25.0	25.0	25.0	25.0	25.0	25.0	25.0	25.0	25.0	25.0	25.0	25.0	25.0	25.0	25.0	0.0	–
Finland	1994	–	–	–	–	–	–	22.0	22.0	22.0	22.0	22.0	22.0	22.0	22.0	22.0	22.0	22.0	22.0	22.0	22.0	0.0/8.0/13.0	–
France[5]	1968	20.0	17.6	18.6	18.6	18.6	18.6	18.6	20.6	20.6	20.6	19.6	19.6	19.6	19.6	19.6	19.6	19.6	19.6	19.6	19.6	2.1/5.5	See note[5]
Germany	1968	11	13	14	14.0	14.0	14.0	15.0	15.0	16.0	16.0	16.0	16.0	16.0	16.0	16.0	16.0	19.0	19.0	19.0	19.0	7.0	–
Greece[6]	1987	–	–	–	16.0	18.0	18.0	18.0	18.0	18.0	18.0	18.0	18.0	18.0	18.0	18.0	19.0	19.0	19.0	19.0	19.0	4.5/9.0	3.0/6.0/13.0
Hungary	1988	–	–	–	25.0	25.0	25.0	25.0	25.0	25.0	25.0	25.0	25.0	25.0	25.0	25.0	20.0	20.0	20.0	20.0	25.0	5.0/18.0	–
Iceland	1989	–	–	–	–	22.0	22.0	24.5	24.5	24.5	24.5	24.5	24.5	24.5	24.5	24.5	24.5	24.5	24.5	24.5	25.5	0.0/7.0	–
Ireland	1972	20.0	25.0	23.0	25.0	23.0	21.0	21.0	21.0	21.0	21.0	21.0	21.0	21.0	21.0	21.0	21.0	21.0	21.0	21.5	21.0	0.0/4.8/13.5	–
Israel[7]	1976	–	12.0	15.0	15.0	15.0	18.0	17.0	17.0	17.0	17.0	17.0	17.0	18.0	18.0	17.0	16.5	15.5	15.5	15.5	16.0	–	0.0
Italy	1973	12.0	15	18	19	19	19	19.0	19.0	20.0	20.0	20.0	20.0	20.0	20.0	20.0	20.0	20.0	20.0	20.0	20.0	4.0/10.0	–
Japan	1989	–	–	–	–	3.0	3.0	3.0	3.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	–	–
Korea	1977	–	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	0.0	–
Luxembourg	1970	10.0	10.0	12.0	12.0	12.0	15.0	15.0	15.0	15.0	15.0	15.0	15.0	15.0	15.0	15.0	15.0	15.0	15.0	15.0	15.0	3.0/6.0/12.0	–
Mexico[8]	1980	–	10.0	15.0	15.0	15.0	10.0	10.0	15.0	15.0	15.0	15.0	15.0	15.0	15.0	15.0	15.0	15.0	15.0	15.0	16.0	0.0	11.00
Netherlands	1969	18.0	18.0	19.0	20.0	18.5	17.5	17.5	17.5	17.5	17.5	19.0	19.0	19.0	19.0	19.0	19.0	19.0	19.0	19.0	19.0	6.0	–
New Zealand	1986	–	–	–	10.0	12.5	12.5	12.5	12.5	12.5	12.5	12.5	12.5	12.5	12.5	12.5	12.5	12.5	12.5	12.5	12.5	0.0	–
Norway	1970	20.0	20.0	20.0	20.0	20.0	20.0	22.0	23.0	23.0	23.0	24.0	24.0	24.0	24.0	25.0	25.0	25.0	25.0	25.0	25.0	0.0/8.0/14.0	–
Poland	1993	–	–	–	–	–	–	22.0	22.0	22.0	22.0	22.0	22.0	22.0	22.0	22.0	22.0	22.0	22.0	22.0	22.0	0.0/7.0	–
Portugal[9]	1986	–	–	–	17.0	17.0	16.0	16.0	17.0	17.0	17.0	17.0	17.0	19.0	19.0	19.0	21.0	21.0	21.0	20.0	20.0	5.0/12.0	4.0/8.0/14.0
Slovak Republic	1993	–	–	–	–	–	–	25.0	23.0	23.0	23.0	23.0	23.0	20.0	19.0	19.0	19.0	19.0	19.0	19.0	19.0	10.0	–
Slovenia	1999	–	–	–	–	–	–	–	–	–	19.0	19.0	20.0	20.0	20.0	20.0	20.0	20.0	20.0	20.0	20.0	8.0/8.5	–

Table 3.8. **VAT/GST rates in OECD member countries**[1] *(cont.)*

	Implemented	Standard rate																				Reduced rates[2]	Specific rates in specific regions
		1976	1980	1984	1988	1990	1992	1994	1996	1998	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010		
Spain[10]	1986	–	–	–	12.0	12.0	13.0	16.0	16.0	16.0	16.0	16.0	16.0	16.0	16.0	16.0	16.0	16.0	16.0	16.0	16.0	4.0/7.0	See note
Sweden	1969	17.7	23.5	23.5	23.5	23.5	25.0	25.0	25.0	25.0	25.0	25.0	25.0	25.0	25.0	25.0	25.0	25.0	25.0	25.0	25.0	0.0/6.0/12.0	–
Switzerland	1995	–	–	–	–	–	–	6.5	6.5	6.5	7.5	7.6	7.6	7.6	7.6	7.6	7.6	7.6	7.6	7.6	7.6	0.0/2.4/3.6	–
Turkey	1985	–	–	–	10.0	10.0	10.0	15.0	15.0	15.0	17.0	17.0	18.0	18.0	18.0	18.0	18.0	18.0	18.0	18.0	18.0	1.0/8.0	–
United Kingdom[11]	1973	8.0	15	15	15	15	17.5	17.5	17.5	17.5	17.5	17.5	17.5	17.5	17.5	17.5	17.5	17.5	17.5	15.0	17.5	0.0/5.0	–
Unweighted average		**16.0**	**16.6**	**17.8**	**17.0**	**16.7**	**16.6**	**17.6**	**17.8**	**17.9**	**17.8**	**17.8**	**17.9**	**17.9**	**17.9**	**17.8**	**17.7**	**17.8**	**17.7**	**17.6**	**18.0**		

1. Yearly data: The rates shown in the table are rates applicable on 1 January of each year. Reduced rates and specific rates applicable in specific regions are those applicable as at 1 January 2010.
2. Reduced rates: Reduced rates include zero-rates applicable to domestic supplies (*i.e.* an exemption with right to deduct input tax). This does not include zero-rated exports.
3. A standard rate of 19% applies in Jungholz and Mittelberg.
4. The provinces of Newfoundland and Labrador, New Brunswick, and Nova Scotia have harmonised their provincial sales taxes with the federal Goods and Services Tax and levy a rate of GST/HST of 13%. Other Canadian provinces, with the exception of Alberta, apply a provincial tax to certain goods and services. These provincial taxes apply in addition to GST.
5. Rates of 0.9%, 2.1%, 8.0%, 13.0% apply in Corsica; rates of 1.05%, 1.75%, 2.1%, 8.5% apply to overseas departments (DOM) excluding French Guyana.
6. Rates of 3.0%, 6.0% and 13.0% apply in the regions Lesbos, Chios, Samos, Dodecanese, Cyclades, Thassos, Northern Sporades, Samothrace and Skiros.
7. The statistical data for Israel are supplied by and under the responsibility of the relevant Israeli authorities. The use of such data by the OECD is without prejudice to the status of the Golan Heights, East Jerusalem and Israeli settlements in the West Bank under the terms of international law.
8. A VAT rate of 10% applies in the border regions (the border zone is usually up to 20 kilometres south of the US-Mexico border).
9. The standard VAT rate in the Islands of Azores and Madeira is 14%; reduced VAT rates in these areas are 4.0% and 8.0%
10. Rates of 2.0%; 5.0%; 9.0%; 13.0% apply in the Canary Islands. Rates of 0.5% and 4% apply in Ceuta and Melila.
11. The standard rate of VAT was temporarily reduced from 17.5% to 15.0% for the period 1 December 2008-31 December 2009 inclusive and reverted to 17.5% with effect from 1 January 2010.

Source: National delegates; position as at 1 January 2010.

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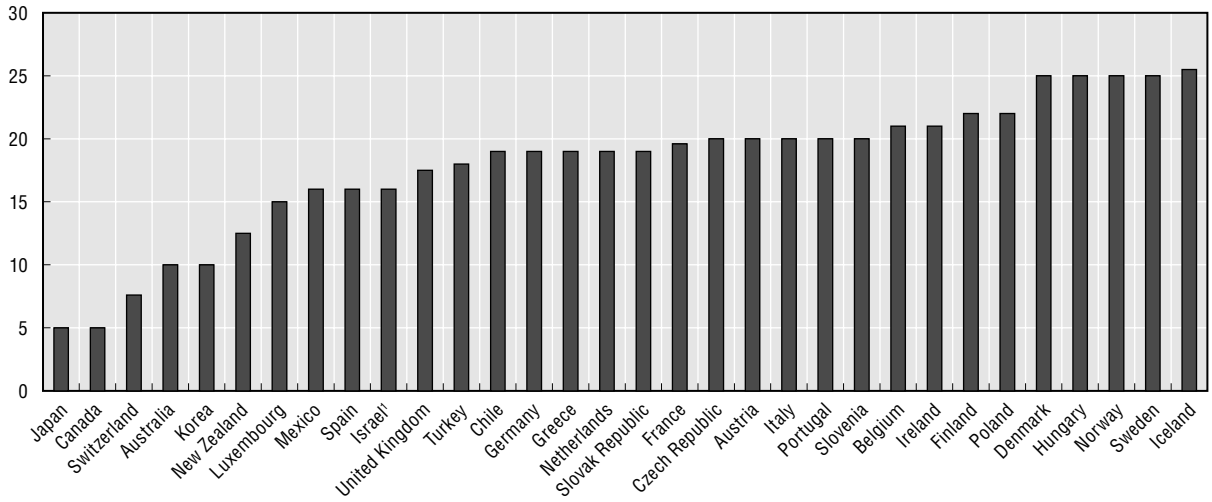
getting closer to 19%, either by increasing or decreasing their rate. The recent financial and economic crises have pushed a number of governments to increase their standard VAT rates as a means of reducing deficits and this trend may continue. Between 1 January 2010 and the beginning of 2011, not less than nine OECD governments have or plan to increase their rate (Finland from 22% to 23%; Greece from 19% to 21%; New Zealand from 12.5% to 15%; Poland from 22% to 23%; Portugal from 21% to 23%; the Slovak Republic from 19% to 20%; Spain from 16% to 18%; Switzerland from 7.6% to 8% and the United Kingdom from 17.5% to 20%). This will involve an unprecedented hike of half a point of the OECD average in little more than one year. The next edition of *Consumption Tax Trends* will provide more analysis of this trend.

There are still major differences in standard rates between the OECD member countries, with rates ranging from 5% (Canada and Japan, although it should be noted that most Canadian Provinces levy consumption taxes alongside the federal 5%) to 25% (Denmark, Hungary, Norway and Sweden) and 25.5% in Iceland. However, almost two-thirds of member countries (20 out of 33) have standard rates between 15% and 22%, while the (unweighted) average increased slightly to 18% against 17.8% in 2000. It can also be seen that since higher rates were abolished in the early 1990's no country has a VAT rate above 25.5%.

Figure 3.2. **Standard rates of VAT**



1. The statistical data for Israel are supplied by and under the responsibility of the relevant Israeli authorities. The use of such data by the OECD is without prejudice to the status of the Golan Heights, East Jerusalem and Israeli settlements in the West Bank under the terms of international law.

StatLink http://dx.doi.org/10.1787/888932369809

It may be worth noting that the member states of the European Union are bound by common rules regarding VAT rates (VAT Directive 2006/112/EC). These rules provide that supplies of goods and services are normally subject to a standard rate of at least 15%. Two reduced rates of not less than 5% may be applied to goods and services enumerated in a restrictive list as well as to certain labour intensive services. However, these rules are complicated by a multitude of derogations granted to many member states.

In assessing differences in rates, consideration also needs to be given to the existence of lower rates, including domestic zero rates (Table 3.8) and exemptions (Table 3.10). Derogations from the application of the standard rate broadly cover five categories:

- Basic essentials such as medical and hospital care, food and water supplies.
- Certain activities considered traditionally to be utilities (public transport, postal services, public television).
- Activities that are considered socially desirable (charitable services, culture and sport) or supporting employment (*e.g.* locally supplied labour intensive services).
- Geographic areas that are considered as deserving preferential treatment (islands, territories far away from metropolitan areas, border areas).

With the exceptions of Chile and Japan, all OECD countries have one or more reduced rates (including domestic zero rates, also called "GST-free supplies" or "exempt with right to deduct input tax"). Domestic zero rates should not be confused with the zero-rating of exports.

One of the reasons for the introduction of a differentiated rates structure is the promotion of equity (ensuring a fairer distribution of aggregate income). It is considered desirable to alleviate the tax on goods and services that form a larger share of expenditure of the poorest households (*e.g.* basic food, water). However, the efficiency of this approach may be questioned (see section "Realising the full potential").

Exemptions

In addition to reduced rates, there is also an extensive use of exemption[2] across countries (see Table 3.10). Although it is a significant departure from the basic logic of VAT, all OECD countries (with the exceptions of New Zealand and Turkey) exempt a number of specific sectors considered as essential for social reasons, in particular health, education and charities. In addition most countries also use exemptions for practical reasons (*e.g.* financial and insurance services, due to the difficulties in assessing the tax base) or for historical reasons (postal services, letting of immovable property, supply of land and buildings). Certain sectors that are exempt from VAT may be subject to other specific taxes (*e.g.* property, insurance, financial services).

Exemptions beyond these core items are numerous and cover a wide diversity of sectors such as culture, legal aid, passenger transport, public cemeteries, waste and recyclable material, water supply, precious metals and certain agricultural inputs.

Unlike reduced rates, exemptions break the VAT chain and create specific distortions. The exemption of items used as inputs into production removes the key feature of VAT, that of neutrality (see Chapter 2). Exemption introduces a cascading effect as the non-deductible tax on inputs is embedded in the subsequent selling price and is not recoverable by taxpayers further down the supply chain. The importance of this cascading effect depends on where in the supply chain exemption occurs. If the exemption occurs immediately prior to the final sale, there is no cascading effect and the consequence is simply a loss of revenue since the value added at the final stage escapes tax.

Table 3.9. **Annual turnover concessions for VAT/GST registration and collection**

	National currency	Registration/collection thresholds[1]						Registration/collection allowed prior to exceeding threshold[2]	Minimum registration period[3]
		General threshold		Reduced threshold for suppliers of services only		Special threshold for non-profit and charitable sector			
		National currency	USD	National currency	USD	National currency	USD		
Australia	AUD	75 000	51 642			150 000	103 284	Yes	1 year
Austria	EUR	30 000	35 507					Yes	5 years
Belgium*	EUR	5 580	6 445					Yes	None
Canada	CAD	30 000	25 057			50 000	41 762	Yes	1 year
Chile	CLP	None							
Czech Republic[4]	CZR	1 000 000	73 980					Yes	1 year
Denmark[5]	DKK	50 000	6 283					Yes	None
Finland	EUR	8 500	9 341					Yes	None
France[6]	EUR	80 000	91 165	32 000	36 466			Yes	2 years
Germany	EUR	17 500	21 721					Yes	5 years
Greece	EUR	10 000	14 071	5 000	7 036			Yes	5 years
Hungary*	HUF	5 000 000	39 006					Yes	2 years
Iceland	ISK	500 000	3 913					Yes	2 years
Ireland	EUR	75 000	83 062	37 500	41 531			Yes	None
Israel[7]	ISR	70 605	18 912						
Italy[8]	EUR	30 000	38 523					Yes	None
Japan[9]	JPY	10 000 000	87 186					Yes	2 years
Korea	KRW	None							
Luxembourg	EUR	10 000	11 085					Yes	5 years
Mexico	MXN	None							
Netherlands*, [10]	EUR	1 345	1 586					No	None
New Zealand	NZD	60 000	39 977					Yes	None
Norway	NOK	50 000	5 651			140 000	15 824	Yes	2 years
Poland	PLN	100 000	53 748					Yes	1 year
Portugal*, [11]	EUR	12 000	18 966					Yes	None
Slovak Republic	EUR	49 790	97 850					Yes	1 year
Slovenia	EUR	25 000	39 720			7 500	11 916	Yes	5 years
Spain	EUR	None							

Table 3.9. **Annual turnover concessions for VAT/GST registration and collection** *(cont.)*

	National currency	Registration/collection thresholds[1]						Registration/collection allowed prior to exceeding threshold[2]	Minimum registration period[3]
		General threshold		Reduced threshold for suppliers of services only		Special threshold for non-profit and charitable sector			
		National currency	USD	National currency	USD	National currency	USD		
Sweden	SEK	30 000	3 356						
Switzerland	CHF	100 000	65 317			150 000	97 976	Yes	1 year
Turkey	TRY	None							
United Kingdom	GBP	68 000	105 902					Yes	None

* In countries marked by *, a collection threshold applies: all taxpayers are required to register for VAT/GST, but will not be required to charge and collect VAT/GST untill they exceed the collection threshold.

1. Registration/collection thresholds identified in this chart are general concessions that relieve suppliers from the requirement to register and/or to collect for VAT/GST until such time as they exceed the threshold. Except where specifically identified, registration thresholds also relieve suppliers from the requirement to charge and collect VAT/GST on supplies made within a particular jurisdiction. Relief from registration and collection may be available to specific industries or types of traders (for example non-resident suppliers) under more detailed rules, or a specific industry or type of trader may be subject to more stringent registration and collection requirements.
2. "Yes" means a supplier is allowed to voluntarily register and collect VAT/GST where their total annual turnover is less than the registration threshold.
3. Minimum registration/collection periods apply to general concessions.
4. The registration threshold does not apply to fixed establishments in the Czech Republic of non-resident businesses.
5. A higher threshold of DKK 170 000 (EUR 22 840) applies to the blind, and a threshold of DKK 300 000 (EUR 40 300) applies to the first sale of works of art by their creator or his successors in title. For the purposes of the latter exemption, the threshold of DKK 300 000 must not have been exceeded in the current or preceding year.
6. Specific thresholds apply for certain activities. EUR 41 700 for lawyers, writers and artists; EUR 32 000 for providers of services other than hotel accommodation and restaurants.
7. The statistical data for Israel are supplied by and under the responsibility of the relevant Israeli authorities. The use of such data by the OECD is without prejudice to the status of the Golan Heights, East Jerusalem and Israeli settlements in the West Bank under the terms of international law.
8. Self-employed that have an income lower than EUR 30 000 can choose the Lower Taxpayer Regime (*regime dei contribuenti minimi*). It involves IRAP (regional tax on productive activities), VAT exemption and a 20% tax rate in place of the ordinary PIT.
9. Businesses (companies and individuals) are not required to register and account for Consumption Tax (VAT) during the first two years of establishment (except for companies whose capital is of JPY 10 000 000 or more. In this case they should be registered for consumption tax from the beginning). After this two year period, whether businesses should be registered as a taxable person is determined every year based on their annual taxable turnover for the accounting period/tax year two years before the current accounting period/tax year. If that turnover has exceeded JPY 10 000 000, the business should be registered. Businesses can opt for a voluntary registration for consumption tax, even if their turnover is below the threshold. In that case, the businesses have to remain registered for two years.
10. The amount of EUR 1 345 is based on the special scheme for small businesses. It is not a threshold based on turnover but on net annual VAT due. If the net annual VAT due (VAT on outputs minus VAT on inputs) is EUR 1 345 or less, the taxpayer gets a full VAT rebate and no VAT is due to the Tax Authorities. In this case, the taxpayer has no obligation to file VAT returns. However, businesses under the small business scheme must still register as VAT taxpayers. In that sense, there is no threshold for registration for VAT purposes. If the net annual VAT due is more than EUR 1 345 but less than EUR 1 883, the taxpayer gets a partial VAT rebate. In this case, the taxpayer must file a VAT return.
11. The collection threshold does not apply to commercial legal entities. For small retailers that fulfill some specific conditions the collection threshold is EUR 12 500.

Source: National delegates; position as at 1 January 2010.

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Table 3.10. **VAT/GST exemptions**[1]

	Exemptions	Taxation of "standard exemptions"[2]
Australia	Financial services; residential rent and premises; certain supplies of precious metals; school canteens operated by non-profit bodies; fund raising events conducted by charitable institutions.	Domestic postal services; sporting services; cultural services excluding religious services (zero rate); insurance and reinsurance excluding health insurance (zero rate); gambling (including lottery tickets and betting); supplies of land and buildings (except certain supplies of farm land and supplies of going concerns – zero rate; and existing residential premises – exempt).
Austria	Standard exemptions.	Letting (private housing).
Belgium	Standard exemptions; legal services (including public notaries and bailiffs).	–
Canada	Standard exemptions; legal aid; ferry; road and bridge tolls.	Lotteries and gambling, supply and leasing of commercial land and buildings, domestic postal services.
Chile	Standard exemptions; commissions earned by the Regional and Metropolitan Housing and Urbanisation Services and Social Security Institutions on mortgages; income such as wages, salaries and directors fees if taxed with income tax, other compensation earned by dependant employees and independent contractors that is not considered as taxable income; income obtained by independent professionals, where the physical effort is more relevant than the capital or materials used; construction activity; transport and related services, if certain requirements are met; certain qualified Income obtained from services rendered to persons domiciled or resident abroad; income obtained by hotels relating to services rendered to foreign tourists; fees paid for managing retirement savings earned by specific authorised institutions; broadcasting and television networks excluding income from advertisement.	Postal services not rendered by *Servicio de Correos y Telégrafos de Chile.* Income from artistic shows or plays not sponsored by the Ministry of Education; income from certain circus and sports events if certain requirements are not met.
Czech Republic	Standard exemptions; public television and radio.	Certain cultural services (*e.g.* admission to theatres, cinemas, concerts, etc., subject to reduced rates); sporting services provided by others than by non-profit making organisations; supply of construction land and of new buildings; option to tax letting of buildings.
Denmark	Standard exemptions; passenger transport; burials; sale of products of artistic work valued under DKK 300 000; travel agents.	Theatre; concerts and cinema.
Finland	Standard exemptions; services of performers; copyright to literary and artistic works; certain transactions by blind people; public cemetery services; self-picked natural berries.	Postal services; cultural services; letting of commercial buildings in certain cases (optional).
France	Standard exemptions; construction, improvement, repair and maintenance work on monuments; cemeteries and graves commemorating war victims undertaken for public authorities and non-profit bodies; Commodity futures transactions carried out on a regulated market; Services rendered by resource consortia to their members composed of natural or legal persons that are VAT exempt or not subject to VAT.	Letting of immovable property (full taxation for letting of developed immovable property and land for professional use; option to tax for letting of undeveloped immovable property for professional use in certain circumstances and letting of land and buildings for agricultural use); transport services for sick/injured persons in vehicles not specially equipped for this purpose and/or carried out by persons who do not have administrative certification; recreational and sporting services; cinemas, concerts and theatres.
Germany	Standard exemptions.	–
Greece	Standard exemptions; legal services (including public notaries and bailiffs); authors' rights; artists' services; public radio and TV activities other than those of commercial nature; supply of water by public bodies; welfare and social security works; postage and other similar stamps not disposed to collectors; supply of goods used exclusively in an exempted activity or not allowed to deduction; services included in the taxable value of imported goods.	Cultural services (under conditions – admission to theatres, cinemas, concerts, etc.: lower rate); artists' services when supplied to the public; charitable work when provided by profit organisations; sporting services supplied by profit organisations; supply of new buildings; letting of immovable property for use as commercial centre (optional taxation).
Hungary	Standard exemptions; public radio and TV broadcasting (except for commercial activities).	Building land, supply of new buildings (taxation of further supplies and letting of immovable property is optional); certain cultural services (*e.g.* admission to theatres, cinemas, concerts), certain sporting services (*e.g.* swimming pool services, entrance tickets to sporting events).
Iceland	Standard exemptions; sports, passenger transport, authors, composers, burials, travel agents.	–
Ireland	Standard exemptions; passenger transport; broadcasting; supply of water by public authorities; admissions to sporting events; funeral undertaking; travel agents/tour operators.	Letting of commercial immovable property (subject to the option for taxation by the landlord); supply of land and buildings; recreational and sporting services.

Table 3.10. **VAT/GST exemptions**[1] *(cont.)*

	Exemptions	Taxation of "standard exemptions"[2]
Israel[3]	Rentals for residential purposes for a period of not more than 25 years, the sale of that part of a building which was approved as a rental building, transactions of an exempt dealer, other than transactions that are sales of real estate, the sale of an asset, on which input tax in respect of its acquisition or importation could not be deducted lawfully at the time of its acquisition or importation, deposits of money by a dealer with a financial institution or extension of a loan by a dealer to a financial institution, goods whose import is tax exempt in certain cases	–
Italy	Standard exemptions; taxi; burials.	Supply and letting of land; supply of commercial buildings if sold within four years from their construction or if sold to persons not entitled to deduction (standard rate); Residential housing taxed only when letby building enterprises within four years from their construction (at lower rate of 4% and, in case of non-residential housing and luxury housing at a rate of 10%). Medical care is exempt only if earmarked to elderly or poor people, or to people with AIDS.
Japan	Standard exemptions; social welfare services; sale of certain kinds of equipment for the disabled people; administrative services; alienation of securities.	Postal services; supply of buildings; cultural and sporting services provided by others than non-profit organisations.
Korea	Standard exemptions; certain public transport; supply of water and certain coal; mineral oil used for certain purposes in agriculture and fishery; funeral undertaking; certain personal services similar to labour; books, newspapers and magazines; broadcasting services; supply of farm, marine and forest products.	Rental and supply of commercial buildings; commercial cultural services; gambling in licensed clubs.
Luxembourg	Standard exemptions.	–
Mexico	Standard exemptions; gold and silver coins; shares; foreign currency; retailing of gold bullion with a content of at least 99% gold; authors' rights; public transport of passengers by land (except by train); sale of used movable property (with exception of those sold by companies); professional medical services.	Postal services; insurance services (except life and agricultural insurance); transport of sick/injured persons; private hospital and medical care, sports services; financial services for consumer and personal credits; certain kinds of public like movie tickets; supplies of land and buildings (except housing) and certain fund raising events.
Netherlands	Standard exemptions; burials; cremations; public broadcasting; sports clubs; the services of composers, writers and journalists.	Cultural services (mostly lower rate); letting of immovable property other than houses (only at combined request by letter and hirer); supply of immovable property (only at the combined request of supplier and purchaser); the use of sports accommodation; recreational and sporting services; admission to cinemas, concerts and theatres; sporting events; museums and zoological gardens.
New Zealand	Financial services; supply of residential accommodation in a dwelling; fine metal; supply by a non-profit body of donated goods and services.	Postal services; human blood, tissues and organs; hospital and medical care; transport of sick/injured persons; dental care; charitable work; certain fund raising events; education; non-commercial activities of non-profit making organisations (other than unconditional gifts); cultural services; sporting services; insurance and reinsurance (other than life insurance and reinsurance); letting of immovable property (other than residential accommodation); betting, lotteries and gambling; supply of land and buildings (other than land and buildings which have been used for the provision of residential accommodation for five years or more).
Norway	Standard exemptions; burials; stamps and coins for collection purposes.	Postal services; infrastructural services within the passenger transport sector; cinemas; letting of commercial buildings (optional).
Poland	Standard exemptions; students' accommodation; public radio and television.	Rental or tenancy of the dwelling buildings used for commercial purposes; supply of building land or land for development and buildings.
Portugal	Standard exemptions; agriculture.	–
Slovak Republic	Standard exemptions; public television and radio; services supplied to members; sale of postal and fiscal stamps.	Supply of a construction, including the supply of building land, on which the structure is constructed, provided that the supply is made within five years after the first approval of the building or a part thereof based on which the building or a part thereof was approved for use or within five years from the day when the building or a part thereof was put in use for the first time; option to tax supply and letting of immovable property; training, educational, sporting and cultural services provided by others than by non-profit making organisations.
Slovenia	Standard exemptions; public television and radio.	Postal services; supply of new buildings; admission to cultural and sporting events; educational, sporting and cultural services, provided by profit making organisations; option to tax letting of buildings.

Table 3.10. **VAT/GST exemptions**[1] *(cont.)*

	Exemptions	Taxation of "standard exemptions"[2]
Spain	Standard exemptions; copyright to literature and works of art.	Some cultural services provided to paying consumers; letting of commercial buildings; building land; supply of new buildings.
Sweden	Standard exemptions; public television and radio; public cemetery services; social services; creative artists.	Postal services; most cultural services; letting of commercial buildings in certain cases (optional).
Switzerland	Standard exemptions; provision of agency workers under certain conditions; certain second-hand goods; products of literary and artistic work as well as copyrights on such works.	Parking spaces unless additional to renting out of real estate; renting out of areas and individual rooms at fairs; certain bank services; provision of prosthesis and orthopaedic equipment.
Turkey	Standard exemptions; restoration project related to cultural object; exempted taxpayers according to Income Tax Law; mergers and transfer according to Corporate Tax Law; supply of water used in agriculture; supply of precious mine and waste; services supplied in free trade area; supply of land for organised industrial zone; military exemption; supply of goods within the scope of financial restructuring; renting workplace in customs area.	Educational and cultural services; human blood; hospitals; transport of sick/injured persons; newspapers, books, magazines (lower rate); postal services; sale of commercial buildings; letting; radio and television broadcasting; lotteries and gambling.
United Kingdom	Standard exemptions; burials and cremations; sports competitions; certain luxury hospital care; works of art.	Standard rated: freehold sales of new commercial buildings (standard rated for three years from completion date) and "option to tax" for other ordinarily exempted supplies of commercial buildings; gaming machines and certain gambling in licensed clubs. Zero rated: New housing, including construction of new houses; residential and some charity buildings.

1. For the purposes of this table, "exemption" means supplies for which VAT/GST is not levied on the amount charged by the provider while the latter is not allowed to deduct related input tax. In some countries, such supplies are called "input taxed supplies".
2. "Standard exemptions" hereafter refer to exemptions generally applied in most OECD countries: postal services; transport of sick/injured persons; hospital and medical care; human blood, tissues and organs; dental care; charitable work; education; non-commercial activities of non-profit making organisations; sporting services; cultural services (except radio and television broadcasting); insurance and reinsurance; letting of immovable property; financial services; betting, lotteries and gambling; supply of land and buildings; certain fund-raising events.
3. The statistical data for Israel are supplied by and under the responsibility of the relevant Israeli authorities. The use of such data by the OECD is without prejudice to the status of the Golan Heights, East Jerusalem and Israeli settlements in the West Bank under the terms of international law.

Source: National delegates; position as at 1 January 2009.

On the contrary, if the exemption occurs at some intermediate stage, the consequence of the cascading effect may be an increase of net revenues in a non-transparent manner. In this case, exemption also creates incentives for the avoidance of tax by vertical integration ("self-supply") and discourages outsourcing as firms have an incentive to supply taxable items to themselves rather than purchasing them and incurring irrecoverable VAT. This may lead to economic inefficiencies as it may distort the structure of the supply chain.

Exemption also compromises the destination principle for the taxation of goods and services entering international trade. While exported items should, in principle, be zero rated, it is not possible to remove the consequences of exemption at an earlier stage in the production chain. On the other hand, firms that use exempt inputs have an incentive to import from countries where they are zero rated for export instead of purchasing them from exempt domestic providers. Differences in the scope of exemption between countries can also create double taxation or unintended non-taxation.

Managing exemptions also involves higher administrative and compliance costs. As for differentiated rates structure, it may be difficult to distinguish between exempt and taxable supplies, in particular in such complex areas as financial services. Moreover, businesses that make both taxable and exempt supplies are faced with complex tax calculations. Their right to deduction of input tax must be allocated between the two kinds of sales either by an assessment of a global proportion of the taxable outputs by comparison with total outputs,

or on the basis of actual use of inputs or some other method that is acceptable to the tax administration. This adds administrative and compliance burdens that should be taken into account when assessing the impact of exemptions.

The European Commission recently questioned the relevance of most exemptions in the European Union (EC, 2010), suggesting that a review should be undertaken, notably in the light of economic and technological changes, in particular in the areas of passenger transport and financial and insurance services (see section "Realising the full potential").

Thresholds

An exemption may be defined either in terms of particular goods and services (see above) or in terms of particular businesses. The most common example of the latter kind is the exclusion of small firms from the VAT system by a threshold below which they are (compulsorily or voluntarily) not required to charge and collect the tax (Table 3.9). Indeed, most countries (27 of 32) allow small businesses to exempt their supplies on the condition that they do not deduct input tax. The consequences of such "individual" exemptions are equivalent to treating small businesses as non-taxable businesses. There are two kinds of thresholds: registration thresholds that relieve suppliers from both the requirement to register for VAT and to collect the tax; and collection thresholds for which taxpayers, even those below the threshold, are required to register for VAT, but are relieved from collecting the tax until they exceed the threshold. Relief from registration and/or collection may also be available to specific industries or certain types of firms (*e.g.* non-resident suppliers).

The levels of these thresholds vary significantly across OECD countries and may be split into three broad groups:

- Fourteen member countries have a relatively high threshold (more than USD 30 000): Australia, Austria, the Czech Republic, France, Hungary, Ireland, Italy, Japan, New Zealand, Poland, the Slovak Republic, Slovenia, Switzerland and the United Kingdom.
- Thirteen member countries have a relatively low threshold (between USD 2 000 and USD 29 999): Belgium, Canada, Denmark, Finland, Germany, Greece, Iceland, Israel, Luxembourg, the Netherlands, Norway, Portugal and Sweden.
- Five member countries have no general exemption threshold: Chile, Korea, Mexico, Spain and Turkey.

There is no consensus amongst OECD countries on the need for, or the level of, thresholds. The main reasons for excluding "small" taxpayers (and this notion may vary considerably across countries) are that the costs for the tax administration are disproportionate to the VAT revenues from their activity and, similarly, VAT compliance costs would be disproportionate for many small businesses. It is also assumed that smaller businesses may be less compliant. On the other hand, a high threshold may give an advantage to small taxpayers, creating distortion of competition with larger ones. In addition, some businesses may see the threshold as a disincentive to grow or an encouragement to avoid VAT by splitting activities artificially.

The level of the threshold is often the result of a trade-off between minimising compliance and administration costs and the need to avoid jeopardising revenue or distorting competition.

Special VAT taxation methods

Most countries allow or impose specific VAT collection methods in certain circumstances. The purpose of these methods is usually to simplify the collection process in order to reduce the administrative and compliance burden.

One of the most common methods is the reverse charge mechanism (see Chapter 1). Table 3.12 shows the increase in the use of this mechanism for cross-border supplies of services and intangible products between businesses (Iceland, Japan and Mexico are the only countries that do not use it). It is also used in the international trade in goods (including transactions within the framework of VAT warehouses) or when, for example, a foreign supplier installs or assembles goods in the country of the taxable customer. The main benefit of the mechanism is that the foreign supplier does not have to register and account for VAT in the customer's country. Reverse charge is also used for some domestic transactions such as work on immovable properties, leasing of means of transport and transactions in investment gold. In several cases, apart from the simplification objective, the mechanism is also used as a means of combating fraud.

Table 3.12 also shows that more than two-thirds of member countries (25 of 32) have systems of taxing the margin between purchase and selling prices rather than the selling price. These systems apply mainly to gambling, travel agencies, second-hand goods (including antiques) and works of art. Many countries have also implemented flat rate schemes to help minimise compliance costs for small businesses (*e.g.* hairdressers and farmers).

Differences in the operation of VAT

Although most countries have adopted the core VAT principles, many differences exist in the way it is implemented, including between EU member states whose VAT laws share the same legislative root (Directive 2006/112/EC).

Differences in the design (*e.g.* proxies for determining the place of taxation for cross-border transactions) and the scope of the VAT may have an impact on international trade by creating double taxation, unintended non-taxation and distortion of competition. Such difficulties have been addressed at the international level by the OECD since the late 1990s. As outlined in Chapter 2, the outcome of this work is now being structured into the *International VAT/GST Guidelines* that are designed to help governments adapt their VAT laws to allow for more coherent and consistent taxation of international transactions.

There are also many differences in the application and level of taxation of value added taxes in member countries. This is illustrated by the continued existence of a wide range of lower rates, exemptions and special arrangements that are frequently designed for non-tax policy objectives.

There is no "ideal" system and tax design depends on local economic, political, social and historic conditions as well as the need for revenue to fund public services. Nevertheless, the experiences of several countries may serve as a benchmark for improvement. Recent research shows that the full potential of VAT may be better achieved by broadening the tax base at the standard rate (see section below).

Table 3.11. **Coverage of different VAT/GST rates**

	Domestic zero rate[1]	Lower rate
Australia	Most food and beverages for human consumption (excl. prepared food); most health and medical; education and students accommodation; child care; religious services; activities of charitable institutions; water sewage and drainage; going concerns; international transport and related matters, precious metals (first supply after refinement); international mail; grants of freehold and similar interests by governments; farm land; cars for use by disabled people; certain government services.	–
Austria	–	Agriculture; forestry; books; food; hospitals; newspapers; art; culture; supply of wine by farmers (12%); water supply; refuse (waste) collection; sewage; dwelling; passenger transport; hotel accommodation; restaurant services (except drinks); medicine.
Belgium	Cars for disabled; newspapers and certain weeklies.	Agriculture; food; water distribution; pharmaceuticals; books; works of art, collectors' items and antiques delivered by their authors/creators or their heirs or imported; funeral services; devices for disabled; passenger transport; shows; hotels and camping sites; renovation of dwellings over 5 years old; private homes and establishments for disabled; subsidised institutional housing; coal and coke; some labour intensive services (small repair services); Under strict conditions and specific limitations as to the amount, construction works leading to the construction of new private housing as well as the sale of new private housing during the period from 1.01.2009 until 31.12.2010.
Canada	Medicine, basic groceries; certain financial services (usually to non-residents); certain agricultural and fishing products; medical devices; international organisations and officials; precious metals; sales of 25 cents or less made through mechanical coin-operated devices.	–
Chile	–	–
Czech Republic	International passenger transport.	Food; agricultural products; heating; personal transport; medicine; art; cultural services; books; newspapers; equipment and repair for disabled; supply of water; disposal or waste water; accommodation; construction of private dwellings and social houses; health care and domestic care services; cleaning in households; funeral; sport activities.
Denmark	Newspapers and periodicals.	First time sale of products of artistic work valued over DKK 300 000 (5%).
Finland	Subscribed newspapers and periodicals; printing services for certain membership publications; certain vessels.	Food; non-alcoholic drinks; animal feed; medicine; books; passenger transport; accommodation; TV licence; admission to cultural, entertainment and sporting events and cinema performances; use of sports facilities; works of art supplied by their creators or imported.
France	–	Gas; electricity; most food products and drinks (except alcoholic beverages), medicine; pharmaceutical products; equipment for disabled; books; hotels; entertainment; author's rights; passengers transport; accommodation; farm products; gardens, plants and flowers; books; catering; newspapers; water; work on dwellings over 2 years old under certain conditions; refuse (waste) collection; sewage.
Germany	–	Food; books; newspapers; plants; flowers; devices for the disabled; certain cultural events; museums; zoos; circuses; charitable work if not exempt; author's rights; transport (applicable to passenger transport by ship and to local public passenger transport).
Greece	–	Electricity; gas; passengers transport and their luggage; foodstuffs; live animals; seeds; plants; fertilisers; water supply; pharmaceutical products; medicine (if not exempted); medical equipment and other appliances for the disabled persons; admission to shows, cultural and sporting events; agricultural services; hotels and similar accommodation (excluding alcoholic beverages); restaurants; use of sporting facilities; charitable work (if not exempted); funeral services; collection and treatment of waste; authors and artists (if not exempted); books; newspapers and periodicals; some labour-intensive services (domestic care services, clothing repair and leather goods; bicycle's repair; renovation and repair of private dwellings); plants and flowers.
Hungary	–	Medicine, equipment for the blind, books; newspapers; musical notes.
Iceland	International transport provisions; fuel and equipment delivered for use in ships and aircraft engaged in international traffic; ship-building.	Food; books; newspapers and periodicals; subscriptions to radio and TV; hotels; electricity; geothermal heating; hot water; fuel oil used for the heating of houses and swimming pools.
Ireland	Books; children's clothing and footwear; oral medicine; certain medical equipment; food products; seeds; fertiliser; certain aircraft and sea-going vessels; footwear for children.	Gas; newspapers and certain periodicals; fuel for certain purposes; electricity; works of art; veterinary services; agricultural services; short-term car and boat hire; driving instruction; photographic prints; concrete; holiday accommodation; restaurant/hotel meals; building services; immovable goods; repair services; waste disposal; certain foods; tour guide services; admission to cinemas/certain musical performances and sporting facilities; recreational and sport services; certain nursery and garden centre stock.

Table 3.11. **Coverage of different VAT/GST rates** *(cont.)*

	Domestic zero rate[1]	Lower rate
Israel[2]	Hotel accommodation for foreign tourists. Rental of a private motor vehicle to a tourist to drive himself. Transportation of tourists in a private motor vehicle or a bus. International passengers transport. Sale of Fruits and vegetables.	–
Italy	–	Food; medicine and health products/services for the disabled; housing; books; newspapers; weekly publications; combustible gas for cooking; urban waste; purification stations; renewable-source energy; works of art; shows; transport; accommodation let by building enterprises (10%).
Japan	–	–
Korea	Supply of certain machinery and materials for agriculture; fishery; livestock and forestry; supply of mineral oil used for certain purposes in agriculture, fishery and forestry; certain equipment for the disabled.	–
Luxembourg	–	Accommodation; admission to cultural and sporting events; agriculture; author's rights; books; certain medical equipment; aids and other appliances normally intended to alleviate or treat disability; certain labour intensive services; children's clothing; construction of dwellings; electricity; foodstuffs for human and animal consumption; funeral services; gas; newspapers; passenger transport; periodicals; pharmaceutical products; renovation of dwellings over 20 years old; restaurant services; services supplied in connection with refuse collection and waste treatment; use of sporting facilities; water; works of art delivered by their authors/creators of their heirs or imported.
Mexico	Sale of non-industrialised animals and vegetables (except rubber); patent medicines; milk; water (except for bottles of less than 10 litters); ice; food (except sale of processed food in restaurants and food establishments); agricultural equipment; machinery and fishing boats; wholesale of gold; gold bullion (with a content of at least 80% of gold) and jewellery; some agricultural and fishing services; magazines, books and newspapers printed by the taxpayer himself; domestic water supply; hotel services provided to foreign tourists participating in congresses, conventions and trade shows; call centre services for telephone calls originated abroad, as long as the services are contracted and paid a foreign resident without a permanent establishment in Mexico.	Sale of goods and services in the border regions.
Netherlands	–	Accommodation; agricultural inputs; books (including e-books); lending of books; catering; food; goods and services for the disabled; medicine; newspapers; magazines; passenger transport (except passenger transport by air); water; entrance fees for sports events; amusement; parks; museums; cinemas; zoos and circuses; cut flowers and plants; restaurant and hotel meals; aids for the visually disabled; use of sports accommodation; art and antiques; hotel and holiday accommodation; certain labour intensive services like services for the maintenance and repair of dwellings; cleaning of dwellings and hairdressing.
New Zealand	Supply of taxable activity (business) as a going concern; supply of fine metal (gold, silver or platinum) from a refiner in fine metal to a dealer in fine metal; supply by local authorities of the local authorities petroleum tax; supply of financial services to registered GST businesses.	Long-term stay in a commercial dwelling; certain services provided as part of the right to occupancy (taxed at the standard rate on 60% of the value of the supply).
Norway	Books; newspapers; certain aircraft and ships; second-hand vehicles; electricity and district heating in the northern part of Norway, electric motor cars; human blood, tissues and organs; ships, aircrafts and drilling platforms.	Passenger transport; public broadcasting and cinemas (8%); foodstuffs (14%).
Poland	Certain books and specialised magazines.	Certain foodstuff; animals; fodder; certain beverages; certain books and newspapers; basic agricultural means of production; certain goods for disabled; certain agriculture services; restaurant services; passengers transport; cemetery services; certain construction services; supply of housing; reception of broadcasting services; admission to cultural and sporting events.

Table 3.11. **Coverage of different VAT/GST rates** *(cont.)*

	Domestic zero rate[1]	Lower rate
Portugal	–	5%: essential foodstuff; water; medicine; devices for the disabled; medical services (if not exempt); books; newspapers; electricity; passenger transport; admission to cultural and sporting events; natural gas; hotels and similar; social housing; some goods used in agriculture. 12%: some other foodstuffs; restaurant services; diesel fuel for agriculture and heating oil; still wine; machinery mainly used in agricultural production; tools, machines and other equipment solely or mainly designed for collecting and using alternative energy sources.
Slovak Republic	–	10%: Radioactive elements and isotopes and compounds – only for health service; Pharmaceutical products; Diagnostic or laboratory reagents; Printed books, brochures, leaflets and similar printed matter; books for children; music; certain medical and sanitarian means; orthopaedic appliances; contact and spectacle lenses; certain means for blind and partly blind persons, hard-of-hearing persons and hard health-disabled persons.
Slovenia	–	Foodstuff (for human and animal consumption); preparation of food; water; medicine, devices for the disabled; passenger transport; books, newspapers and periodicals; admission to cultural and sporting events; author's rights; import and supply of certain works of art, collectors' items or antiques; social housing; supply of construction, renovation and maintenance work of residential housing not provided as part of a social policy; livestock; hotel accommodation; use of sporting facilities, supplies by undertakers an cremation services; public hygiene services.
Spain	–	Books; social accommodation; catering; certain cultural and entertainment services; food (for human and animal consumption); hotels; restaurants; supplies to the disabled; medicines and other medical devices (*e.g.* lenses); transport; newspapers; public amenities; burial services; agriculture and forestry products used as food; goods used in agricultural and forestry undertakings, including flowers and plants; hairdressing and complementary services; minor work on private housing; cleaning; waste treatment; cleaning of public sewage; water; supply of new buildings for private and social housing; the supply of cleaning and maintenance services.
Sweden	Commercial aircraft and ships; aircraft fuel; prescribed medicine; printing of certain membership publications.	Accommodation; food; passenger transport; works of art owned by the originator; import of antiques, collector's items and works of art; culture (theatre, cinema, etc.); author's rights; books; newspapers; magazines; zoos; commercial sports events; commercial museums.
Switzerland	Certain supplies of goods and services to international airlines; supplies of some specific sorts of gold.	Water; food; medicine; books; newspapers; non-commercial television; accommodation; plants, seeds and flowers; livestock; cereals; animal food; fertiliser; certain supplies in connection with agricultural production.
Turkey	Supply of ships, aircraft, and rail transportation vehicles; supply of services related to the manufacture, repair, maintenance of such vehicles; supply of services to ships and aircraft at harbours or airports; supply of goods and services for the exploration, management and refining of gold, silver, platinum, and oil; supply of machinery and equipment to persons who have an investment incentive document; goods and construction works for the construction, restoration and enlargement of seaports and airports; some goods and services related to national security; international roaming services supplied in Turkey according to the reciprocity principle.	Agricultural products; leasing; second-hand cars; newspapers; books; magazines; blood and blood component; funeral services; basic foodstuffs; cinema; theatre; opera and ballet tickets; education; stationery goods; blood products and vaccines; some medical products and services; ambulance services; medicine; medical equipment; waste water services; seeds.
United Kingdom	Certain services and goods supplied to charities; children's clothing; food; passenger transport; books; newspapers; domestic sewage and water; prescribed drugs; medicine; certain aids and services for disabled people; new housing, including the construction of new houses; residential and some charitable buildings; alterations to listed buildings.	Fuel and power for domestic and charity use (5%); certain energy saving materials supplied together with fitting services to recipient of benefits; certain grant-funded installations of heating equipment; children car seats; certain pharmaceutical products.

1. In this context, *zero rate* supplies means that VAT/GST is not levied on the amount charged by the taxpayer but deduction of input tax is allowed. In some countries these supplies are called "GST Free Supplies". Exports of goods, intangibles and services are generally zero rated in all OECD countries, however, the provision of goods and services for export, consumed outside the country or considered as taking place abroad are *not* listed in this table. Neither are some operations closely linked to exports such as international transport, customs regimes, duty-free shops or supplies to diplomatic missions and international organisations.
2. The statistical data for Israel are supplied by and under the responsibility of the relevant Israeli authorities. The use of such data by the OECD is without prejudice to the status of the Golan Heights, East Jerusalem and Israeli settlements in the West Bank under the terms of international law.

Source: National delegates; position as at 1 January 2009.

Table 3.12. **Special VAT/GST taxation methods**

	Usage of reverse charge system	Usage of margin schemes[2]
Australia	Imports of intangible supplies are reverse charged to the recipient (registered) business if they would not have been entitled to input tax credits for GST paid. In some circumstances, businesses can choose to reverse charge GST for supplies connected with Australia that are made by non-residents.	Margin scheme can be used on certain sales of new residential or commercial property. It is based on the difference between the tax inclusive sale price and the original purchase price. Tax credits cannot be claimed on the acquisition cost. Gambling: GST applies to the gambling margin calculated based on the total amount wagered less total monetary prises awarded. Second-hand goods.
Austria[1]	Several services delivered internationally and intra-Community delivery of goods (EU Directive); construction services if the recipient is acting as general contractor or if he usually is rendering construction services; supply of goods provided as security by a VAT taxable person to another person in execution of that security; supply of goods following the cession of the reservation of ownership to an assignee and the exercising of this right by the assignee; the supply of immovable property sold by the judgment debtor in a compulsory sale procedure to another person.	Travel agencies; second-hand goods, works of art, collector's items and antiques (EU Directive).
Belgium[1]	Several services delivered internationally and intra-Community delivery of goods (EU Directive); supplies of goods and services by traders not established in Belgium under several conditions; some supplies of investment gold; work on immovable property under several conditions; several transactions within the framework of a VAT warehouse.	Travel agencies; second-hand goods, works of art, collector's items and antiques (EU Directive).
Canada	Resident business recipient of an imported taxable supply of intangible personal property or a service is required to self-assess tax in respect of the supply unless it is acquired for use, consumption or supply exclusively in the course of the commercial activities of the recipient.	–
Chile	Resident recipients of an imported taxable good (whether they import frequently or not, and whether they are individuals or businesses). Resident beneficiary of a cross border service provided the service provider is a non-resident. The tax authority may establish a reverse charge system through general rules under some circumstances dealing with intermediaries, difficult auditing situations (*e.g.* certain dealings in produce such as the sale of rice, berries, livestock, beans, wood, wild berries, paper and cardboard and wheat), or unidentified taxpayers.	–
Czech Republic[1]	Several services delivered internationally and intra-community delivery of goods (EU Directive); supply of gold between taxable persons; supplies of goods with assembly or installation; gas, electricity and certain other services by non-established traders to established taxable persons.	Travel agencies; second- hand goods; works of art; collector's items and antiques (EU Directive).
Denmark[1]	Several services delivered internationally and intra-Community delivery of goods (EU Directive); goods imported B2B into Denmark from a country outside the EU; leasing of means of transport from outside the EU to a taxable person in Denmark.	Travel agencies; second-hand goods, works of art, collector's items and antiques (EU Directive).
Finland[1]	Several services delivered internationally and intra-Community delivery of goods (EU Directive); if a foreign enterprise does not have a fixed establishment in Finland, the purchaser is usually liable for tax. Nevertheless, the seller is always liable to tax in the following cases: 1. The purchaser is a foreigner who does not have a fixed establishment in Finland and who has not been entered in the register of persons liable to value added tax. 2. The purchaser is a private individual. 3. In the case of distant sales of goods. 4. In the case of passenger transport, cultural, entertainment and educational services which are considered as sold in Finland. A reverse charge procedure is applied to taxable investment gold as well as gold material and semi-manufactured gold products of purity equal to or greater than 325 thousandths.	Travel agencies; second-hand goods, works of art, collector's items and antiques (EU Directive).
France[1]	Several services delivered internationally and intra-Community delivery of goods (EU Directive).	Travel agencies; second-hand goods, works of art, collector's items and antiques (EU Directive); real estate agents.

Table 3.12. **Special VAT/GST taxation methods** *(cont.)*

	Usage of reverse charge system	Usage of margin schemes[2]
Germany[1]	Several services delivered internationally and intra-Community delivery of goods (EU Directive); If customer is an entrepreneur or a legal person governed by public law: supplies of work and other services provided by an entrepreneur resident abroad (with the exception of certain services involving passenger transport) and supplies of pledged assets by the guarantor to the recipient of the security outside the framework of judicial liquidation; turnover covered by the Real Property Transfer Tax Law (in particular transfers of real estate). If the customer is an entrepreneur: supplies of work or other services serving the construction, repair, maintenance, alteration or removal of structures (except for planning and supervision) when the customer himself supplies such services; supplies of gas and electricity provided by an entrepreneur resident abroad.	Travel agencies; second-hand goods, works of art, collector's items and antiques (EU Directive).
Greece[1]	Several services delivered internationally and intra-Community delivery of goods (EU Directive); recyclable waste.	Travel agencies; second-hand goods, works of art, collector's items and antiques (EU Directive).
Hungary	Several services delivered internationally and intra-Community delivery of goods (EU Scheme); supply of building or parts of building and the land on which it stands (if the taxpayer opted for taxation); construction and alteration of property subject to authorisation by the building authority as well as hiring out of employees connected to such works; supply of waste products.	Travel agencies; second-hand goods; works of art, antiques, collectors' items.
Iceland	–	–
Ireland[1]	Several services delivered internationally and intra-Community delivery of goods (EU Directive).	Optional margin scheme for antiques, works of art and second hand goods (EU Directive). There is an obligatory margin scheme for auctioneers.
Israel[3]	A person not liable for payment of the tax may, with the Director's consent and on conditions prescribed by him, take the payment upon himself, and after the date of that consent he shall be treated as the person liable for its payment. The tax levied on a buyer, if the buyer is a licensed dealer (*i.e.* a VAT registered enterprise) and has committed a real estate sale which is an occasional transaction. If a transaction is performed in Israel, and the seller or performer of the service is a foreign resident, then the obligation to pay the tax rests on the purchaser. Sale of metal debris. Import, including import of intangible goods – the owner of the goods is liable to pay the tax. If a dealer, non-profit organisation or financial institution received services of the types specified below from a person, whose main income is from wage, benefit or pension, then he must pay the tax in respect of that service, unless he received a tax invoice from the person who rendered the service; these are the services: 1. Artistic performance, construction or preparation of stage sets; preparation, checking, conducting and supervising examinations; lectures; etc. 2. Services of the following professionals: agronomist, architect, practical engineer, private investigator, rabbinical pleader, technician, dental technician, organisational, management, scientific or tax consultant, economist, engineer, etc.	Sale art objects and used assets – other than dwellings – when they are sold by a person whose business is the sale of such assets. Sale of used vehicle, motorcycle or cross-country vehicle by a dealer whose business is a purchase and sale of used vehicles. Sale of dwellings by a real estate dealer, who acquired it from a person who is not a non-profit organisation, a financial institution or a dealer. Sale of coins, medals purchased from a non-licensed dealer (*i.e.* not VAT registered business). Sale of postage stamps and revenue stamps by a person whose business is the sale of such stamps (deemed to be a service). Sale of securities or other negotiable instruments, including the acquisition of aforesaid securities and instruments in order to collect their redemption or retirement price, by persons whose business is the sale of such assets or the sale of foreign currency, then that sale or collection of redemption or retirement shall be deemed a brokerage service rendered by the dealer, between the person who sold them to him and the person who bought them from him or redeemed them or retired them.
Italy[1]	Several services delivered internationally and intra-Community delivery of goods (EU Directive); Investment gold: supply of semi-finished products, gold purity > 0.325, so called industrial gold, scrap iron; supplies carried out by subcontractors in the building sector; mobile telephones and integrated circuit devices under certain conditions.	Travel agencies; second-hand goods, works of art, collector's items and antiques (EU Directive).
Japan	–	–
Korea	Services which are provided by foreigners or foreign corporations that are not located in Korea, except in cases where the services received are used in taxable operations.	–
Luxembourg[1]	Several services delivered internationally and intra-Community delivery of goods (EU Directive).	Travel agencies; second-hand goods, works of art, collector's items and antiques (EU Directive).
Mexico	When an individual provides or rents goods for a business the obligation to withhold and pay the tax is on business.	–
Netherlands[1]	Several services delivered internationally and intra-Community delivery of goods (EU Directive).	Travel agencies; second-hand goods, works of art, collector's items and antiques (EU Directive).

Table 3.12. **Special VAT/GST taxation methods** *(cont.)*

	Usage of reverse charge system	Usage of margin schemes[2]
New Zealand	Residents are required to self assess tax on the value of imported services, including imported intra-group cost allocations. A requirement to register for GST arises, absent of a taxable activity, if the value of any imported services exceeds NZD 40 000 in a twelve-month period.	–
Norway	Reverse charge applies to business-to-business transactions of international services (services capable of delivery from a remote location).	Voluntary margin scheme for second hand goods, works of art, collectors items and antiques.
Poland[1]	Several services delivered internationally and intra-Community delivery of goods (EU Directive)	Travel agencies; second-hand goods; works of art; collector's items and antiques (EU Directive).
Portugal[1]	Several services delivered internationally and intra-Community delivery of goods (EU Directive).	Travel agencies; second-hand goods, works of art, collector's items and antiques (EU Directive).
Slovak Republic[1]	Several services delivered internationally and intra-Community delivery of goods (EU Directive). Supply of gold between taxable persons; supply of metal scrap and metal waste; supplies of goods with assembly or installation; gas, electricity and certain other services by non-established traders to established taxable persons.	Travel agencies; second-hand goods, works of art, collector's items and antiques (EU Directive).
Slovenia	Several services delivered internationally and intra-Community delivery of goods (EU Directive).	Travel agencies; second-hand goods, works of art, collector's items and antiques (EU Directive).
Spain[1]	Several services delivered internationally and intra-Community delivery of goods (EU Directive).	Travel agencies; second-hand goods, works of art, collector's items and antiques (EU Directive).
Sweden[1]	Several services delivered internationally and intra-Community delivery of goods (EU Directive).	Travel agencies; second-hand goods, works of art, collector's items and antiques (EU Directive).
Switzerland	The reverse charge system is applicable for the receipt of services taxable in Switzerland from enterprises with their place of business outside of Swiss territory.	Optional margin taxation scheme for used, individualised, movable goods for the purpose of resale, if a deduction of input tax on the purchase price was not possible or was not claimed. As such goods are also deemed works of art, collectors' items and antiques (except precious metals and precious stones).
Turkey	If the taxpayer does not have a place of business, residence, legal or business centre in Turkey or if considered necessary by the Ministry of Finance, any of the people involved in a transaction subject to taxation may be held responsible for the payment of tax to cover the tax income.	Travel agencies (commission taken from tour sold abroad is exempt; commission taken from tour sold in Turkey is subject to tax).
United Kingdom[1]	Several services delivered internationally and intra-Community delivery of goods (EU Directive); investment gold.	Travel agencies; second-hand goods, works of art, collector's items and antiques (EU Directive).

1. EU Directive – Reverse charge: Within the European Union the person liable to pay the tax is in principle the taxable person carrying out the supply of goods or services. Nevertheless, several operations give rise to payment of VAT by the person to whom the goods or services are supplied (Directive 2006/112/EC). This is mainly the case for the intra-Community delivery of goods between taxpayers; and several services (advertising, transfers of copyrights, etc., consultants, engineers, accountants, banking, financial and insurance, supply of staff, services of agents, hiring out of movable tangible property, telecommunications, radio and TV broadcasting, electronically supplied services; intra-community transport of goods, services by intermediaries, valuations or work on movable tangible property).
2. Margin scheme: In this context, a margin scheme means a scheme where the tax base is calculated on the difference between the price paid by the taxpayer for an item and the price of resale rather than on the full selling price. The reseller is not allowed to deduct the input VAT embedded in the buying price of the items resold under the margin scheme.
3. The statistical data for Israel are supplied by and under the responsibility of the relevant Israeli authorities. The use of such data by the OECD is without prejudice to the status of the Golan Heights, East Jerusalem and Israeli settlements in the West Bank under the terms of international law.

Source: National delegations; position as at 1 January 2009.

Table 3.13. **Import/export of goods by individuals**

	Thresholds for tax-free import of goods by individual travellers			Refund for individuals upon export		
	Scheme	Maximun threshold		Scheme	Minimum value	
		National currency	USD		National currency	USD
Australia	AUD 900 worth of goods (or AUD 450 for people under the age of 18 and air and sea crew members); 2.25 litres of alcohol and 250 cigarettes or 250 g of cigars or other tobacco products plus one open packet containing 25 cigarettes or less may be imported without individuals needing to be assessed for GST and customs duty. If the individuals have in excess of this amount, they need to declare goods and be assessed.	AUD 900	620	Tourist Refund Scheme (TRS): individuals may claim a refund of GST on purchases made over AUD 300 from a single business within 30 days of departure. GST refunds are available when goods are shown with the necessary documentation, on departure from Australia. The TRS applies to both residents and non-residents (except to crew, sea and air).	AUD 300	207
Austria	EU scheme:[1]			Refund to individuals exporting goods in their personal luggage to a destination outside the EU minimum invoice amount EUR 75.	EUR 75	89
	In air and sea traffic	EUR 430	512			
	In land traffic	EUR 300	357			
Belgium	EU scheme:[1]			Refund to individuals exporting goods in their personal luggage to a destination outside the EU minimum invoice EUR 125.	EUR 125	144
	In air and sea traffic	EUR 430	494			
	In land traffic	EUR 300	345			
	Restrictions of these thresholds apply depending on the age of the passenger, the nature of the products (excise products) staff of the means of transport.					
Canada	I) Goods acquired abroad and for personal or household use imported by Canadian residents, temporary residents or former residents returning to live in Canada: ● returning after an absence of not less than 24 hours, goods (except alcoholic beverages and tobacco products) valued at not more than CAD 50 and included in the baggage accompanying the person; ● returning after an absence of not less than 48 hours, goods (including either wine not exceeding 1.5 litres or any alcoholic beverages not exceeding 1.14 litres and tobacco not exceeding fifty cigars, two hundred cigarettes, two hundred tobacco sticks and two hundred grams of manufactured tobacco) valued at not more than CAD 400 and included in the baggage accompanying the resident; ● returning after an absence of not less than seven days, goods (including either wine not exceeding 1.5 litres or any alcoholic beverages not exceeding 1.14 litres and tobacco not exceeding fifty cigars, two hundred cigarettes, two hundred tobacco sticks and two hundred grams of manufactured tobacco)valued at not more than CAD 750 whether or not (except for alcoholic beverages and tobacco products) included in the baggage accompanying the person. II) Goods that are zero-rated when supplied domestically (for example, basic groceries).	CAD 750	625	Rebate is available to non-resident individuals who purchase eligible goods or eligible short-term accommodation while visiting Canada. Generally, eligible goods are those that are acquired by the individual primarily for use outside Canada, exported within 60 days of delivery to the individual and for which there is appropriate proof of export. Eligible goods exclude excisable goods and gasoline, diesel fuel and other motor fuels. Eligible accommodation is accommodation in a unit provided for less than one month of continuous occupancy. A rebate up to 50% of the GST/HST is available to a non-resident individual who purchases an eligible tour package that includes short-term accommodation. The total purchase amount before taxes must be at least CAD 200.	CAD 200	167

Table 3.13. **Import/export of goods by individuals** *(cont.)*

	Thresholds for tax-free import of goods by individual travellers			Refund for individuals upon export		
	Scheme	Maximun threshold		Scheme	Minimum value	
		National currency	USD		National currency	USD
	III) Conveyances and baggage temporarily imported by non-residents for use in Canada. IV) Casual donations valued at CAD 60 or under sent by persons abroad to friends in Canada or imported personally by non-residents as gifts to friends in Canada (except advertising matter, tobacco or alcoholic beverages). V) Personal effects of seasonal residents. VI) Personal effects of returning former residents (resident in another country for at least one year) or residents who have been abroad for at least one year (goods must have been actually owned, possessed and used abroad by the individual for at least six months prior to the individual's return to Canada and accompany the individual upon return to Canada). VII) Personal effects of settlers. VIII) Personal effects of settlers acquired with blocked currencies. IX) Foreign conveyances temporarily imported by a Canadian resident to be used in the international non-commercial transportation of the individual and accompanying the individual using the conveyance. X) Medals, trophies and other prises that are: ● won outside Canada or donated by persons outside Canada for heroic deeds, valour or distinction; ● to be presented by the importer at awards ceremonies; or ● bestowed or awarded abroad as marks of honour or distinction, won abroad in competitions, or won abroad in competitions and donated by persons abroad for bestowal or award in Canada.					
Chile	Goods acquired abroad and imported by: ● Passengers regarding "travel baggage" exempted under of Customs Duties limited to travel stuff, clothes and garments, toiletries, personal care and fancies needed for ordinary and personal care and use; including four hundred cigarettes, five hundred grams of tobacco, fifty cigar and 2.5 litres of alcoholic beverages. The exemption excludes goods imported with commercial purpose or exclusively intended to perform a profession or job. Home appliances, underwear, paintings, music instruments, telecommunication equipments, voice, music and video players, electrical equipment and goods deemed as commercial are not exempted.	CLP 2 400 000	6 364	● Goods acquired in tax duty free shop only, up to a value of USD 500. ● Non-resident individuals who leave the country through the Chacalluta border crossing (on the First Region) can obtain a refund of VAT paid on merchandise acquired in Arica and Parinacota (subject to daily caps).	CLP 240 000	636

Table 3.13. **Import/export of goods by individuals** *(cont.)*

	Thresholds for tax-free import of goods by individual travellers			Refund for individuals upon export		
	Scheme	Maximun threshold		Scheme	Minimum value	
		National currency	USD		National currency	USD
	• Officers or employees of the Chilean Government who serve abroad and immigrants provided that the goods are personal effects, home appliances, tools and work equipment, provided these items do not require an import register. • Crew personnel of a ship, aircraft or another vehicle concerning travel baggage exempted of Customs Duties; • Travellers and Chilean residents from the First Region (Chile) under some circumstances. • Travellers regarding goods subject to the customs classifications (goods owned by travellers coming from the Chilean duty-free zone up to USD 1 000; goods imported by Chilean residents of border places up to USD 150; home appliances of Chileans returning after an absence between six and one year (up to USD 500); home appliances and work equipment of Chileans returning after an absence of not less than one year (up to USD 3 000); home appliances and work equipment of Chileans returning after an absence of not less than five years (up to USD 5 000); goods of foreign national with a temporary residence in Chile or with a job agreement not less than a one year term (up to USD 5 000) under some conditions such as the purpose of the import (not commercial); age of goods (acquired and used abroad); and beneficiaries (traveller and his/her dependants). • National artists regarding their pieces of arts performed abroad under customs classification (drafts, painting, sculptures). Travellers and temporal visitors regarding goods for personal use during their visiting to Chile (not exceeding 90 days), and vehicles for their private transportation. Goods considered as: • Cultural or sport s prises and trophies won abroad without commercial nature, and not commercial gifts occasionally awarded to individuals under customs classification. In both case, goods cannot exceed the value of USD 50. Prises and gifts awarded to Chilean individuals, listed under the customs classification, who obtain highest distinction and under specific requirements.					
Czech Republic	EU scheme:[1] In air and sea traffic In land traffic	 EUR 430 (CZK 10 642) EUR 300 (CZK 7 425)	 787 549	Refund to individuals exporting goods in their personal luggage to a destination outside the EU. Minimum invoice CZK 2 000 for one seller on one day.	CZK 2 000	145

Table 3.13. **Import/export of goods by individuals** *(cont.)*

	Thresholds for tax-free import of goods by individual travellers			Refund for individuals upon export		
	Scheme	Maximun threshold		Scheme	Minimum value	
		National currency	USD		National currency	USD
Denmark	EU scheme:[1] In air and sea traffic In land traffic	EUR 430 (DKK 3 204) EUR 300 (DKK 2 235)	403 281	Refund to individuals exporting goods in their personal luggage to a destination outside the EU. Travellers from Norway and the Aland Islands can only get refund if the value of the goods exceeds DKK 1 200.	DKK 1 200	151
Finland	EU scheme:[1] In air and sea traffic In land traffic	EUR 430 EUR 300	473 330	Refund to individuals exporting goods in their personal luggage to a destination outside the EU, minimum invoice EUR 40. Traveller from Norway and the Åland Islands can only get the refund if the value of the goods without VAT is at the minimum EUR 170.	EUR 40	44
France	EU scheme:[1] In air and sea traffic In land traffic	EUR 430 EUR 300	489 341	Refund to individuals exporting goods in their personal luggage to a destination outside the EU. The traveller's habitual residence must be outside the European Union. The total value of the purchases (including VAT) in a single shop on the same day must be over EUR 175.	EUR 175	199
Germany	EU scheme:[1] In air and sea traffic In land traffic	EUR 430 EUR 300	531 370	Refund to individuals exporting goods in their personal luggage to a destination outside the EU. The traveller's habitual residence must be outside the European Union. The goods have to be exported within three months following the month of purchase. There is no threshold as to the amount. The VAT exemption is only valid for non-commercial purposes (except for the equipment and supply of private means of transport, *e.g.* car, motorboat, aeroplane, etc.).	–	–
Greece	EU scheme:[1] In air and sea traffic In land traffic	EUR 430 EUR 300	607 423	Refund to individuals exporting goods in their personal luggage to a destination outside the EU Minimum invoice EUR 120. Limitations: alimentary products, alcoholic beverages, tobaccos, goods for the supply and equipment of private motor vehicles, aircrafts or sea-going vessels, goods having commercial character.	EUR 120	169
Hungary	EU scheme:[1] In air and sea traffic In land traffic	EUR 430 (HUF 118 539) EUR 300 (HUF 82 701)	925 645	Refund to individuals exporting goods in their personal luggage to a destination outside the EU. Minimum invoice HUF 42 000. Limitation: certain works of art, antiques and tobacco products.	HUF 42 000	328
Iceland	ISK 46 000 for travellers.	ISK 46 000	360	Refund for individuals when leaving the country for goods worth more than ISK 4 000.	ISK 4 000	31
Ireland	EU scheme:[1] In air and sea traffic In land traffic	EUR 430 EUR 300	478 333	Refund to individuals exporting goods in their personal luggage to a destination outside the EU. There is no threshold as to the amount.	–	–

Table 3.13. **Import/export of goods by individuals** *(cont.)*

	Thresholds for tax-free import of goods by individual travellers			Refund for individuals upon export		
	Scheme	Maximun threshold		Scheme	Minimum value	
		National currency	USD		National currency	USD
Israel[2]	Import duty exemption: personal products, beverages and wines: liquor up to 1 litter and up to 2 litters of wine - for each entrant age 18. Alcoholic perfume – to 1/4 litters per entrant. Tobacco – weight not exceeding 250 g. Products that do not exceed USD 200.		200	A refund will be given to the visitor , a non-citizen holding a foreign passport. The arrangement does not apply to purchases of tobacco products, food and beverages (except wineries). Minimum purchase amount for VAT refund is: ILS 400 including VAT, purchase at the same time in one business transaction. Providing a refund is subject to the purchase in **a registered** (an improved) business.	ILS 400	–
Italy	EU scheme:[1] In air and sea traffic In land traffic	 EUR 430 EUR 300	 551 385	Refund to individuals exporting goods in their personal luggage to a destination outside the EU Minimum threshold is fixed at EUR 154.93.	EUR 155	199
Japan	1. Certain goods carried by persons who enter in Japan. 2. Certain goods for personal use imported by immigrants. 3. Goods which total taxable value do not exceed JPY 10 000.	JPY 10 000	87	Foreign travellers are exempted from VAT for exported goods when they are acquired in tax-free shops only. There is no threshold as to the amount.	–	–
Korea	Importation of the following duty-exempt goods under the Customs Law is exempted from value-added tax. Books, newspapers, and magazines. Duty-exempt goods of a small amount (USD 400) imported by a resident. Goods imported from moving, immigration, or inheritance. Personal effects of travellers, or goods arriving by separate post and mailed goods that are exempted from customs duties or chargeable by the simplified tariff rates.	KRW 304 800	379	Foreign travellers are exempted from VAT for exported goods when they are acquired in tax-free shops only. There is no threshold as to the amount.	–	–
Luxembourg	EU scheme:[1] In air and sea traffic In land traffic	 EUR 430 EUR 300	 478 333	Refund to individuals exporting goods in their personal luggage to a destination outside the EU. Minimum invoice EUR 74.	EUR 74	82
Mexico	1. Administrative Rule No. 2.7.2 includes a list of items that may be introduced to Mexico as part of the baggage of international passengers residing abroad or in Mexico. 2. When arriving to Mexico by ships or aircrafts it is possible to introduce tax free good which value does not exceed USD 300 or its equivalent in national or foreign currency. 3. When arriving to Mexico in terrestrial means of transportation such amount shall not exceed USD 50.	MXN 2 166	281	Foreign tourists leaving the country by airplane or ship may claim a refund on the VAT paid on the acquisition of goods in Mexico when, among other requirements, the amount paid for the goods in one single store is at least MXN 1 200.	MXN 1 200	155
Netherlands	EU scheme:[1] In air and sea traffic In land traffic	 EUR 430 EUR 300	 506 353	Refund to individuals exporting goods in their personal luggage to a destination outside the EU. Minimum invoice EUR 136.	EUR 50	59

Table 3.13. **Import/export of goods by individuals** *(cont.)*

	Thresholds for tax-free import of goods by individual travellers			Refund for individuals upon export		
	Scheme	Maximun threshold		Scheme	Minimum value	
		National currency	USD		National currency	USD
New Zealand	No charge for GST or duties is made if the realisable revenue on any one importation is less than NZD 50. In practical terms, this means that goods which only attract GST can be imported up to a value of NZD 399 before the revenue collection threshold is crossed. This threshold does not apply to excisable products above the following quantities. Tobacco: 200 cigarettes, or 250 grams of tobacco, or 50 cigars, or a mixture of all three weighing not more than 250 g. Alcoholic Beverages: 4.5 litres of wine or 4.5 litres of beer – one bottle containing not more than 1 125 ml of spirits, liqueur, or other spirituous beverages. Other concessions: Personal effects: wearing apparel, footwear purchased while outside New Zealand for the intended use or wear of the traveller. Goods need to accompany the traveller when arriving in New Zealand. Other accompanying goods: Each traveller may import other accompanied goods up to a total combined value of NZD 700, free of duty and GST. Gifts: if value is less than NZD 110 – free entry, if more than NZD 110 – GST and duty applies on the value in excess of NZD 110. Multiple gift allowances are permitted provide that the separate identity of each recipient can be established. Heirlooms: Items bequeathed to a person in New Zealand may be imported free of all Customs charges.	NZD 700	467	No refund scheme.	–	–
Norway	The threshold is NOK 6 000 for travel abroad for more than 24 hours. For travel abroad of less than 24 hours, the threshold is NOK 3 000. For alcohol and tobacco, special quantitative limits apply.	NOK 6 000	678	VAT refunds are available for tourists. For Nordic countries a higher value applies.	NOK 250	28
Poland	EU scheme:[1] In air and sea traffic In land traffic	 EUR 430 (PLN 1 658) EUR 300 (PLN 1 157)	 891 161	Refund to individuals exporting goods (excluding fuels) in their personal luggage to a destination outside the EU. Minimum invoice PLN 200.	PLN 200	108
Portugal	EU scheme:[1] In air and sea traffic In land traffic Travellers under 15 years old	 EUR 430 EUR 300 EUR 150	 683 476 238	Refund to individuals exporting goods (except equipment, fuelling and provisioning of private means of transport) in their personal luggage to a destination outside the EU. Minimum invoice EUR 50.	EUR 50	79

Table 3.13. **Import/export of goods by individuals** *(cont.)*

	Thresholds for tax-free import of goods by individual travellers			Refund for individuals upon export		
	Scheme	Maximun threshold		Scheme	Minimum value	
		National currency	USD		National currency	USD
Slovak Republic	EU scheme:[1] In air and sea traffic In land traffic	 EUR 430 EUR 300	 843 588	For travellers without permanent or temporary address within the EU. The total amount including VAT of exported goods to one taxpayer in one day should exceed EUR 175 and goods should be exported within 3 months after the last day of the month where goods were purchased.	EUR 175	343
Slovenia	EU scheme:[1] In air and sea traffic In land traffic	 EUR 430 EUR 300	 683 476	Refund to individuals exporting goods (except equipment, fuelling and provisioning of private means of transport) in their personal luggage to a destination outside the EU. Minimum invoice EUR 50.	EUR 50	79
Spain	EU scheme:[1] In air and sea traffic In land traffic	 EUR 430 EUR 300	 606 423	Refund to individuals exporting goods in their personal luggage to a destination outside the EU Minimum invoice EUR 90.	EUR 90	127
Sweden	EU scheme:[1] In air and sea traffic In land traffic	 EUR 430 (EUR 3 841) EUR 300 (EUR 2 680)	 430 300	Refund to individuals exporting goods in their personal luggage to a destination outside the EU Minimum invoice SEK 200. Higher value for Norway and the Åland island.	SEK 200	22
Switzerland	Personal belongings; food and non-alcoholic beverages for the day of travel; alcoholic beverages and tobacco: 200 cigarettes or 50 cigars or 250 grams of pipe-tobacco and 2 lt. up to 15% alcool plus 1 lt. over 15% alcool; goods for gift purposes or for personal use up to CHF 300 per person. Personal belongings means what residents take with them when leaving the country and what non-residents will use during their stay and re-export when going home (clothing, personal-care products, sports equipment, personal computer, audio and video equipment, musical instruments, etc.).	CHF 300	196	There is no refund of VAT to any individuals by the Tax Administration. Goods for personal use or for gift purposes are tax free if they are exported by the non-resident purchaser within 30 days after delivery to the latter and if the export is confirmed by customs. Minimum invoice: CHF 400.	CHF 400	261
Turkey	–	–	–	VAT refund to passengers who do not reside in Turkey for the purchasing goods taken to abroad. Minimum invoice: TRY 100.	TRY 100	108
United Kingdom	EU scheme:[1] In air and sea traffic In land traffic	 EUR 430 EUR 300	 672 469	Refund to individuals exporting goods in their personal luggage to a destination outside the EU. Threshold on refunds set by retailer.	–	–

Table 3.13. **Import/export of goods by individuals** *(cont.)*

	Thresholds for tax-free import of goods by individual travellers			Refund for individuals upon export		
	Scheme	Maximun threshold		Scheme	Minimum value	
		National currency	USD		National currency	USD
United States	The allowance is USD 800 per person for absences over 48 hours, every 30 days, including up to 1 litre of alcoholic beverages, 200 cigarettes and 100 cigars. The goods must be for personal or household use only, or *bona fide* gifts, and not for the account of any other person, nor may they be re-sold. The amount may be pooled with family members. A traveller who has already used the USD 800 monthly allowance still has available a USD 200 exemption per crossing. This amount may not be pooled with family members, and if the value of the goods exceeds USD 200 the exemption does not apply and duties are levied on the total value of the goods imported.	USD 800	800	No refund scheme.	–	–

1. European Union: EU rules allow tax-free import of goods from outside the EU by individuals for non-commercial purposes in their personal luggage to the extent that the global value of the imported goods does not exceed EUR 175 to EUR 430 for air and sea travellers and to EUR 300 for land and inland waterways travellers.
   Nevertheless, special quantitative limits by traveller may apply for the following high-duty goods: tobacco, cigarettes, cigars, alcoholic beverages and perfumes.
2. The statistical data for Israel are supplied by and under the responsibility of the relevant Israeli authorities. The use of such data by the OECD is without prejudice to the status of the Golan Heights, East Jerusalem and Israeli settlements in the West Bank under the terms of international law.

Source: National delegations; position as at 1 January 2009.

Realising the full potential of VAT

Consideration of means of improving the efficiency of VAT systems has been undertaken recently, for two reasons. First, VAT has been in operation for more than 60 years in some countries and has spread across the world at a rapid pace over the last twenty years. It seems therefore to be an opportune time for many countries and institutions to reflect on how existing VAT systems could be reformed. Second, as a result of the recent economic crises many governments have to undertake fiscal consolidation strategies over the medium term. In many cases countries' assessment of the appropriate balance between cutting public expenditure and raising taxes means that tax revenues will need to be increased (OECD, 2010a). However, depending on the tax structures of existing regimes, tax reforms should consider a package of measures rather target specific taxes in isolation. Ensuring that tax reforms are perceived by citizens to be fair and prevent distorting effects that may harm growth are key to the success.

In 2008, the *OECD Tax and Growth Study* (OECD, 2008) recommended reducing the distortional effects of taxation, in particular those likely to harm growth prospects, by the following action:

- changing the structure of tax systems towards VAT and recurrent taxes on residential property;
- broadening tax bases and reducing rates;
- increasing environmental taxes; and
- better compliance and simplification.

In September 2009, senior tax policy officials from 25 OECD countries, the European Commission and 5 non-member economies met in Lucerne, Switzerland. They acknowledged the role of value added taxes as the world emerges from recession. In particular, they encouraged countries to modernise their VAT systems, recognising that their economic efficiency should be improved (see the *Lucerne Communiqué* at Annex D).

A recently published OECD study (OECD, 2010a) examines in further detail possible measures to restore public finances while supporting growth. The analysis suggests a tax and economic growth ranking order according to which corporate taxes are the most harmful type of tax for economic growth, followed by personal income taxes and then consumption taxes, with recurrent taxes on immovable property being the least harmful tax. As many countries will need to increase tax revenues in the next few years, they will have to choose between raising tax rates and broadening the tax base by scaling back or abolishing targeted reduced rates. A recent report examines the economic arguments for base-broadening tax reforms (OECD, 2010b).

Reduced rates

Many countries are looking to use increases in VAT rates to help bring fiscal deficits back into balance. It is worth considering the efficiency of such changes compared to broadening the VAT base and reducing the scope for reduced rates. Reduced VAT rates apply to a wide range of commodities (see Tables 3.8 and 3.10) for different reasons although equity is probably the main one.

Reduced VAT rates are also applied in order stimulate consumption of "merit goods" (*e.g.* cultural products and education) and goods with positive externalities (*e.g.* energy-saving appliances). Neither do they want to tax medicine, health services and housing at

high rates. However, other reduced rates seem less targeted. Amongst these are admissions to cultural events, including circuses and cinemas, hotel accommodation and cut flowers.

The reasons for these reduced rates are likely to be rooted in a country's socio-economic history, but their validity may be questionable within a general tax on domestic consumption of goods and services. In addition, in developed countries where patterns of consumption are complex, it is difficult to predict consumers' behaviour and therefore ensure that the objectives of reduced VAT rates are met. The rationale for reduced rates (and the arguments against reduced rates) are discussed in more detail below.

Equity

Most countries implement reduced VAT rates on necessities such as food and water in order to alleviate the tax burden on low-income households. The question is whether such reduced rates are an effective way of achieving distributional objectives. The benefits of reduced VAT rates will be greater for the better off households in absolute terms since they consume more, and often more expensive, goods than poorer households. Thus, whilst poorer households may benefit from reduced VAT rates on "necessities" the wealthier gain even more. As a result, a significant part of the tax expenditure (*i.e.* the difference between the tax actually collected and the tax that would have been collected if the tax base was subject to the standard rate) produces a result that is unlikely to be in line with the original intention.

This raises the question of whether removing reduced VAT rates and using direct transfers to poorer households to achieve distributional objectives would be a more effective policy. Could targeted personal income tax reliefs or benefits better achieve distribution goals (in terms of cost-efficiency)? Economic literature generally considers that direct lump-sum payments to households related only to their socio-economic characteristics are better in terms of both equity and efficiency. Transfers directly targeted to low-income households (including increased personal income tax allowances and state benefits) may also be more effective in enhancing equity than "scatter-gun" VAT provisions (OECD, 2010b).

It may well be difficult to define "necessities" in practice. For instance, a reduced rate may apply to all food including "luxury" items. Drawing distinctions tends to raise administrative costs (defining and monitoring) and compliance costs (identifying and understanding); and it encourages litigation to secure a reduced rate category for a wide selection of products. For example, how to draw the line between types of potato products and between biscuits and cakes?

Finally, low income observed at a single point in time may often be temporary and need not reflect low living standards across a lifetime. While it is true that some people are persistently poor, many have variable earnings – and expenses – over their lifetime. Looking at the effect of taxes on lifetime income inequality, the contrast between "progressive" direct taxes and "regressive" indirect taxes would be much smaller. Despite this, it remains the case that personal income taxes are more progressive than consumption taxes (Warren, 2008).

Distributional arguments in favour of VAT rate differentiation may be more persuasive where countries do not have the administrative capacity to provide more direct transfers to poorer households (Heady and Smith, 1995). In low-income countries, significant and stable differences in consumption patterns between high- and low-income groups allow for an easier and more efficient alleviation of poverty through exemptions from

consumption taxes or low rates. In these countries, low-income families purchase most of their goods from local small-scale producers whose output either may be exempted or escape taxation, while high-income families are likely to buy more factory-made or imported goods that can be taxed more effectively (*Copenhagen Economics*, 2007).

Merit goods

The argument against reduced rates is even stronger for (most) merit goods. Reduced rates on, for instance, cultural events might have the unintended effect of subsidising the consumption of these goods by high-income households, who tend to consume more merit goods, rather than leading to an effective increase in consumption by lower-income households. This might lead to or strengthen a so-called "Matthew effect" (Merton, 1968) according to which social distribution flows from lower-income households to higher income households.

Correcting externalities

It is sometimes argued that correcting externalities might justify VAT rate differentiation; for example, higher rates on goods that generate pollution or reduced rates on energy-saving appliances. In these cases, rate differentiation may improve efficiency if it means that private marginal costs of an activity are brought more into line with society's marginal costs. However, VAT is a blunt instrument for correcting environmental externalities, as it may be hard to target the actual source of pollution. For example, reduced rates on energy-saving appliances, by reducing the private marginal cost of these goods, may boost demand for them and, therefore, stimulate consumption of these goods. The reduced VAT rate may give incentives to shift from more to less energy-consuming items (consumers might replace their old fridge with a new one, for instance). However,this may also lead to an increase in the purchase of energy-intensive products (*i.e.* consumers may replace their old fridge with one new fridge and one freezer) (*Copenhagen Economics*, 2007). Even if there are positive externalities, it may be more effective to tax polluting goods in order to reduce the negative externalities that arise if these goods are consumed, instead of subsidising (by way of reduced rates) the consumption of more environmentally friendly goods.

Promoting locally supplied labour-intensive activities

Efficiency considerations may also justify reduced VAT rates for specific labour-intensive activities. Low taxation of commodities that are close substitutes with self-supply or underground economy work (*e.g.* home improvement and repair services, gardening and hairdressing) may mitigate the unavoidable discouragement to work in and purchase from the formal economy created by the tax system. The argument is that high tax wedges (high income tax, social security contributions and VAT rates) make it very expensive to buy these services on the market and more attractive to do by oneself or to bug these services in the informal sector. The implication is that high-skilled professionals spend time on low-skilled work at home instead of spending time with their families or increasing their more productive labour supply. Numerical simulations in Sorensen (1997) showed that the efficiency gains from reduced rates on these types of services could be significant.

On the other hand, this result may change (and administration costs will be reduced) when a broad-based single rate VAT (set at a reasonable rate) is combined with an appropriate VAT threshold and a well-targeted audit programme (OECD, 2010a). In addition, if the theoretical motivation for these reduced rates is to raise demand for

low-skilled labour by boosting the demand for such services, other policy instruments such as labour market reforms (flexibility, administrative simplifications, etc.) could be more efficient in achieving this objective (*Copenhagen Economics*, 2007).

Conclusion on reduced rates

A broad based VAT system, ideally with a single rate, would be quite close to the ideal of a pure consumption tax that minimises compliance costs (European Commission, 2010) and, from a purely economic point of view, would be the best policy choice.

On the other hand, reduced rates in carefully targeted sectors may provide some benefits in the context of a broader labour market reforms, *e.g.* in locally supplied services sector employing many low-skilled workers (*Copenhagen Economics*, 2007). It is also true that a sudden increase of VAT from low, or zero, rate to the standard rate (especially if it is quite high) would involve higher prices that would hit the poorer households most.

However, an effective redistribution policy is not implemented through each tax in isolation but should be implemented by considering the entire tax and benefit systems. Because the redistributional impact of reduced VAT rates is ambiguous, income distribution goals could better be achieved through means of targeted personal income tax relief and/or targeted benefits. The move towards a simpler VAT structure with less, or no, reduced rates should be subject to wider public discussion where gains and losses can be balanced across society.

Abolishing a wide range of reduced rates prevents the "me too" syndrome. By granting a reduced rate to one sector, other sectors will inevitably lobby hard for inclusion. This is an international issue with lobbyists quoting a reduced rate in country A as a means of pressing the government in country B to follow suit. The recent extension of reduced rates to labour-intensive services within the EU provides a good example with sectors, such as restaurants, lobbying hard for inclusion. A uniform VAT rate also avoids significant administrative costs of having to categorise each and every good and service. These costs are significant for the food sector due to its multitude of products and the grey zone between basic and prepared food. VAT base-broadening and simplification would reduce such compliance costs, especially for smaller businesses.

Exemptions

Exemptions are contrary to the principle of VAT as a broad-based neutral tax. The continued relevance of many of the existing exemptions is questionable. Broadening the tax base by reducing the number of exemptions would make the tax more efficient and neutral and offers a valid alternative to increasing VAT rates (European Commission, 2010).

However, Table 3.10 shows that there is a wide range of exemptions in OECD countries. Financial services, immovable property, and health care are the most widespread exemptions. The European Commission launched a debate in November 2010 on the ways to improve a simpler and more efficient VAT system (European Commission, 2010), including a review of current exemptions, *e.g.* for postal services and financial services.

The exemption of financial (banking and insurance) services in particular may be subject to revision in the near future. They are generally exempt from VAT mainly because of the difficulty in assessing the tax base on a transaction by transaction basis for the complex intermediation services that characterise the bulk of financial activity. Ideally, the VAT would be levied only on the intermediation charge, which reflects the actual value added created by

the financial institution and not on the interest rate, premium or return that has to be paid by the financial institution's customers. However, in practice, this distinction is not easily made. Although taxing financial services under VAT would improve the efficiency of the system, it is often argued that, in the absence of a simple and robust enough approach to assessing the tax base, such taxation might lead to high tax compliance, administration and enforcement costs.

The exemption of financial services from VAT creates a number of distortions with respect to both consumer and business decisions. Exemptions cause a break in the VAT chain, meaning that financial institutions incur significant amounts of irrecoverable VAT paid on their inputs as they cannot charge VAT on their onward supplies. This provides financial institutions with a tax-induced incentive to self-supply to avoid incurring irrecoverable VAT, which would be the case if they obtained these supplies from other businesses. Thus, the tax system provides an incentive for vertical integration. This break in the VAT chain also distorts the international competition between financial institutions as the (irrecoverable) VAT rate, which differs across countries, will affect the rates that will have to be charged to customers. It also creates an incentive for "channelling" some supplies through lower rate jurisdictions or for artificially changing the nature of the supply with a view to increasing the deductible proportion. Finally, such exemption involves high administrative and compliance costs as well as uncertainty for businesses since it is increasingly difficult to draw a bright line between taxable and exempt services as new products and services emerge.

The exemption of financial services also creates cascading tax since the irrecoverable VAT embedded in the charges that banks make to their business customers cannot be recovered and will be carried through to final prices for domestic consumption. The incidence of the non-recoverable VAT can also affect profits in the financial sector and/or lead to higher prices for consumers depending on the degree of competition on the market. One way of correcting this cascading effect would be to apply a zero rate to business-to-business financial transactions (as is the case to some extent in New Zealand). However, this might be a significant cost in terms of revenue foregone, especially in countries with major financial service sectors.

It is not surprising to find that considerable work has been done over the years on this issue. A number of methodologies have been suggested (*e.g.* subtraction method, truncated cash flow method (TCA) and a modified reverse charge mechanism) but none has found universal favour. They usually do not achieve the objective to a significant degree or impose excessive burdens or do not take account of the complexity of financial intermediation. Further, other elements such as the revenue implications and political sensitivities around taxation of banks need to be considered. However, given new technologies and accounting standards it should be possible to devise a methodology which taxes margin-based financial services in an equitable manner. This could be done in a manner which strikes a balance between simplicity and excessive attention to detail (Kerrigan, 2010).

Exemption of healthcare is primarily a business-to-consumer issue and, therefore, the cascading effect is minimal. However, the exemption has a negative impact such as increased investment costs for hospitals, in particular for new expensive and sophisticated equipment since they are unable to deduct the associated input VAT. This may be one area where a reduced rate may be more appropriate as it would allow deduction of input tax. This could offset the imposition of a positive VAT rate on final prices.

Conclusion

The efficiency of VAT could be improved significantly in terms of both revenue raising and enhancing economic growth if a number of factors are met:

- a broad base at the standard rate;
- minimal exemptions and reduced rates; and
- a registration threshold that allows tax administration to concentrate on larger taxpayers.

However, VAT reform should not be seen in isolation from the tax system as a whole. In particular, a broadening of the VAT base through abolition of many reduced rates and exemptions requires a careful analysis of the distributional impacts. Accompanying measures that would compensate the losers of VAT reform, such as low-income workers and pensioners, would need careful consideration. More work is also required on the wider economic impact of such reforms in areas such as employment, prices and overall economic growth.

Notes

1. For ease of reading, all value added taxes will be referred to as VAT in this chapter.
2. In this context, exemption means that no VAT is chargeable by the supplier and the supplier is unable to recover any input tax incurred in the process of making such supplies. In some jurisdictions, exemption is referred to as "input taxation".

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Chapter 4

Measuring Performance of VAT: The VAT Revenue Ratio

As noted in Chapter 3, there is a wide diversity in the way countries have implemented VAT. Each country has a specific mix of rates, exemptions, thresholds, etc., derived from local historic, economic and political conditions. However, all governments seek to obtain the best yield from the tax, in particular at a time when many are seeking ways to address large fiscal deficits. Raising the standard VAT rate is often considered to be the easiest way to increase revenues from the tax. However, this has its own limitations, in particular in countries where the rate is already relatively high. Improving the performance of the tax is another option. This includes broadening the tax base, a more limited use of reduced rates and exemptions, more efficient tax administration and better compliance.

The meaning of "performance" in this context requires clarification. VAT is, potentially, a broad-based tax levied on all commodity sales with a view to, ultimately, taxing all final consumption (see Chapter 1). VAT is not a progressive but a proportional tax. In its origins, it was not designed to meet social or redistributive objectives. In theory, the tax is therefore at its most "efficient" when imposed on all goods and services at a single standard rate. A recent study (*Copenhagen Economics*, 2007) showed that that a single VAT rate is the best policy choice from a purely economic point of view because exemptions and reduced rates involve additional compliance and administrative costs, which reduce the efficiency of the tax. However, it is recognised that, in local circumstances, reduced rates and exemptions in carefully targeted sectors may provide some benefits and, in that sense, be a means of meeting particular policy objectives.

Precise measurement of VAT performance is not easy. Originally, it was measured by the "efficiency ratio" defined as the ratio of VAT revenues to GDP divided by the standard rate (expressed as a percentage). Although the efficiency ratio is widely used as a diagnostic tool in evaluating VATs, its limitations are significant. In particular, the measure suffers from a fundamental weakness: a "perfect" efficiency ratio of 100 per cent could be achieved by a product-type VAT levied at a uniform rate. However, this is misleading since the norm is a consumption-type VAT (see Chapter 1). This difficulty is addressed by taking consumption as a reference rather than production (Ebrill, Keen, Bodin and Summers, 2001).

From this perspective, a VAT system should be considered, in absolute terms, "efficient" when it covers the whole of the potential tax base (consumption by end users) at a single rate and where all the tax due is collected by the tax administration. One tool considered as an appropriate indicator of such a performance is the VAT Revenue Ratio (VRR).

How is the VRR calculated?

The aim is to provide a comparative measure of countries' ability to secure effectively the potential tax base for VAT. The VRR measures the difference between the VAT revenue actually collected and what would theoretically be raised if VAT was applied at the standard rate to the entire potential tax base in a "pure" VAT regime and all revenue was collected:

$$VRR = \frac{VR}{B.r}$$

where:

VR = Actual VAT revenues
B = Potential tax base
r = Standard VAT rate.

The main methodological difficulty for calculating the VRR lies in the assessment of the potential tax base. There is no "standard" definition of the VAT base for all OECD countries since although they follow the same principles the scope of VAT varies from country to country. A standard assessment of the theoretical VAT base for all OECD countries is not available. In the absence of such data, the closest assessment of that base is final consumption expenditure drawn from national accounts since VAT is, ultimately, a tax on final consumption (see Chapter 1). Final consumption expenditure is calculated according to a standard international norm (1993 SNA, *System of National Accounts 1993*).

Final consumption expenditure is provided in Item P3 of the national accounts. It includes:

- P31-S14: Private final consumption expenditure of households (by convention, all goods and services are considered to have been entirely consumed once they have been acquired by household and are therefore considered as "final consumption").
- P31-S15: Final consumption expenditures of non-profit organisations serving households (NPSH).
- P3-S13: Final consumption expenditure of general government, including:
  - ❖ P31-S13: Individual consumption expenditure of general government.
  - ❖ P32-S13: Collective consumption expenditure of general government.

Final consumption expenditures by NPSH and general government should be considered as final consumers for VAT purposes since they are at the last place in the value chain. However, the figures provided under Item P3 in National Accounts do not exactly match the theoretical potential VAT base. National accounts measure consumption at market prices, *i.e.* including VAT. VAT revenues should therefore be removed from this amount since the theoretical basis for taxation should not include the tax itself.

As a result, the VRR is calculated as follows:

$$\text{VRR} = \frac{\text{VR}}{(\text{FCE} - \text{VR}) \cdot r}$$

where:

VR = Actual VAT revenues
FCE = Final consumption expenditure (Item P3 in *National Accounts*)
r = Standard VAT rate.

In future assessments of the VRR a number of other adjustments will need to be made in order to obtain a more accurate assessment of the theoretical VAT base. Such adjustments include:

- ***Production of non-market output by the government.*** Item P3 in national accounts also includes the value of the goods and services produced by general government itself (other than own-account capital and sales) for the needs of collective consumption (police, armed services, justice, general administration). Such collective consumption expenditure (P32-S13) is by its nature outside the scope of VAT. Therefore, the value-added (employee compensation and depreciation) generated in producing such non-market output should

be excluded from the potential tax base. Only the value-added is excluded from the base since the expenditures made by the government to produce such outputs (*e.g.* boots for soldiers) are subject to non-deductible VAT.

- ***Imputed rents*** (*i.e.* the amount that would have been paid by owner occupants if they rented their dwellings) are included in Item P3 and should be removed from the potential tax base since imputed rents are not subject to VAT.
- ***The purchase of dwellings*** by households (including services relating to the transfer such as legal services) is not included in Item P3 since it is considered as gross capital formation in the national accounts. However, the sale of new houses is part of the potential tax base and, as a result, the relevant amounts should be included.
- ***The exemption of financial and insurance services*** generate a cascading effect since the non-deductible tax on inputs is embedded in the subsequent selling price and is not recoverable by taxpayers further down the supply chain. The consequence of this cascading effect may be an increase of net revenues in a non-transparent manner (see the section on "Exemptions", in Chapter 3). Depending on the size and structure of the market for such products, the cascading effect may generate more revenue than the revenue cost of the exemption itself. This will almost certainly create distortions in the VRR calculations. Therefore, revenues arising from the exemption should be removed from the VAT revenues in the numerator of the VRR. An approximation of such revenues can be made by extracting the VAT (assumed at the standard rate) from the intermediate consumption by financial and insurance sectors.

Other potential distortions may influence the VRR. These include the distortion that may arise in the calculation of the potential VAT base from the inclusion of imputed transactions (other than imputed rents) in Item P3. Some of those transactions (*e.g.* goods that households produce for themselves such as agricultural products and do-it-yourself services) are not part of the potential tax base while others (*e.g.* exchange of goods and services undeclared to the authorities) can be argued as falling within the scope of VAT. However, the global impact on the potential tax base is very difficult to measure from the national accounts and it has therefore been ignored. Another distortion may arise from the inclusion of business-to-consumer supplies of second-hand goods, such as motor vehicles, in Item P3. The consumption figures of households include the full price paid by the household for the good. Since VAT applies only to the margin of the reseller in most cases, this may distort. Finally, cross-border shopping may influence the VRR since final consumption expenditure arises in one country while the tax accrues to another. However, these potential distortions are not considered substantial enough to justify the additional surveys that such adjustments would involve.

Figures provided in Table 4.1 include adjustments made to remove the VAT from final consumption expenditure provided by national accounts. Other adjustments would require further research, including obtaining a number of data that are currently not available in national accounts for all member countries. This issue will be examined in further detail in the 2012 edition of *Consumption Tax Trends*.

What does the VRR measure?

The VRR measures countries' ability to optimise revenues from the potential tax base for VAT. In a "pure" VAT regime, all final consumption expenditure would be subject to VAT at the standard rate. In theory, the closer the VAT system of a country is to the "pure" VAT

Table 4.1. **VAT revenue ratio (VRR)**

	Standard VAT rate 2008	1976	1980	1984	1988	1992	1996	2000	2003	2005	2007	2008	Difference 2000-08
Australia	10.0							0.46	0.55	0.56	0.55	0.49	0.03
Austria	20.0	0.65	0.64	0.63	0.61	0.60	0.60	0.62	0.61	0.61	0.61	0.61	–0.01
Belgium	21.0	0.57	0.61	0.50	0.53	0.49	0.47	0.51	0.48	0.50	0.51	0.49	–0.03
Canada[3]	5.0					0.44	0.59	0.67	0.7	0.69	0.69	0.74	0.06
Chile	19.0					0.64	0.69	0.66	0.69	0.70	0.72	0.75	0.09
Czech Republic	19.0						0.44	0.44	0.42	0.59	0.56	0.59	0.15
Denmark	25.0	0.64	0.61	0.60	0.60	0.55	0.58	0.60	0.60	0.62	0.65	0.62	0.02
Finland	22.0						0.54	0.61	0.60	0.60	0.60	0.58	–0.03
France	19.6	0.64	0.7	0.6195	0.6	0.52	0.51	0.50	0.49	0.51	0.50	0.49	–0.01
Germany	19.0	0.56	0.57	0.52	0.50	0.62	0.60	0.60	0.55	0.55	0.55	0.55	–0.05
Greece	19.0				0.44	0.45	0.42	0.48	0.48	0.46	0.47	0.46	–0.03
Hungary	20.0					0.30	0.44	0.53	0.46	0.49	0.59	0.57	0.05
Iceland	24.5					0.63	0.54	0.59	0.54	0.62	0.60	0.54	–0.05
Ireland	21.0	0.30	0.21	0.45	0.43	0.46	0.53	0.60	0.59	0.66	0.64	0.55	–0.05
Israel[4]	15.5						0.68	0.64	0.63	0.64	0.69	0.68	0.04
Italy	20.0	0.46	0.43	0.40	0.4	0.39	0.40	0.45	0.41	0.41	0.43	0.41	–0.05
Japan	5.0					0.69	0.72	0.70	0.68	0.72	0.69	0.67	–0.03
Korea	10.0					0.64	0.59	0.61	0.69	0.66	0.65	0.65	0.04
Luxembourg	15.0	0.60	0.56	0.56	0.57	0.47	0.57	0.68	0.75	0.87	0.91	0.93	0.25
Mexico	15.0		0.33	0.28	0.26	0.32	0.25	0.29	0.30	0.31	0.34	0.35	0.06
Netherlands	19.0	0.49	0.54	0.51	0.56	0.59	0.57	0.60	0.57	0.61	0.62	0.60	0.00
New Zealand	12.5				0.9	0.97	0.99	0.98	1.07	1.03	0.97	0.98	–0.01
Norway	25.0	0.66	0.66	0.63	0.69	0.52	0.60	0.67	0.56	0.58	0.63	0.57	–0.10
Poland	22.0						0.43	0.42	0.42	0.46	0.53	0.49	0.07
Portugal	21.0				0.42	0.50	0.56	0.60	0.54	0.58	0.53	0.51	–0.09
Slovak Republic	19.0							0.44	0.54	0.61	0.53	0.54	0.10
Slovenia	20.0							0.68	0.65	0.67	0.69	0.68	0.00
Spain	16.0				0.59	0.57	0.45	0.53	0.53	0.56	0.55	0.46	–0.07
Sweden	25.0	0.45	0.36	0.39	0.42	0.41	0.50	0.52	0.52	0.55	0.57	0.58	0.06
Switzerland	7.6						0.70	0.78	0.75	0.76	0.77	0.77	–0.01
Turkey[5]	18.0							0.45	0.47	0.38	0.36	0.35	–0.10
United Kingdom	17.5	0.47	0.45	0.49	0.53	0.48	0.49	0.48	0.49	0.48	0.48	0.46	–0.03
Unweighted average		**0.5408**	**0.5**	**0.5065**	**0.5**	**0.5329**	**0.6**	**0.58**	**0.57**	**0.59**	**0.60**	**0.58**	**0.00**

1. Calculation formula: VRR = VAT revenue/(consumption × standard VAT rate) – VAT revenue). Consumption = final consumption expenditure (heading P3) in national accounts.
2. Time series: Since national accounts data beyond 2008 are still not available for all countries, VRR is not calculated after this date.
3. VRR Calculation includes federal VAT only.
4. The statistical data for Israel are supplied by and under the responsibility of the relevant Israeli authorities. The use of such data by the OECD is without prejudice to the status of the Golan Heights, East Jerusalem and Israeli settlements in the West Bank under the terms of international law.
5. Figures for Turkey are subject to verification.

StatLink http://dx.doi.org/10.1787/888932370037

regime, the closer its VRR is to 1. Any other value – higher or lower – indicates deviation from a single tax rate applied on all final consumption or a failure to collect all tax due. A VRR close to 1 is taken as an indicator of a VAT bearing uniformly on a broad base with effective tax collection. On the other hand, a low VRR may indicate an erosion of the tax base at the standard rate and/or significant failures to collect tax due.

However, the interpretation of the measure should be made with caution. In practice, the VRR rarely equals 1. A number of complex – and sometimes contradictory- factors may influence the results. These include:

- In many countries, a wide range of goods and services are subject to reduced rates of VAT (possibly including a zero rate).
- Some goods and services are usually exempt from VAT (*e.g.* healthcare, education, financial services).
- Small traders are exempt from VAT in many countries (registration/collection thresholds).
- Tax compliance is less than 100 per cent.
- There may be a difference between the goods and services regarded as potentially subject to VAT and the measure of consumption reported in the national accounts (see above).

These factors include both policy decisions – on the base and reduced rates – and compliance levels. In other words, the VRR combines the degree to which VAT policy is designed to tax consumption at a uniform rate together with the quality of compliance and tax administration. If the aim of the measure were to look simply at the policy issue of the extent to which the VAT legislation differs from taxing consumption at a uniform rate, it would be better to compare the theoretical VAT revenue under the actual tax base and rates (assuming perfect compliance) with that under a uniform tax on all consumption:

Policy efficiency ratio = (VAT theoretical revenue from actual tax law)/([consumption – VAT revenue] × standard VAT rate)

On the other hand, a measure aimed at simply measuring compliance would compare actual revenue with the theoretical VAT revenue under the legislated tax base and rates:

Compliance efficiency ratio = (VAT revenue)/(theoretical VAT revenue from actual tax law)

It is clear that the VRR is a combination of the "Policy Efficiency Ratio" and the "Compliance Efficiency Ratio". The most persuasive argument for combining the policy and compliance aspects into one measure, rather than reporting them separately, is the practical difficulty of measuring the theoretical VAT revenue from the actual tax law.

In addition, some tax measures can have contradictory effects. For example, the application of thresholds for registration of, and collection of tax by, small businesses (see Table 3.9) can increase the efficiency of tax administration but also reduce the amount of VAT collected.

Finally, in many countries the margin of manoeuvre for determining the VAT base and possibly the number and coverage of different rates is somewhat limited. In particular, member states of the European Union are subject to the restrictions of the VAT Directive. In addition, VAT policy decisions form part of a wider tax mix where many other factors are taken into consideration.

The limitations involved with the calculation of the VRR are not considered significant enough to disqualify the measure. It provides a useful tool for measuring a single country's performance over a number of years. For example a variation of the ratio with no, or only minor, changes to the tax base could indicate changes in compliance. In a recession, it will also reflect the increase in bad debts due to bankruptcies (however, minor changes in the ratio may also reflect adjustments in the assessment of final consumption expenditure in

national accounts). The VRR can also be used to compare the relative performance of countries with each other. However, such comparisons should be used with care given the diversity of factors that can influence the ratio.

Analysis of VRR figures

Table 4.1 shows the considerable variation in the VAT revenue Ratio across OECD countries. It varies from 0.35 (Mexico and Turkey) to 0.98 (New Zealand). Two countries have a VRR far above the others: New Zealand (0.98) and Luxembourg (0.93). New Zealand's figure appears to be due to a combination of factors including a broad base with limited exemptions (see Table 3.10) and a limited use of one zero rate (see Table 3.11).* Additionally, the proportionally high value of investments in residential housing that generates GST revenues distorts the ratio as these investments are not included in the consumption figures provided in national accounts. Luxembourg's high ratio may be indicative of significant revenue being raised through the exemptions applied to the financial services sector.

The majority of countries (23 of 32) have a VRR below 0.65 and 8 countries have a ratio below 0.50. This suggests that VAT regimes, with their multiple reduced rates and exemptions result in significant tax expenditures compared to a "pure" VAT regime. This also suggests that between one half and one third of potential revenues are not subject to taxation or, if they are, they are not collected.

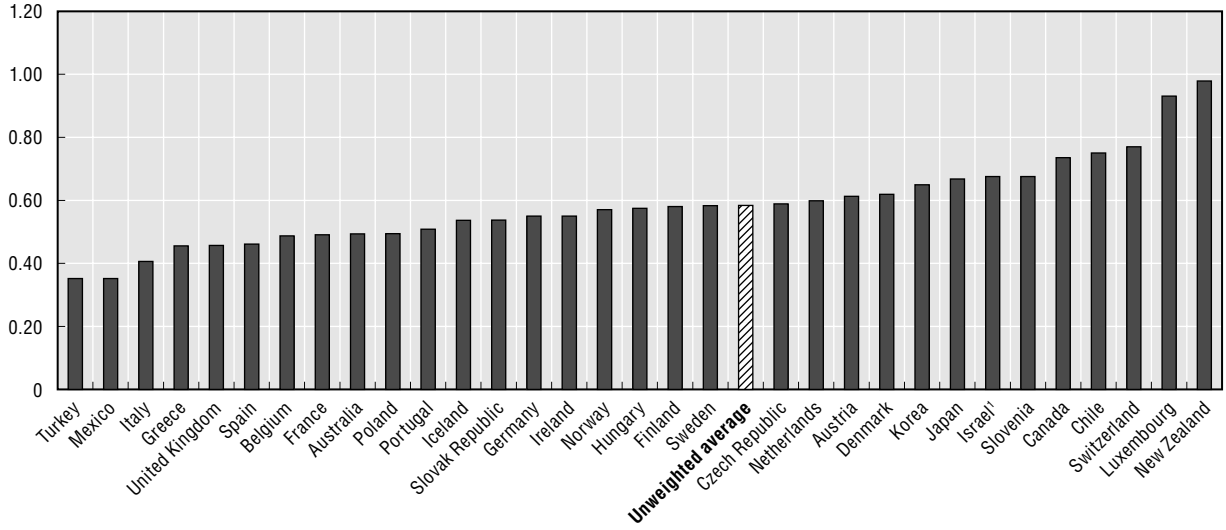
The evidence of narrow VAT bases suggested by the VRR is supported by the existence of widespread use of exemptions and lower rates in most countries (see Tables 3.10 and 3.11). This is confirmed by available data on tax expenditures, in particular in Italy, Mexico, Spain and the United Kingdom (OECD, 2010b).

It also appears that the level of the standard rate has a limited influence on the VRR. Countries with comparable standard rates can have very different VRRs. Luxembourg and Mexico, for example, both employed a standard rate of 15% in 2008 but their VRR is respectively 0.93 and 0.35. As noted above, one of the factors explaining the high VRR for Luxembourg is the relatively large financial sector within its economy, which provides additional VAT revenue due to the cascading effect of exemption. On the other hand, the low VRR for Mexico probably results from a combination of an extended use of the domestic zero rate, a reduced rate for the sale of goods in the border regions and a lower compliance rate.

Although the majority of countries (19 of 29) have a VRR between 0.50 and 0.75, they have standard VAT rates which vary widely, from 5% (Canada) to 25% (Sweden) without correlation between the level of the VAT rate and the VRR. Denmark, Norway and Sweden have high standard VAT rates (25%) with a higher VRR (respectively 0.62, 0.57 and 0.58) while Australia and Spain have lower standard rates (respectively 10% and 16%) with lower VRR (respectively 0.49 and 0.46). It is difficult to draw typical profiles for "efficient" and "inefficient" countries in the collection of VAT revenues on the basis of this VRR. Only Japan combines a single (low) VAT rate, an absence of a domestic zero rate and a high VRR (0.72).

* Unlike exemption, zero rate means that no VAT is chargeable by the supplier and the supplier is able to fully recover input tax incurred in the process of making such supplies.

Figure 4.1. **VAT revenue ratio**



1. The statistical data for Israel are supplied by and under the responsibility of the relevant Israeli authorities. The use of such data by the OECD is without prejudice to the status of the Golan Heights, East Jerusalem and Israeli settlements in the West Bank under the terms of international law.

StatLink http://dx.doi.org/10.1787/888932369828

The VRR has remained stable on average since 2000 and variations within countries are somewhat limited. Only five countries have been subject to a constant increase of their VRR since 1992 (Canada, Chile, Luxembourg, Mexico and Sweden), with a particularly significant rise for Canada (from 0.44 to 0.74) and Luxembourg (from 0.47 to 0.93). In Luxembourg, this increase may well be due to the strong growth of the financial services sector.

The impact of VAT fraud is more difficult to detect through the VRR. For example, the UK tax administration discovered a significant increase of large-scale VAT carousel fraud (a fraud that exploits a perceived weakness in the operation of intra-Community supplies in the European Union). Although this type of fraud began in the 1990s, its impact does not appear to be reflected in the VRR, which remained stable. This, like Luxembourg, might be explained by an offsetting increase in the size of the financial services sector in the UK at the time and the cascading effects noted above.

More globally, the performance of VAT systems depends on three main factors:

- the structural features of the tax, *i.e.* rates, exemptions, bases and thresholds;
- the capacity of the tax administration to manage the system in an efficient way; and
- the degree of compliance of taxpayers.

The interaction between these three factors is crucial. For example, a high standard rate may encourage evasion while multiple lower rates often lead to misclassifications and create high compliance and administrative burdens. Reasonably high registration or collection thresholds may ease the burden on tax administrations by allowing them to concentrate on the larger taxpayers. Exemption by sectors of activity may create distortions and incentives for evasion, which require additional administrative capacities. Inefficient tax administration, burdensome administrative requirements and complex VAT mechanisms may also reduce the degree of compliance of taxpayers.

Whilst the VRR is a useful tool for observing countries' performance, more work is needed to identify the specific factors that influence the performance of VAT and how they interact.

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Chapter 5

Selected Excise Duties in OECD Member Countries

Introduction

Taxes on specific products were introduced long before general consumption taxes. Excise taxes have existed since ancient Egypt where a tax was levied on cooking oil. The Romans also developed specific taxes, *i.e.* on the sale of slaves. Taxes on salt, alcohol and other "luxury products" existed in many countries for centuries. In modern history, the term "excise" has been used since the 17th Century (originally in the Netherlands) to designate taxes imposed on certain goods. Unlike customs duties, excise taxes are normally levied on consumption of specific goods whether domestically produced or imported.

Excise duty, unlike value added taxes (VAT)* and other general consumption taxes, is levied only on specifically defined goods. There are still many products subject to excise duties in many countries such as chocolate, coffee and orange juice, but only a few are taxed in all OECD countries. The three principal product groups that are liable to excise duties in all OECD countries are alcoholic beverages, mineral oils and tobacco products.

Before looking at these three groups in terms of their characteristics and comparative treatment by different countries, a number of general characteristics on excise taxes may be noted:

- Excise duty is generally calculated by reference to the weight, volume, strength, or quantity of the product, combined in some cases with the value.
- Excise duty does not normally become payable until the goods enter free circulation. Transfers of ownership can take place while goods remain in a controlled warehousing environment or between registered operators without creating an excise charge.
- The excise system is characterised by a small number of taxpayers in the three main sectors at the manufacturing or wholesale stage.

Excise duties are normally part of the VAT tax base, meaning that VAT is usually levied on the duty-paid value of the excise products. This means that an increase of excise duty rates implies an increase of both excise and VAT revenues.

While the main purpose and the original reason for the introduction of excise duties were to raise revenue, they were also used to discourage consumption of certain products considered as harmful. In recent years, excise duties have increasingly been used as a means of influencing consumer behaviour in a number of areas. The case put forward in relation to alcoholic beverages and tobacco products is that drinking and smoking are health hazards and increased excise duties help to reduce consumption. For mineral oils, reasons for determining consumer behaviour reflect a mixture of energy conservation, transport and environmental issues. Over the last decade, environmental issues have played an increasing role in determining the nature and application of excise duties to, in particular, road fuel. Taxes on motor vehicles (see Chapter 6) and fuels, including gasoline and diesel, generate most of the revenues from environmentally related taxes.

* VAT is referred to as Goods and Services Tax – GST – in some countries.

Table 5.1. **Taxation of beer**

	Specific excise per hectolitre per degree Plato[1]		Specific excise per hectolitre per degree alcool		VAT rate (%)	Excise duty on low alcohol (under 2.8% alcohol by volume) beer Excise per hectolitre of product		Other features of the excise taxation system on beer	
	National currency	USD	National currency	USD		National currency	USD	Excise rates which are progressive by strength	Low rates for small producers
Australia[2]	See note[2]		See note[2]		10.0	See note[2]		Yes	Yes, see note[2]
Austria[3]	2.00	2.37	_	_	20.0	_	_	No	Yes
Belgium[4]	1.71	1.98	_	_	21.0	_	_	No	Yes
Canada[5]	_		See note[5]		5.0 or 13.0	See note[5]		Yes	Yes, see note[5]
Chile[6]	See note[6]		See note[6]		19.0				
Czech Republic[7]	24.00	1.78	_	_	19.0	_	_	No	Yes
Denmark[8]	_		50.90	6.40	25.0	_	_	No	Yes
Finland[9]	_		23.60	25.93	22.0	2.00	1.73	No	Yes
France[10]	_		2.64	3.01	19.6	1.30	1.42	No	No
Germany[11]	0.79	0.98	_	_	19.0	_	_	No	Yes
Greece[12]	1.36	1.91	_	_	19.0	_	_	No	Yes
Hungary	540.00	4.21	_	_	20.0	_	_	No	No
Iceland[13]	_		5 870.00	45.94	24.5	_	_	No	No
Ireland[14]	_		19.87	22.01	21.5	See note[14]		No	Yes
Israel[15]	200.00	53.57	_		15.5	See note[15]		No	No
Italy[16]	2.35	3.02			20.0	_	_	No	No
Japan[17]	_		See note[17]		5.0	_	_	No	Yes, see note[17]
Korea[18]	See note[18]		See note[18]		10.0	See note[18]		No	No
Luxembourg[19]	0.79	0.88			15.0	0.79	0.86	No	Yes
Mexico[20]		0.00	25%		15.0	_	_	Yes	No
Netherlands[21]	2.10	2.48			19.0	_	_	Yes	Yes
New Zealand[22]	_		See note[22]		12.5	See note[22]		No	No
Norway[23]	_		See note[23]		25.0	See note[23]		Yes	No
Poland[24]	6.86	3.69			22.0	_	_	No	Yes
Portugal[25]	_		See note[25]		20.0	6.60	9.39	Yes	Yes
Slovak Republic[26]	1.65	3.24			19.0	_	_	No	Yes
Slovenia[27]	_		6.86	10.90	20.0	_	_	No	No
Spain[28]	See note[28]		See note[28]		16.0	2.75	3.63	Yes	No
Sweden[29]	_		166.00	18.57	25.0	_	_	No	No
Switzerland[30]	See note[30]		See note[30]		7.6	See note[30]		Yes	Yes
Turkey[31]	_	_	35.00	37.57	18.0	_	_	No	No
United Kingdom[32]	_	_	16.15	25.15	15.0[32]	_	_	No	Yes
United States[33]	_	_	21.00	21.00		_	_	No	Yes

1. The degree Plato (°P) is a unit measuring sugar content of the wort from which beer is made. In Europe, beer is often taxed either by the degree Plato or by the actual alcohol content. There is no precise conversion between these quantities, but for tax purposes it is often assumed that 1% alcohol is equivalent to 2.5 degrees Plato.
2. The excise rates for beer in individual containers not exceeding 48 litres are: AUD 35.03 per litre of alcohol where volume of alcohol does not exceed 3 per cent, AUD 40.82 where volume of alcohol exceeds 3 per cent but does not exceed 3.5 per cent. The rates for beer in individual containers exceeding 48 litres are: AUD 6.99 per litre of alcohol where volume of alcohol does not exceed 3 per cent, AUD 21.96 where volume of alcohol exceeds 3 per cent but not more than 3.5 per cent, and AUD 40.82 where volume exceeds 3.5 per cent. Each rate is calculated on the amount by which the alcohol content (by volume) exceeds 1.15 per cent. Beer that does not contain more that 1.15 per cent by volume of alcohol is free of excise. These rates are indexed to inflation in February and August each year. Microbrewers receive an excise refund of 60 per cent of the excise paid up to a maximum of AUD 10 000 per financial year provided the production of beer does not exceed 30 000 litres.
3. Rates for small breweries (annual production up to 50 000 hectolitres) range from EUR 1.24 to EUR 1.87 according to size of production.
4. The rate of EUR 1.71 is made of EUR 0.79 excise duty and EUR 0.92 special excise duty. Rates for small breweries (annual production up to 200 000 litres of beer) range from EUR 1.4873 to EUR 1.6857 per hectolitre degree Plato, according to the size of production. Beer containing less than 0.5% alcool by volume is subject to an excise duty of EUR 3.7184 per hectolitre.

Table 5.1. **Taxation of beer** *(cont.)*

5. 1) Rates for small breweries (annual production up to 75 000 hectolitres) range from: *a)* over 2.5% absolute ethyl alcool by volume (volume) CAD 3.122 to CAD 26.537 per hectolitre; *b)* over 1.2% but not more than 2.5% volume CAD 1.561 to CAD 13.269 per hectolitre; and *c)* 1.2% volume or less CAD 0.259 to CAD 2.202 per hectolitre. 2) Rates for breweries with an annual production over 75 000 hectolitres: *a)* over 2.5% volume CAD 31.22; *b)* over 1.2% volume but not more than 2.5% volume CAD 15.61; and *c)* 1.2% volume or less CAD 2.591. 3) Beer that has an alcoholic strengh in excess of 11.9% absolute ethyl alcohol by volume is deemed to be a Spirit.
6. There is no specific excise on alcoholic beverages (including wine, beer and other alcoholic beverages). However, for beer, a surtax of 15% is applied to the VAT base (excluding the VAT itself) on all sales between wholesale dealers. For sales between wholesalers, the tax paid to the vendor is creditable against the tax applied on sales at each stage of the value chain (including on imports) until the last sale to the final retailer. Tha sale from this retailer to the final consumer is not submitted to the tax and the retailer cannot deduct the input tax.
7. Excise rates for small breweries: ≤ 10 000 hectolitres-CZK 12.00; ≤ 50 000 hectolitres-CZK 14.40; ≤ 100 000 hectolitres-CZK 16.80; ≤ 150 000 hectolitres-CZK 19.20; ≤ 200 000 hectolitres-CZK 21.60.
8. No duty on beer under 2.8% volume An additional duty is placed on products which contains a mixture of beer and non-alcoholic drinks, Rates: DKK 8.15 per litre of mixture with alcohol content ≤ 10% in the final product and DKK 14.80 per litre of mixture with alcohol content > 10% in the final product.
9. Four reduced rates for small independent breweries: *a)* EUR 11.80 (annual production up to 2 000 hectolitres); *b)* EUR 16.52 (annual production over 2 000 hectolitres and up to 30 000 hectolitres); *c)* EUR 18.88 (annual production over 30 000 hectolitres and up to 55 000 hectolitres); and *d)* EUR 21.24 (annual production over 5 500 hectolitres and up to 100 000 hectolitres).
10. A reduced rate of EUR 1.32 per hectolitre and per degree alcool applies to beer with less than 2.8% alcohol by voulume. Reduced rate for small breweries for beer of 2.8% alcohol by volume or more: up to 100 000 hectolitres EUR 1.32 per hectolitre per degree alcool; from 10 000 up to 50 000 hectolitres EUR 1.58 per hectolitre per degree alcool and EUR 1.98 per hectolitre per degree alcool for production between 50 000 and 200 000 hectolitres.
11. Rates for small breweries (annual production up to 200 000 hectolitres) range from EUR 0.4407 to EUR 0.7862 per hectolitre per degree Plato.
12. The excise rate for independant small breweries producing annually up to 200 000 hectolitres of beer is EUR 0.68 per hectolitre per degree plato.
13. Excise rate in ISK 5 870 per % alcohol by volume exceeding 2.25%.
14. Excise rate Nil 1.2% and below.
15. On 28 February 2008, the duty was set as ILS 191 per hectolitre and ILS 200 on 28 February 2010. The amount is updated each year according to the change in the Consumer Price Index (CPI). There is no duty on beer under 2% alcohol (or under 3% alcohol if marketed in resusable bottles). The statistical data for Israel are supplied by and under the responsibility of the relevant Israeli authorities. The use of such data by the OECD is without prejudice to the status of the Golan Heights, East Jerusalem and Israeli settlements in the West Bank under the terms of international law.
16. Beers with volume of alcohol does not exceed 0.5 per cent is not taxed.
17. Excise rates are JPY 22 000 per hectolitre of product. Small brewers who produce no more than 13 hectolitres of beer per year pay JPY 17 600 per hectolitre on the first two hectolitres for the first five years of the license (temporary measure).
18. The rate of liquor tax on beer is 72% of the manufacturer's price. In addition, education tax (30% on the amount of liquor tax levied) is also levied.
19. Rates for small breweries (annual production up to 200 000 hectolitres) range from EUR 0.40 to EUR 0.45.
20. All rates are according to the value. The rates for beer and other alcoholic beverages apply as follows: 25% up to 14° G.L.; 30% above 14° G.L. and up to 20° G.L.; 50% above 20° G.L. As a mechanism to discourage the use of disposable containers, taxpayers should pay the greater amount between the result of applying the corresponding rate to the value or a MXN 3 per litre fee (taxpayers that use re-usable containers can reduce an amount of MXN 1.26 per litre).
21. For beer that is sold usually, that is, beer of 12 degree Plato in the range 11-15 degree Plato (EUR 25.11: 12 = EUR 2.10 per degree Plato). Excise rates are as follows per hectolitre of product: *a)* up to 7 degree Plato EUR 5.50; *b)* 7-11 degree Plato EUR 18.84; *c)* 11-15 degree Plato EUR 25.11; and *d)* over 15 degree Plato EUR 31.40. Rates for small breweries (annual production up to 200 000 hectolitres) are as follows: *a)* up to 7 degree Plato the above mentioned rate; *b)* 7-11 degree Plato EUR 17.43; *c)* 11-15 degree Plato EUR 23.23; and *d)* over 15 degree Plato EUR 29.05. For beer with an alcohol content of. 0.5% the VAT rate is 6%.
22. The excise rate for beer containing more than 2.5% volume is NZD 23.936 per litre of alcohol in finished product. The rate for beer containing more than 1.15% volume but not more than 2.5% volume is NZD 35.898 c per litre of product. There is no excise duty on beer containing less than 1.15% volume.
23. Excise rates are as follows per hectolitre of product: *a)* 0.00-0.70% volume NOK 271; *b)* 0.70-2.75% volume NOK 271; *c)* 2.75-3.75% volume NOK 1 023; and *d)* 3.75-4.75% volume NOK 1 772. The excise rate for beer with an alcoholic content of more than 7% volume is NOK 394 per degree of alcohol and hectolitre.
24. Allowances for small breweries: PLN 25 per hectolitre if the producer sells no more than 20 000 hectolitres a year. PLN 12.50 per hectolitre if the producer sells no more than 70 000 hectolitres a year. PLN 10 per hectolitre if the producer sells no more than 150 000 hectolitres a year. PLN 7.50 per hectolitre if the producer sells no more than 200 000 hectolitres a year.
25. Excise rates for beer are as follows per hectolitre of product: *a)* more than 0.5% volume and up to 1.2% – EUR 6.91; *b)* more than 1.2% volume and a degree Plato up to 8 – EUR 8.65; *c)* more than 1.2% volume and a degree Plato in excess of 8 but up to 11 – EUR 13.81; *d)* more than 1.2% volume and a degree of Plato in excess of 11 but up to 13 – EUR 17.30; *e)* more than 1.2% volume and a degree of Plato in excess of 13 but up to 15 – EUR 20.73; and *f)* more than 1.2% volume and a degree of Plato in excess of 15 – EUR 24.26. Rates for small breweries (annual production up to 200 000 hectolitres) are 50% of the normal rates.
26. Excise rate for small breweries (annual production up to 200 000 hectolitres of beer) is EUR 1.22 per hectolitre per degree Plato.
27. Specific excise per hectolitre per degree alcool until end of February 2009 was EUR 6.86, since 1 March 2009 is EUR 9.00.

Table 5.1. **Taxation of beer** *(cont.)*

28. Beer with an alcoholic content not exceeding 1.2% volume is free of excise. The rate for beer between 1.2% and 2.8% is EUR 2.75 per hectolitre; beer with an alcoholic degree > 2.8% and a degree Plato < 11 = EUR 7.48 per hectolitre; beer with a degree Plato > 11 and not > 15 = EUR 9.96 per hectolitre; beer with a degree Plato > 15 and not > 19 = EUR 13.56 per hectolitre; Beer with a degree Plato > 19 = EUR 0.91 per hectolitre and per degree Plato. There is no tax on beer in Ceuta and Melilla – Spanish cities situated in the North of Africa.
29. The rate shown is for beer stronger than 2.8% volume The VAT rate for beer with an alcoholic strength lower than 3.5% volume is 12%.
30. Rates per hectolitre: Light beer (up to 10.0° Plato) – CHF 16.88; regular and special beer (10.1 to 14.0° Plato) – CHF 25.32; strong beer (from 14.1° Plato) – CHF 33.76. Reductions for small breweries from 40% (annual production maximum 15 000 hectolitres) to 0% (annual production minimum 55 000 hectolitres).
31. No specific tax element. The elements according to the value are the Excise Duty at a rate of 63.3%. If the amount computed according to the tax rate is lower than the minimum tax amount specified in the above table, then the minimum tax is paid.
32. VAT rate: this rate is a temporary reduction for the period 1 December 2008-31 December 2009 inclusive and reverts to 17.5% with effect from 1 January 2010. Beer with an alcoholic content not exceeding 1.2% volume is free of excise. Reduced duty rates apply for independent breweries producing 5 000 hectolitres or less = GBP 8.08 per cent. Between 5 000 hectolitres and 30 000 hectolitres = GBP 8.08-14.80 per cent. Between 30 000 hectolitres and 60 000 hectolitres GBP 14.80 to 16.15 per cent.
33. The weighted average federal and state excise tax rate is USD 21 per hectolitre of product. The Federal tax is USD 18.00 per barrel (31 gallons). 26.42 US gallons = 1 hectolitre. Small domestic brewers who produce less than 2 million barrels of beer per calendar year pay USD 7.00 per barrel on the first 60 000 barrels. There is no progressive rate structure based on alcohol content and no federal VAT.

Source: National delegates; position as at 1 January 2009.

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While the main characteristics and objectives ascribed to excise duties are approximately the same across OECD countries, their implementation, especially in respect to tax rates, sometimes gives rise to significant differences between countries. For example, excise duties on wine (Table 5.2) may vary from zero (Austria, Greece, Israel, Italy, Luxembourg, Portugal, Slovenia, Spain and Switzerland) to more than USD 2.5 a litre (Finland, Iceland, Ireland, Norway and the United Kingdom). These differences often result from traditions that exist in countries, in particular as regards the overall tax treatment of alcoholic beverages.

The development of integrated markets (*e.g.* the European Union) and elimination of border controls at frontiers have shone a light on the disparate excise rates between neighbouring countries to the extent that market forces are affected. This is true not only at the international level also within a federal structure such as the USA where different excise rates may apply in neighbouring states. For example, states levy excise taxes on cigarettes on the top of the federal tax. State excise tax ranges from USD 0.17 in Missouri to USD 4.25 in New York per pack of 20 cigarettes (FTA, 2010). In such circumstances the effects of cross-border shopping can have a significant economic impact on business in border areas and put pressure on the relevant tax authorities to seek closer approximation of excise duty rates with their neighbours.

Alcoholic beverages

In general terms, beer, wine and spirits are considered separate products within the overall category of alcoholic beverages. There are inevitably sub-divisions within each of these broad categories but the use of the internationally accepted Customs Combined Nomenclature Code provides for consistency and helps to avoid contradictory definitions in applying rates.

Excise duties are applied to alcoholic beverages in two main ways. The duty can be either specific in relation to the alcoholic content of the product or calculated according to the value of the product. The two methods are sometimes combined to include both the volume (based on alcohol content) and value. The effect of a specific rate is to penalise cheap or raw products (which may be more harmful to health) and to benefit the more expensive and mature products. The reverse can be said of taxation according to the value and this is

Table 5.2. **Taxation of wine**

	Still wine			Sparkling wine			Low-alcohol (still) wine (< 8.5% alcool)		
	Excise per hectolitre of product		VAT rate (%)	Excise per hectolitre of product		VAT rate (%)	Excise per hectolitre of product		VAT (%)
	National currency	USD		National currency	USD		National currency	USD	
Australia[1]	See note[1]	–	10.0	See note[1]	–	10.0	See note[1]	–	10.00
Austria	0.00	0.00	20.0	0.00	0.00	20.0	0.00	0.00	20.00
Belgium	47.10	54.41	21.0	161.13	186.12	21.0	14.87	17.18	21.00
Canada[2]	62.00	51.79	5 or 13	62.00	51.79	5 or 13	See note[2]	–	5 or 13
Chile[3]	See note[3]	–	19.0	See note[3]	–	19.0	See note[3]	–	19.00
Czech Republic	0.00	0.00	19.0	2 340.00	173.11	19.0	0.00	0.00	19.00
Denmark[4]	614.00	77.16	25.0	920.00	115.61	25.0	390.00	49.01	25.00
Finland[5]	257.00	282.42	22.0	257.00	282.42	22.0	See note[5]	–	22.00
France[6]	3.45	3.93	19.6	8.53	9.72	19.6	0.00	0.00	19.60
Germany[7]	0.00	0.00	19.0	136.00	168.81	19.0	0.00	0.00	19.00
Greece	0.00	0.00	19.0	0.00	0.00	19.0	0.00	0.00	19.00
Hungary	0.00	0.00	20.0	12 220.00	95.33	20.0	0.00	0.00	20.00
Iceland[8]	52 800.00	413.20	24.5	51 480.00	402.87	24.5	See note[8]	–	24.50
Ireland[9]	273.00	302.34	21.0	546.01	604.70	21.5	90.98	100.76	21.00
Israel[10]	0.00	0.00	15.5	See note[10]	–	15.5	0.00	0.00	15.50
Italy	0.00	0.00	20.0	0.00	0.00	20.0	0.00	0.00	20.00
Japan	8 000.00	69.75	5.0	8 000.00	69.75	5.0			5.00
Korea[11]	See note[11]	–	10.0	See note[11]	–	10.0	See note[11]	–	10.00
Luxembourg	0.00	0.00	12 or 15	0.00	0.00	15.0	0.00	0.00	15.00
Mexico[12]	25%/30%	–	15.0	25%/30%	–	15.0	25%	–	15.00
Netherlands[13]	59.02	69.60	19.0	201.24	237.32	19.0	29.51	34.80	19.00
New Zealand[14]	See note[14]	–	12.5	See note[14]	–	12.5	See note[14]	–	12.50
Norway[15]	4 752.00	537.11	25.0	4 752.00	537.11	25.0	See note[15]	–	25.00
Poland	158.00	84.92	22.0	158.00	84.92	22.0	0.00	0.00	22.00
Portugal	0.00	0.00	12.0	0.00	0.00	20.0	0.00	0.00	20.00
Slovak Republic[16]	0.00	0.00	19.0	79.66	156.55	19.0	0.00	0.00	19.00
Slovenia	0.00	0.00	20.0	0.00	0.00	20.0	0.00	0.00	20.00
Spain[17]	0.00	0.00	16.0	0.00	0.00	16.0	0.00	0.00	16.00
Sweden[18]	2 158.00	241.41	25.0	2 158.00	241.41	25.0	See note[18]	–	25.00
Switzerland	0.00	0.00	7.6	0.00	0.00	7.6	0.00	0.00	7.60
Turkey[20]	195.00*	209.32	18.0	1 240.00**	1 331.03	18.0	195.00	209.32	18.00
United Kingdom[21]	163.47	254.59	15.0[21]	279.74	435.66	15.0[21]	0.00	0.00	15.0[21]
United States[22]	46.00	46.00	–	113.00	113.00	–	See note[22]	–	–

1. No distinction is made between still, sparkling or low alcohol wine, all are taxed at 10 per cent by the goods and services tax (GST) and all are liable for the Wine Equalisation Tax (WET). The WET is levied at 29 per cent of the wholesale value (before GST). The WET applies to the following alcoholic products provided they contain more than 1.15 per cent by the volume of ethyl alcohol: grape wine; grape wine products such as marsala, vermouth, wine cocktails and creams; fruit wines or vegetable wines; and cider, perry, mead and sake. A rebate of WET applies to eligible producers, up to a maximum of AUD 500 000 each per financial year. Some state governments will also operate separate rebate/subsidy schemes in limited circumstances for cellar door sales.
2. 1) A rate of CAD 0.62 per litre applies to wine with more than 7% absolute ethyl alcohol by volume. The rate is CAD 0.295 per litre on wine of more than 1.2% absolute ethyl alcohol by volume, but not more than 7%; and for all wine with 1.2% absolute ethyl alcool by volume or less the rate is CAD 0.0205 per litre. 2) Wine that has an alcoholic strenght in excess of 11.9% absolute ethyl alcohol by volume is deemed to be a Spirit.
3. There is no specific excise on alcoholic beverages (including wine, beer and other alcoholic beverages). However, for wine, champagne and cider, a surtax of 15% is applied to the VAT base (excluding the VAT itself) on all sales between wholesale dealers. For sales between wholesalers, the tax paid to the vendor is creditable against the tax applied on sales at each stage of the value chain (including on imports) until the last sale to the final retailer. Tha sale from this retailer to the final consumer is not submitted to the tax and the retailer cannot deduct the input tax.

Table 5.2. **Taxation of wine** *(cont.)*

4. The rate for wine with more than 15% – maximum 22% volume is DKK 1 055. Low-alcohol wine is more than 1.2% – maximum 6% volume. Still and sparkling wine is more than 6% – maximum 15% volume. The rates for sparkling wine correspond to the rates for still wine plus DKK 306 per hectolitre of product. An additional duty is placed on products which contains a mixture of wine and non-alcoholic drinks, Rates: DKK 7.25 per litre of mixture with alcohol content ≤ 10% in the final product and DKK 14.75 per litre of mixture with alcohol content > 10% in the final product.
5. Excise rates for low alcohol wine are as follows: *a)* over 1.2% volume and up to 2.8% volume EUR 5.00; *b)* over 2.8% volume and up to 5.5% volume EUR 125.00; and *c)* over 5.5% volume and up to 8.0% volume EUR 184.00.
6. Excise rates on alcohol and wine are updated every year according to the evolution of the first bracket for personal income tax.
7. Excise rate for low alcohol sparkling wine < 6% volume is EUR 51.00. Intermediate products with a volume of alcoholic degree between 1.2% and 22% are taxed according to the following rates: > 15% volume – 22% volume = EUR 153 per hectolitre; ≤ 15% volume = EUR 102 per hectolitre; ≤ 15% volume and sparkling = EUR 136 per hectolitre.
8. Excise rate shown in the table is the rate for wine up to 15% volume. The rate is ISK 52.80 per each centilitre of alcohol by volume exceeding 2.25%.
9. The rate for low alcohol wine applies to wine with an alcoholic content of less than 5.5% volume.
10. Sparkling wines were taxed at 45 per cent of the wholesale price until 8 May 2007. There has been no tax levied from 9 May 2007. The statistical data for Israel are supplied by and under the responsibility of the relevant Israeli authorities. The use of such data by the OECD is without prejudice to the status of the Golan Heights, East Jerusalem and Israeli settlements in the West Bank under the terms of international law.
11. The rate of liquor tax on wine is 30% on the manufacturer's price (or imported price). In addition, Education Tax (10% of the amount of Liquor tax levied) is also levied. These rates are applicable to both still and sparkling wine regardless of alcohol content.
12. All rates are according to the value. The rates for wine and other alcoholic beverages apply as follows: 25% up to 14° G.L.; 30% above 14° G.L. and up to 20° G.L.; 50% above 20° G.L.
13. Excise rate for low alcohol sparkling wine is EUR 38.16. For low alcohol wine < 5% the VAT rate is 6%.
14. The excise rate for unfortified wine is NZD 2.3936 per litre of product.
15. The rate shown in the table is the rate for wine with an alcoholic content of 12% volume. Excise rates for wine with an alcoholic content of 4.76%-22% volume = NOK 396 per volume pct. alcohol and per hectolitre.
16. Sparkling wine with an of an alcoholic strength by volume not exceeding 8.5% of the volume: SKK 1 700 per hectolitre; intermediate products SKK 2 500 per hectolitre.
17. Intermediate products – products to which distilled alcohol has been added – and with a volume of alcoholic degree between 1.2% volume and less than 22% are taxed according to the following rates: Alcoholic degree > 1.2% and less than 15% = EUR 33.32 per hectolitre. Others = EUR 55.53 per hectolitre.
18. Excise rates for low alcohol wine are as follows: *a)* 7%-8.5% volume SEK 1 541; *b)* 4.5%-7% volume SEK 1 120; and *c)* 2.25%-4.5% volume SEK 758. No special rates for sparkling wine.
19. Only wine with more than 15% volume is taxed as an alcoholic beverage (CHF 2900 per hectolitre of absolute alcohol)
20. No specific tax element. The elements according to the value are the Excise Duty at rate of 63.3% or 275.6%.
    * Excise duty rate is 63.3%. If the tax amount computed according to the tax rate is lower than the minimum tax amount specified in the table, then the minimum tax is paid.
    ** Excise duty rate is 275.6%. If the tax amount computed according to the tax rate is lower than the minimum tax amount specified in the table, then the minimum tax is paid.
21. VAT rate: this rate is a temporary reduction for the period 1 December 2008-31 December 2009 inclusive and reverts to 17.5% with effect from 1 January 2010. Reduced excise rates for lower strength drinks (wine categories) are as follows: *a)* exceeding 1.2% – not exceeding 4% alcohol by volume = GBP 64.65 per hectolitre; *b)* exceeding 4% – not exceeding 5.5% alcohol by volume = GBP 88.90 per hectolitre; *c)* low strength sparkling wine exceeding 5.5% – less than 8.5% = GBP 203.14 per hectolitre; and *d)* sparking wine and made wine exceeding 8.5% but not exceeding 15% GBP 268.75. There is also a rate of duty in the band exceeding 15% but not exceeding 22%: GBP 279.74 per hectolitre (wine and made wine). The United Kingdom also charges excise duty on cider and perry products. The following rates per hectolitre applied on 1 January 2009: Exceeding 1.2% but not exceeding 7.5%: GBP 31.21; exceeding 7.5% but less than 8.5%: GBP 46.83. Sparkling cider and perry – exceeding 5.5% but less than 8.5%: GBP 203.14. Any still cider product which has a strength of 8.5% and over is dutied as a made wine.
22. The weighted average Federal and State excise tax rate is USD 46 per hectolitre of product for still wine up to 14% volume, and USD 113 for sparkling wine. The Federal excise rates are as follows: *a)* up to 14% volume USD 1.07 per gallon; *b)* 14%-21% volume USD 1.57 per gallon; *c)* 21%-24% volume USD 3.15 per gallon; *d)* artificially carbonated wine USD 3.30 per gallon; and *e)* sparkling wine USD 3.40 per gallon. 26.42 US gallons = 1 hectolitre. There is no Federal VAT.

Source: National delegates; position as at 1 January 2009.

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often the reasoning behind using a combination of the two methods. One exception is Mexico where the rate of tax is calculated on the value of the product alone for alcoholic beverages, with a graduated rate for beer based on the alcoholic content of the product.

Tables 5.1, 5.2 and 5.3 in respect of excise duties on beer, wine and spirits illustrate, respectively, the complicated computations for excise duties and show the current comparative rates for OECD countries. Due to fluctuations in the value base, coupled with a mixture of specific rates and rates calculated according to the value, it is difficult to be precise about the price differentials from a consumer point of view. What is apparent however is tax competition, as mentioned above, between certain neighbouring countries that gives rise to cross-border "bootlegging" activities (*e.g.* UK/France and Denmark/Germany). Although some would argue that market forces should encourage moves towards approximation of rates, this is contradictory with other policy factors when issues such as health are taken into account in setting the rates.

Mineral oil products

Mineral oils are usually sub-divided into product categories in relation to technical specifications such as unleaded gasoline, diesel oil, and heavy fuel oil. Some OECD countries tax other energy products such as gas, electricity and coal but there is no common basis for taxing energy.

For social reasons nearly all OECD countries tax heating oil for households at a lower rate than diesel even though these two products are more or less identical. One OECD country (Mexico) has a tax on energy products according to the value only. All other countries have a specific duty rate and no country has a combined system with a specific element and a value element.

The revenues raised from these taxes are quite high, as a result of the significant level of consumption in the OECD countries and high tax rates in many of them. Compared to other tax rates within the overall economy, the level of taxation for fuel relative to the base is very high, with the total burden (mainly excise plus VAT) typically exceeding 100% of pre-tax prices.

A significant feature of excise duties on mineral oils is the fact that duty rates have been used to influence consumer behaviour to a greater degree than in other areas. Excise taxes on fuel have been around for many years although they were originally motivated by non-environmental needs (such as general revenue generation or sometimes earmarked for specific infrastructure projects). When the more environmentally-friendly unleaded gasoline appeared on the market it was more expensive to produce and as a consequence not commercially competitive with leaded gasoline as a retail product. This handicap was soon overcome through tax differentials making unleaded gasoline cheaper at the pump. Today, leaded gasoline has disappeared from the market. This is also the case for the Liquefied Petroleum Gas (LPG) used as propellant, on which the tax is lower than on unleaded gasoline and diesel in almost all OECD countries. However, in this case, the effect on consumer choices is much less significant since the characteristics of this fuel (not liquid at standard temperature and atmospheric pressure, more dangerous to stock, need for specifically equipped stations) have hindered its development.

Table 5.3. **Taxation of alcoholic beverages**

	Tax per hectolitre of absolute alcohol			
	Excise		VAT rate (%)	Small distillery rate
	National currency	USD		
Australia[1]	See note[1]		10.0	No
Austria[2]	1 000.00	1 183.56	20.0	Yes
Belgium	1 752.24	2 024.03	21.0	No
Canada[3]	1 169.60	976.91	5 or 13	No
Chile[4]	See note[4]		19.0	No
Czech Republic	26 500.00	1 960.47	19.0	No
Denmark[5]	15 000.00	1 884.97	25.0	No
Finland[6]	3 580.00	3 934.12	22.0	No
France	1 450.00	1 652.37	19.6	No
Germany[7]	1 303.00	1 617.31	19.0	Yes
Greece[8]	1 308.00	1 840.51	19.0	No
Hungary[9]	236 000.00	1 841.08	20.0	Yes
Iceland[10]	70 780.00	553.91	24.5	No
Ireland	3 925.00	4 346.89	21.5	No
Israel[11]	See note[11]		15.5	No
Italy[12]	800.00	1 027.29	20.0	No
Japan[13]	See note[13]		5.0	No
Korea[14]	See note[14]		10.0	No
Luxembourg	1 041.14	1 154.12	15.0	No
Mexico[15]	50%		15.0	No
Netherlands[16]	1 504.00	1 773.62	19.0	No
New Zealand[17]	See note[17]		12.5	No
Norway	60 700.00	6 860.84	25.0	No
Poland	4 960.00	2 665.91	22.0	No
Portugal[18]	1 001.35	1 582.65	20.0	Yes
Slovak Republic[19]	1 080.00	2 122.47	19.0	No
Slovenia[20]	694.79	1 103.88	20.0	No
Spain[21]	830.25	1 167.02	16.0	Yes
Sweden	50 141.00	5 609.18	25.0	No
Switzerland[22]	2 900.00	1 894.20	7.6	No
Turkey[23]	6 600.00	7 084.54	18.0	No
United Kingdom[24]	22.20	34.57	15.0[24]	No
United States[25]	923.00	923.00	–	No

1. The excise duty rate of AUD 69.16 per litre of alcohol applied to fruit brandy, whisky, rum, liqueurs and other excisable beverages (but not beer) of alcoholic strength exceeding 10 per cent. Brandy attracted the rate of AUD 64.57 per litre of alcohol and a rate of AUD 69.16 per litre of alcohol applied to other excisable beverages (but not beer) of alcoholic strength not exceeding 10 per cent. These rates are indexed to inflation in February and august each year.
2. The rate for small distilleries is EUR 540.
3. 1) Spirits are subject to excise duty at the rate of CAD 11.696 per litre of absolute ethyl alcohol by volume. Spirits containing not more than 7% absolute ethyl alcohol by volume are subject to excise duty at the rate of CAD 0.295 per litre. 2) Beer and wine with an alcoholic strength in excess of 11.9% absolute ethyl alcohol by volume are deemed to be Spirits.
4. There is no specific excise on alcoholic beverages (including wine, beer and other alcoholic beverages). However, a surtax is applied for alcoholic beverages at the following rates: 27% on liquors, brandy, vermouth, pisco and whiskey; 15% on beer, wine, champagne, cider and other alcoholic beverages. The tax is applied to the VAT base (excluding the VAT itself) on all sales between wholesale dealers. For sales between wholesalers, the tax paid to the vendor is creditable against the tax applied on sales at each stage of the value chain (including on imports) until the last sale to the final retailer. Tha sale from this retailer to the final consumer is not submitted to the tax and the retailer cannot deduct the input tax.
5. An additional duty is placed on products which contain a mixture of spirits and non-alcoholic drinks, Rates: DKK 2.90 per litre of mixture
6. Excise rates are as follows: *a)* CN – Code 2208. alcoholic content between 1.2% and 2.8% volume EUR 200; and *b)* other products EUR 3 580.
7. The rates for small distilleries are EUR 730 or EUR 1 022.
8. The rate for ouzo and ethyl alcohol (derogation possible for several regions but only applied in the department of Dodecanese) is EUR 654 per hectolitre of pure alcohol.
9. Reduced rate (HUF 118 000) applies to ethyl-alcohol produced by fruit growers' distilleries from fruit supplied to them by private fruit growers. The application of reduced rate is limited to 50 litres of pure alcohol for private consumption per fruit grower per year.

Table 5.3. **Taxation of alcoholic beverages** *(cont.)*

10. Excise rate shown in the table is the rate for other alcohol than beer or wine up to 15%. The rate is ISK 52.80 per each centilitre of alcohol by volume exceeding 2.25%.
11. The excise rates are as follows: Whisky: 120 per cent of the wholesale price or ILS 19.58 per litre whichever is the higher; Tequila: 75 per cent of the wholesale price or ILS 3.53 per litre whichever is the higher; Vodka: 75 or 120 per cent of the wholesale price (depending on the price level) or ILS 3.53 per litre of alcohol whichever is the higher; Gins and liquers: 45, 75 or 120 per cent of the wholesale price (depending on the price level) or ILS 3.53 per litre of alcohol whichever is the higher. The statistical data for Israel are supplied by and under the responsibility of the relevant Israeli authorities. The use of such data by the OECD is without prejudice to the status of the Golan Heights, East Jerusalem and Israeli settlements in the West Bank under the terms of international law.
12. Taxation applies for beverages of alcoholic strenght exceeding 1.2 per cent.
13. Excise rates are as follows: *a)* Whisky and brandy (40% volume) JPY 40 000; *b)* Spirits (37% volume) JPY 37 000; and *c)* Shochu Group A and B (25% volume) JPY 25 000.
14. As Excise Tax for liquor is based on the value of the product, the rate does not vary with alcohol content. For whisky, brandy, general distilled spirits, liqueur, diluted soju and distilled soju, the Liquor tax is 72% and the Education tax is 30%.
15. The rates for alcoholic beverages apply as follows: 25% up to 14° G.L.; 30% above 14° G.L. and up to 20° G.L.; 50% above 20° G.L
16. For low alcohol spirits with an alcoholic content < 1.2% the VAT rate is 6%.
17. For alcoholic beverages with 9-14% alcoholic content, the excise rate is NZD 2.3936 per litre. For alcoholic beverages above 14% in alcoholic content, the excise rate is NZD 43.594 per litre of absolute alcohol (with the exception of unfortified wine and vermouth which has the rate of NZD 2.33936 per litre of product).
18. A reduced rate of 50% for small distilleries applies.
19. A reduced rate, not less than 50% of the national rate of excise duty on ethyl alcohol, applies to ethyl alcohol produced by fruit growers' distilleries. The application of the reduced rate is limited to 50 litres of ethyl alcohol for personal consumption of the fruit growers' household per year.
20. Tax per hectolitre of absolute alcohol until end of February 2009 was EUR 694.79, since 1 March 2009 is EUR 911.00.
21. The excise rate in the Canary Islands is EUR 649.66 per hectolitre of pure alcohol. There is a special regime for small distilleries for which the rate is EUR 726.50 per hectolitre (or EUR 565.66 in the Canary Islands).
22. Normal rate: CHF 2900 per hectolitre. Special rate for alkopops: CHF 11 600 per hectolitre [alkopop -also called ready to drink (RTD) or designer drink] is a mix of alcohol and soda.
23. No specific tax element. The element according to the value is the Excise Duty at a rate of 0%. If the tax amount computed according to the tax rate is lower than the minimum tax amount specified in the official table, then the minimum tax amount is paid.
24. VAT rate: this rate is a temporary reduction for the period 1 December 2008-31 December 2009 inclusive and reverts to 17.5% with effect from 1 January 2010. All drinks over 22% are dutied as spirits.
25. The weighted average Federal and State excise tax rate is USD 923 per hectolitre. The Federal excise rate is USD 13.50 per proof gallon in 2007. A proof gallon is a US gallon (3.785 litres) containing 50% alcohol. There is no Federal VAT.

Source: National delegates; position as at 1 January 2009.

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Table 5.4 gives the current excise rates for mineral oil products and LPG in OECD countries and again illustrates the wide disparity. For example, excise taxes on premium unleaded gasoline vary from USD 0.105 in the United States to USD 1.602 in Turkey for 1 litre. More generally, North America has the lowest fuel taxes, followed by OECD countries in Asia and the Pacific, with European countries having significantly higher tax rates.

It is interesting to note that the excise taxation levels for diesel fuel are significantly lower than those for gasoline. Only two countries – Switzerland and the United States – have a higher level of tax for diesel than gasoline; the rates are the same for both fuel types in Australia and the United Kingdom. From an environmental point of view, this is peculiar, as diesel consumption in vehicles has a much greater environmental impact than unleaded gasoline, largely due to the significant differences in NO_x and particulate emissions. With more stringent motor vehicle regulations, the difference is becoming less distinct (OECD, 2010).

The rates shown in Table 5.4 are taken from the International Energy Agency (IEA, 2009) and do not reflect excise duties exclusively but also include a number of taxes such as contributions to emergency stock funds.

Table 5.4. **Taxation of mineral oils**

	Premium unleaded gasoline (per litre 94-96 RON)			Automotive Diesel for non-commercial use (per litre)			Liquid petroleum gas (LPG)[1] propellant use (per litre)			Light fuel oil for industry (per 1 000 litres)			Light fuel oil for households (per 1 000 litres)		
	Excise		VAT (%)	Excise		VAT (%)	Excise		VAT (%)	Excise		VAT (%)	Excise		VAT (%)
	National currency	USD		National currency	USD		National currency	USD		National currency	USD		National currency	USD	
Australia[2]	0.381	0.262	10.0	0.381	0.262	10.0	0.00	0.000	10.0	See note[2]		10.0	n.a.		10.0
Austria[3]	0.427	0.505	20.0	0.375	0.444	20.0	0.510	0.604	20.0	108.93	128.93	20.0	108.93	128.93	20.0
Belgium[4]	0.614	0.709	21.0	0.353	0.408	21.0	0.00	0.000	21.0	18.49	21.36	21.0	18.49	21.36	21.0
Canada[5]	0.281	0.235	5 or 13	0.210	0.175	5 or 13	n.a.		5 or 13	27.03	22.58	5 or 13	28.00	23.39	5 or 13
Chile[6]	225.86	0.599	19.0	56.460	0.150	19.0	52.7	0.140	19.0	See note[6]		19.0	See note[6]		19.0
Czech Republic	12.840	0.950	19.0	10.95	0.810	19.0	2.160	0.160	19.0	660.00	48.83	19.0	660.00	48.83	19.0
Denmark[7]	4.262	0.536	25.0	2.901	0.365	25.0	1.863	0.234	25.0	422.00	53.03	25.0	2 478.00	311.40	25.0
Finland	0.627	0.689	22.0	0.364	0.400	22.0	0.00	0.000	22.0	87.00	95.61	22.0	87.00	95.61	22.0
France	0.606	0.691	19.6	0.428	0.488	19.6	0.060	0.068	19.6	56.60	64.50	19.6	56.60	64.50	19.6
Germany	0.655	0.813	19.0	0.47	0.583	19.0	0.092	0.114	19.0	61.35	76.15	19.0	61.35	76.15	19.0
Greece	0.493	0.694	19.0	0.336	0.473	19.0	0.064	0.090	19.0	21.00	29.55	19.0	21.00	29.55	19.0
Hungary[8]	123.350	0.962	20.0	100.57	0.785	20.0	24.52	0.191	20.0	See note[8]		20.0	See note[8]		20.0
Iceland[9]	62.61	0.490	25.5	55.67	0.436	25.5	n.a.		25.5	n.a.		25.5	n.a.		25.5
Ireland	0.52	0.576	21.5	0.423	0.468	21.5	0.045	0.050	21.5	47.36	52.45	21.5	47.36	52.45	21.5
Israel[10]	n.a.		16.0	n.a.		16.0	n.a.		16.0	n.a.		16.0	n.a.		16.0
Italy	0.564	0.724	20.0	0.423	0.543	20.0	0.125	0.161	20.0	403.21	517.77	20.0	403.21	517.77	20.0
Japan[11]	55.800	0.486	5.0	34.100	0.297	5.0	9.800	0.085	5.0	2 040.00	17.79	5.0	2 040.00	17.79	5.0
Korea[12]	745.890	0.927	10.0	520.83	0.647	10.0	221.060	0.275	10.0	103 500.00	128.62	10.0	103 500.00	128.62	10.0
Luxembourg[13]	0.462	0.512	15.0	0.310	0.344	15.0	0.054	0.060	15.0	12.00	13.30	15.0	10.00	11.09	12.0
Mexico[14]	0.780	0.101	16.0	See note[14]		16.0	n.a.		16.0	See note[14]		16.0	See note[14]		16.0
Netherlands	0.723	0.853	19.0	0.420	0.495	19.0	0.087	0.103	19.0	259.76	306.33	19.0	254.42	300.03	19.0
New Zealand[15]	0.561	0.374	12.5	0.004	0.003	12.5	n.a.		12.5	0.00	0.00	12.5	See note[15]		12.5
Norway[16]	5.400	0.610	25.0	4.140	0.468	25.0	n.a.		25.0	1 466.00	165.70	25.0	1 466.00	165.70	25.0
Poland	1.658	0.891	22.0	1.144	0.615	22.0	0.457	0.246	22.0	232.00	124.70	22.0	232.00	124.70	22.0
Portugal[17]	0.583	0.921	20.0	0.364	0.575	20.0	0.055	0.087	20.0	n.a.		12.0	176.18	278.46	12.0
Slovak Republic[18]	0.515	1.012	19.0	0.404	0.794	19.0	0.00	0.000	19.0	0.00	0.00	19.0	See note[18]		19.0
Slovenia	0.485	0.771	20.0	0.427	0.678	20.0	0.125	0.199	20.0	213.50	339.21	20.0	117.90	187.32	20.0
Spain	0.437	0.614	16.0	0.340	0.478	16.0	0.032	0.045	16.0	86.18	121.14	16.0	86.18	121.14	16.0

Table 5.4. **Taxation of mineral oils** *(cont.)*

	Premium unleaded gasoline (per litre 94-96 RON)			Automotive Diesel for non-commercial use (per litre)			Liquid petroleum gas (LPG)[1] propellant use (per litre)			Light fuel oil for industry (per 1 000 litres)			Light fuel oil for households (per 1 000 litres)		
	Excise		VAT (%)	Excise		VAT (%)	Excise		VAT (%)	Excise		VAT (%)	Excise		VAT (%)
	National currency	USD		National currency	USD		National currency	USD		National currency	USD		National currency	USD	
Sweden	5.500	0.615	25.0	4.335	0.485	25.0	0.855	0.096	25.0	633.00	70.81	25.0	3 804.00	425.55	25.0
Switzerland	0.749	0.489	7.6	0.774	0.506	7.6		0.000	7.6	99.60	65.06	7.6	99.60	65.06	7.6
Turkey	1.492	1.602	18.0	0.935	1.004	18.0	0.561	0.602	18.0	n.a.		18.0	760.50	816.33	18.0
United Kingdom[19]	0.562	0.875	17.5	0.562	0.875	17.5	0.156	0.243	17.5	108.00	168.20	5.0	108.00	168.20	17.5
United States[20]	0.106	0.106	–	0.125	0.125	–	n.a.		–	0.00	0.00	–	0.00	0.00	–

n.a.: Not available in IEA statistics.
VAT on fuel oil for industry is normally refunded to taxpayers.
Excise taxes do not include emergency stock fee.

1. LPG: For member states of the European Union, Directive 2003/96/EC sets minimal excise rates for LPG per 1 000 kg. The rates are converted into tax per litre in the table. The conversion rate is 0.512 kg = 1 litre.
2. The energy grants (credits) scheme provides excise relief to businesses through payment of a grant for diesel fuel used in eligible off and on-road activities.
3. Excise tax on light fuel oil for indusrty is partially refunded to certain large industrial consumers
4. Vehicles equiped for LPG are subject to an additional annual tax of EUR 89.16 to EUR 208.02 to compensate the absence of excise taxes on LPG according to European legislation.
5. The rates shown in the table include both federal and provincial/urban taxes.
6. Automotive unleaded gasoline, automotive diesel for non commercial use and liquid petroleum gas are levied with three taxes which have different bases: VAT (19%), excise tax (special formula based on cubic meters), and a special stabilization price system. Light fuel oil (both for industry and households) is subject to a VAT (19%) and the same special price stabilisation system mentioned earlier. This special price stabilisation system is calculated on a weekly basis and its formula takes into consideration weekly parity values and international reference prices published by a Department of the Ministry of Energy, the calculation can result in either a tax payment or a tax credit.
7. DKK 0.66 per litre of the excise tax on automotive diesel is refunded to industrial consumers.
8. The excise rate on light fuel oil is not available because the product is not consumed in significant quantities.
9. Iceland is not member of the IEA. Figures for automotive diesel and gasoline are taken from the IMF Country Report No. 10/213 of July 2010.
10. The statistical data for Israel are supplied by and under the responsibility of the relevant Israeli authorities. The use of such data by the OECD is without prejudice to the status of the Golan Heights, East Jerusalem and Israeli settlements in the West Bank under the terms of international law.
11. Excise rate is given for regular unleaded (91 RON) instead of premium unleaded.
12. Excise rate is given for regular unleaded (92 RON) instead of premium unleaded.
13. A reduced VAT rate of 12% is applicable to light fuel oil.
14. No excise duties on volume (except on premium unleaded). *Impuesto Especial de Productos y Servicios* is charged as a percentage on the value of the product.
15. Excise tax includes petroleum excise tax and local authority tax. The excise rate on light fuel oil for households is not available because the product is not consumed in significant quantities.
16. A specific excise rate of NOK 3.560 per litre is applicable on automotive diesel for commercial use.
17. Automotive diesel oil used for agriculture is taxed at a lower VAT rate of 12%.
18. Excise tax on light fuel oil is refunded for industry. The excise rate on light fuel oil for households is not available because the product is not consumed in significant quantities.
19. The VAT rate on light fuel oil for households is 5%.
20. Average federal and state taxes. There is no VAT.

Source: International Energy Agency, *Energy Prices and Taxes*, 2nd quarter 2010 and European Commission, Document Ref. 1031 REV1 Excise Duty, Tables Part II, July 2010.

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Tobacco products

As with alcohol and mineral oils, there is a sub-division of tobacco products into a number of categories – cigarettes, cigars, cigarette rolling tobacco and pipe tobacco. For alcoholic beverages the objective criterion for excise duty is the alcoholic content; for mineral products it is the energy content. But what about tobacco – is there a smoking value difference between a cigar and a cigarette? Or should the nicotine/tar content be measured as part of the health issue?

Ostensibly for health reasons, most countries have tax differentials between cigarettes and other tobacco products making cigarettes relatively more expensive. However, unlike the success achieved with unleaded gasoline, smokers do not see cigars and other tobacco products as substitutes for cigarettes, with the result that price elasticity in this field is much lower.

Although only one country (Mexico) levies excise duties on alcoholic beverages and mineral oils according to the value of the products alone this method remains popular for tobacco products, particularly amongst members of the European Union. The majority of countries use a combination of specific and value elements to calculate the excise liability on tobacco products. This not only helps to provide compensation in respect of cheap and expensive products (in much the same way as alcoholic beverages) but also acts as a means of achieving neutrality between countries with low production costs and those with high production costs. Those countries with low production costs might tend to choose a low specific element combined with a high element according to value whereas high production costs can be compensated by choosing a high specific element and a low value element.

Table 5.5 shows the current excise rates for tobacco products in OECD countries. As with alcoholic beverages, the obvious price differentials contribute to cross border shopping and “bootlegging” activities.

Table 5.5. **Taxation of tobacco**

	Cigarettes				Cigars[1]				Tax on rolling tobacco for cigarettes			
	Specific excise per 1 000		Excise on value (% of RSP)[2]	VAT (%)	Specific excise per 1 000		Excise on value (% of RSP)[2]	VAT (%)	Specific excise per 1 000 grams		Excise on value (% of RSP)[2]	VAT (%)
	National currency	USD			National currency	USD			National currency	USD		
Australia[3]	321.00	221.03	0.00	10.00	See note[3]		0.00	10.00	321.00	221.03	0.00	10.00
Austria[4]	26.69	31.59	42.00	20.00	0.00	0.00	13.00	20.00	0.00	0.00	47.00	20.00
Belgium	15.93	18.40	52.41	21.00	0.00	0.00	10.00	21.00	7.96	9.19	31.50	21.00
Canada[5]	85.00	71.00	See note[5]	5 or 13	18.50	15.45	See note[5]	5 or 13	57.85	48.32	See note[5]	5 or 13
Chile[6]	–		60.40	19.00	–		51.00	19.00	–		58.00	19.00
Czech Republic	480.00	35.51	23.00	19.00	440.00	32.55	n.a.	19.00	600.00	44.39	n.a.	19.00
Denmark[7]	636.60	80.00	13.61	25.00	198.00	24.88	10.00	25.00	452.50	56.86	0.00	25.00
Finland[8]	15.13	16.63	52.00	22.00	0.00	0.00	24.00	22.00	6.50	7.14	52.00	22.00
France	7.50	8.55	64.00	19.60	0.00	0.00	64.00	19.60	0.00	0.00	64.00	19.60
Germany	82.70	102.65	24.66	16.00	14.00	17.38	1.47	16.00	34.06	42.28	18.57	19.00
Greece	5.51	7.75	53.83	19.00	0.00	0.00	26.00	19.00	0.00	0.00	59.00	19.00
Hungary[9]	8 265.00	64.48	28.30	20.00	0.00	0.00	28.50	20.00	0.00	0.00	52.00	20.00
Iceland	11 423.00	89.39	47.31	24.50	11 423.00	89.39	44.56	24.50	8 170.00	63.94	44.56	24.50
Ireland	151.37	167.64	17.78	21.50	217.39	240.76	0.00	21.50	183.44	203.16	0.00	21.50
Israel[10]	49.49	13.26	54.00	15.50	See note[10]		54.00	15.50	251.90	67.47	0.00	15.50
Italy	6.20	7.96	58.50	20.00	0.00	0.00	23.00	20.00	0.00	0.00	56.00	20.00
Japan[11]	8 744.00	76.24	0.00	5.00	8 744.00	76.24	0.00	5.00	8 744.00	76.24	0.00	5.00
Korea[12]	32 050.00	39.83	0.00	10.00	See note[12]		0.00	10.00	23 000.00	28.58	0.00	10.00
Luxembourg	15.40	17.07	47.44	15.00	0.00	0.00	5.00	15.00	0.00	0.00	36.00	15.00
Mexico[13]	0.00	0.00	50.72	15.00	0.00	0.00	18.27/50.72	15.00	0.00	0.00	18.27/50.72	15.00
Netherlands	72.97	86.05	20.52	19.00	0.00	0.00	5.00	19.00	30.78	36.30	14.21	19.00
New Zealand[14]	See note[14]		0.00	12.50	See note[14]		0.00	12.50	337.62	224.95	0.00	12.50
Norway	1 980.00	223.80	0.00	25.00	1 980.00	223.80	0.00	25.00	1 980.00	223.80	0.00	25.00
Poland	99.16	53.30	41.32	22.00	149.00	80.08	–	22.00	84.87	45.62	35.36	22.00
Portugal[15]	65.65	103.76	23.00	20.00	0.00	0.00	12.25	20.00	0.00	0.00	47.08	20.00
Slovak Republic[16]	52.44	103.06	24.00	19.00	69.70	136.98	–	19.00	64.06	125.89	–	19.00
Slovenia[17]	16.47	26.16	43.21	20.00	0.00	0.00	5.00	20.00	32.00	50.84	0.00	20.00
Spain	4.20	5.90	54.95	16.00	0.00	0.00	12.71	16.00	0.00	0.00	38.46	16.00
Sweden	310.00	34.68	39.20	25.00	1 120.00	125.29	0.00	25.00	1 560.00	174.51	0.00	25.00
Switzerland[18]	99.23	64.81	25.00	7.60	2.60/12.10		0.00	7.60	1.55/9.90		0.00	7.60
Turkey[19]	132.50	142.23	63.00	18.00	132.50	142.23	30.00	18.00	132.50	142.23	63.00	18.00

Table 5.5. **Taxation of tobacco** *(cont.)*

	Cigarettes				Cigars[1]				Tax on rolling tobacco for cigarettes			
	Specific excise per 1 000		Excise on value (% of RSP)[2]	VAT (%)	Specific excise per 1 000		Excise on value (% of RSP)[2]	VAT (%)	Specific excise per 1 000 grams		Excise on value (% of RSP)[2]	VAT (%)
	National currency	USD			National currency	USD			National currency	USD		
United Kingdom[20]	112.07	174.54	24.00	15.00	169.74	264.35	0.00	15.00	122.01	190.02	0.00	15.00
United States[21]	See note[21]				See note[21]				See note[21]			

1. Cigars: Canada, Denmark and Japan tax cigars at a rate per 1 000 pieces and not according to weight. In Canada and Denmark it is assumed that a cigar weighs 3 g and in Japan 1 g.
2. RSP: Retail selling price.
3. The taxation of cigars and cigarettes applies a per stick rate of AUD 0.25679 per stick if tobacco content per stick does not exceed 0.8 g. Where the tobacco content exceeds 0.8 g per stick, the excise duty rate is AUD 321.00 per kg. Excise on tobacco not in stick form is imposed at a rate of AUD 321.00 per kg.
4. The excise duty on cigars is 13% of RSP, at least EUR 32.7 for 1 000 pieces.
5. An additional excise duty on cigars is applicable at the greater of CAD 67 per 1 000 and 67% computed on the sale price for domestically manufactured cigars or on their duty-paid value in the case of imported cigars. Provinces add their own taxes on tobacco products which vary widely from CDN 103 to CDN 268 per thausand cigarettes. Some provinces also apply a tax based on the value of the product.
6. Processed tobacco is taxed at a rate of 57.9%. This tax and all the above mentioned ones are charged on the value of sale to the final consumer.
7. The excise tax for other smoking tobaccos is DKK 402.5/1 000 g for coarse-cut tobacco.
8. Cigarette paper: excise 60% of RSP.
9. The excise tax for other smoking tobacco is 32.5%. Minimum excise tax is HUF 15 175 per 1 000 pieces for cigarettes, HUF 6 070 per kg on rolling and other tobacco.
10. The Excise on value for cigarettes in the years 2007 to 2009 is 62 per cent of the Retail Selling Price before VAT, *i.e.* approximatively 54 per cent of the retail selling price. The total duty on 1 000 cigarettes (*i.e.* specific plus value) is greater than or equal to ILS 340.99. The statistical data for Israel are supplied by and under the responsibility of the relevant Israeli authorities. The use of such data by the OECD is without prejudice to the status of the Golan Heights, East Jerusalem and Israeli settlements in the West Bank under the terms of international law.
11. The tax consists of a national element, a prefectural element and a municipal element.
12. The excise tax on cigars is KRW 65 400/1 000 g and taxation of tobacco is local government excise tax).
13. A rate of 26.6% (18.27% of the RSP) for cigars or rolling tobacco applies as long as these products are handmade; otherwise a 140% rate applies (50.72% of the RSP).
14. The excise rate for 1 000 cigarettes with actual tobacco content not exceeding in weight of 0.8 kg is NZD 289.16. Cigarettes exceeding 0.8 kg in actual tobacco content per 1 000 cigarettes are taxed as cigars. Excise rate for cigars is NZD 361.45 per 1 kg of tobacco content of cigars.
15. Excise tax on cigarettes is reduced to EUR 8.36 and 36.5% for small producers in the Azores and Madeira.
16. Excise rate on other tabacco is SKK 880/1 000 g and excise rate on snuff and chewing tobacco is SKK 880/1 000 g.
17. If the Retail Selling Price for 1 000 cigarettes is EUR 95.00 or less, minimum excise duty (specific + on value) yields EUR 95.00 for 1 000 pieces
18. "Specific excise per 1 000 for cigars": the tax between the maximum and minimum depends on the retail selling price per piece and the average weight per 1 000 pieces. "Specific excise per 1 000 g for rolling tobacco for cigarettes": the tax between the maximum and minimum depends on the retail selling price.
19. Specific excise duty per 1 000 cigarettes is YTL 60. Tax amount for 1 packet of cigarettes is YTL 1.2. Tax on cigarettes and other tobacco products computed according to proportional basis can not be less than the tax computed according to minimum specific tax amounts excise rate for cigars is YTL 60 for 1 000 grams.
20. VAT rate: this rate is a temporary reduction for the period 1 December 2008-31 December 2009 inclusive and reverts to 17.5% with effect from 1 January 2010.
21. State taxes vary widely. The weighted average of Federal and state taxes per thousand cigarettes was USD 72.00 in 2007. Federal specific excise tax rates on tobacco are: USD 19.50 per thousand for small cigarettes (no more than 3 pounds per thousand); USD 40.95 per thousand for large cigarettes; USD 1.828 per thousand for small cigars weighing no more than 3 pounds per thousand; 20.719% of the manufacturers price but not more than USD 48.75 per thousand for large cigars; USD 0.0122 per 50 papers for cigarette paper; USD 0.585 per pound for snuff; USD 0.195 per pound for chewing tobacco; USD 1.0969 per pound for pipe tobacco and for roll-your-own tobacco. Some states also tax on an ad valerom basis. There is no federal VAT.

Source: National delegates; position as at 1 January 2009.

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Chapter 6

Taxing Vehicles

Introduction

Motoring has been an important source of tax revenue for a long time. All member countries rely heavily on a range of tax instruments to ensure significant budgetary receipts from both private and commercial road users. Vehicle taxation in its widest definition represents a prime example of the use of the whole spectrum of consumption taxes. Over the last fifteen years, these taxes have been adapted to influence consumer behaviour, mainly to achieve environmental objectives.

Taxes and charges on vehicles include:

- Taxes on sale (including VAT and retail sales taxes) and registration of motor vehicles, payable once at the time of acquisition, or first putting into service, of a vehicle, defined in most cases as Registration Tax (see Tables 6.1 and 6.3).
- Periodic taxes payable in connection with the ownership or use of the vehicles, defined in most cases as Circulation Tax (see Table 6.2).
- Taxes on fuel (see Table 5.4).
- Any other taxes and charges, such as insurance taxes, road tolls, etc.

Since their development at the outset of the 20th Century, taxes on vehicles have reflected a variety of influences beyond the obvious need to raise revenue. Geographic, industrial, social, energy, transport and environmental policy considerations have all had an influence on the level and structure of taxation. Most of them (except recent pollution-related taxes) were instituted in a time when cars were considered luxury items. Wider ownership of cars in recent decades has reduced the progressivity of those taxes (many low income households have at least one car today). In most cases current taxation schemes are used to influence consumer or business behaviour. More recently, energy and environmental considerations have led to an adjustment of taxation according to the fuel efficiency of vehicles, CO_2 emissions, town planning and transport policies, including the introduction of road or urban tolls.

Transport (and general trade) policy may require that the total tax burden on heavy goods vehicles is kept reasonably low to help stimulate commercial activity, or taxation of motor vehicles could be designed to encourage transferring transport from road to rail or from private to public transport.

This chapter focuses on taxes on use and registration of vehicles as they are (with fuel taxes) by far the most important motor vehicles related taxes. The sale and use of motor vehicles also generates considerable VAT/GST or sales tax revenue. These taxes are levied on the import and sale of vehicles (in the latter case by application to the full selling price or, for used cars, only in respect of the margin between the buying and the selling price). VAT or sales tax will also apply to general maintenance and running costs. In addition, they are levied in most cases on the final duty-paid value (*e.g.* VAT on fuel is levied on the excise-inclusive price).

Table 6.1. **Taxes on sale and registration of motor vehicles**[1]

	Taxes	Criteria	Rebates/exemptions
Australia	GST: 10%. Luxury car tax: 33% calculated on the value of the car that exceeds AUD 57 180. Registration fee calculated on the tare weight of the vehicle. Stamp duty calculated on the value of the vehicle.	Value. Weight.	Emergency vehicles such as ambulances and fire engines. Vehicles modified to suit the transportation of eligible people with disabilities.
Austria	VAT: 20%. New car registration tax: while the tax base is the selling price, the tax rate depends on the standard fuel consumption of the car (maximum rate 16%).	Value. Fuel efficiency.	Investment allowance of 6% is applicable to investments in noise-reduced trucks.
Belgium	VAT: 21%. Entry into service tax: depends on engine power and vehicle age (the tax is set according to a progressive scale from EUR 61.50 to EUR 4 957.00).	Value. Age. Engine power.	Exemption for disabled people and war invalids; rescue vehicles. Rebates for cars running with liquefied gas petroleum or other gas.
Canada	GST: 5% plus possible 8% HST rate for sales in the participating provinces. Other various provincial tax rates are applicable for sales made in other provinces. Automotive air conditioning tax at CAD 100 per unit. Automobiles that have a weighted average fuel consumption rating of 13 or more litres per 100 kilometres will be subject to the excise tax ranging from CDN 1 000 to CDN 4 000. One province has a tax levied on the purchase of fuel-inefficient passenger cars and sports utility vehicles.	Value. Fuel efficiency. Air conditioning.	To end-users of specially equipped vans for handicapped persons.
Chile	**New vehicles** VAT: 19%. First registration fee: fixed fee. New vehicle plate fee: fixed fee payable upon the first registration of the vehicle. **Used vehicles** No VAT. Acquisition fee: 1.5% on the purchase price (or the tax assessment value of the vehicle) and registration fee on the transfer.	Value. Age. Type of vehicle.	–
Czech Republic	VAT: 19%. Registration fee: motorcycles CZK 300 or CZK 500 (depending on cylinder capacity). Other motor vehicles CZK 800. The fee includes the registration plate. Permit fee on non-standard motor vehicles.	Value. Cylinder capacity	–
Denmark	VAT: 25%. Vehicle registration tax: payable on first registration of the vehicle. Graduated tax rates according to the value of the vehicle (with lower rates for commercial vehicles) from 105% to 180% (on the remainder above DKK 65 900) for private vehicles and from 0% to 20% (on the remainder above DKK 12 100) for commercial vehicles.	Value. Utilisation. Safety equipment.	The registration duty rate is adjusted each month. The adjustment is calculated on the basis of the development in the relationship between the Danish net price index for all goods and the net price index for motor vehicles. Motor vehicles with major traffic safety equipment receive a deduction in the value liable to registration duty up to DKK 11 585 and diesel powered motor vehicles with particle filters receive a deduction of DKK 4 000. Rebates between DKK 100 and DKK 1 200 are given to motor vehicles with minor traffic safety equipment.
Finland	VAT: 22%. Vehicle excise tax: payable on first registration of the vehicle. Rate for passenger cars and delivery vans 12.2%-48.8% of the general consumer price of the car model (including all taxes). The rate correlates to CO_2 emissions level of the vehicle (type approval value). For delivery vans there is a deduction based on maximum laden weight of the vehicle for vans over 2 500 kg. The tax for motor cycles varies according to the cylinder capacity, between 8-20%, and the base is consumer price including all taxes.	Value. CO_2 emissions. Utilisation. Cylinder capacity. Type.	Exemption for disabled people, taxis, motor homes, cars used for veterinary purposes, rescue vehicles and funeral cars.

Table 6.1. **Taxes on sale and registration of motor vehicles**[1] *(cont.)*

	Taxes	Criteria	Rebates/exemptions
France	VAT: 19.6%. Tax on registration certificates or regional tax on certificates: flat rate depending on engine power, with a horse power unit rate established by each region; The rate is reduced by half for some vehicles depending on their nature (trucks weighing more than 3.5 tonnes, motorcycles) or age (more than 10 years old). Additional special tax on the regional certificate tax for lorries according to their weight (from EUR 38 for less than 3.5 tonnes to EUR 305 for more than 11 tonnes or trailers and buses for public transport of passengers). Additional special tax on registration certificates for vehicles, according to their carbon dioxide emissions by kilometre (from EUR 0 for less than 160 g carbon dioxide emissions/km to EUR 2 600 for more than 250 g carbon dioxide emission/km).	Value. Engine power. Weight. Utilisation. Age. CO_2 emissions. Fuel/electricity power.	Exemption for new demonstration models weighing less than 3.5 tonnes, state vehicles, certain motorcycles. From 50% to 100% rebate for electrically or gas propelled cars. The rate is reduced by half for vehicles equipped to run with E85 fuel (super ethanol).
Germany	VAT: 19%. Registration charge: EUR 18 to 25.	Value.	–
Greece	VAT: 19%. Registration tax: rate varies: ● From 5% to 346% of the taxable value for passenger cars according to cylinder capacity and anti-polluting technology (polluting emissions). ● From 5%-26% of the taxable value for lorries – trucks, etc., according to cylinder capacity and mass (less or more than 3.5 tonnes). Rates are increased by 30% for vehicles that do not meet EC Directives' emissions requirements. ● From 0% to 25% of the taxable value for motorcycles according to cylinder capacity. Registration for buses depends on the number of seats.	Value. Weight. Utilisation. Polluting emissions. Type. Number of seats. Fuel/electricity power.	Exemptions from registration tax: ● Cars used by public authorities. ● Cars with hybrid motor technology or those with electric motors. ● Cars used by disabled persons. ● Cars used by parents having at least three (3) children. ● Ambulances used by public hospitals.
Hungary	VAT: 20%. Registration Tax: from HUF 250 000 to HUF 3 207 000 on new passenger cars according to engine type (diesel or petrol) and engine cylinder capacity, and from HUF 20 000 to HUF 230 000 on motorcycles according to engine cylinder capacity. For cars with lower environmental category of engine higher rates are levied (50%, 100% or 200% higher), but rate is reduced according to a scale based on age (until 90%).	Engine type. Cylinder capacity. Environmental category. Age of vehicle. Fuel/electricity power.	Reduced registration tax for cars with electric or hybrid engines (HUF 190 000) and for cars with gas-powered engines (HUF 380 000). Old-timers are exempted.
Iceland	VAT: 24.5%. Vehicle registration fee of ISK 15 000 on initial registration and ISK 2 500 for subsequent changes. Motor vehicle excise duty: based on cylinder capacity (from 0% to 45% of the value).	Value. Cylinder capacity.	Rally cars and other cars exclusively used for motor sport; cars exclusively used for rescue operations; cars exclusively fuelled with electricity or hydrogen. Motor vehicles for the transport of eighteen or more persons, including the driver; dumpers designed for off-highway use, of a gross weight 4 tonnes or more; snow-ploughs; self-loading or self-unloading trailers and semi-trailers for agricultural purposes, snow-mobiles, weighing 700 kg. or more; navigable vehicles on wheels designed to travel over both land and water. The following motor vehicles, provided that they are of a gross weight exceeding 5 tonnes: *i)* Tractors principally designed for semi-trailers or for hauling another vehicle. *ii)* Motor vehicles for the transport of goods. *iii)* Trailers and semi-trailers for the transport of goods. *iv)* Motor vehicles for special purposes; breakdown lorries, crane lorries and more, not principally designed for the transport of persons or goods.

Table 6.1. **Taxes on sale and registration of motor vehicles**[1] *(cont.)*

	Taxes	Criteria	Rebates/exemptions
Ireland	VAT: 21%. Registration tax: rate varies from 22.5% to 30% of the value for motor vehicles according to their cylinder capacity (with a minimum of EUR 315); 13.30% for commercial car-derived vans, "jeep" type vehicles and certain motor caravans and crew cabs (with a minimum of EUR 125); EUR 50 flat rate for other commercial vehicles; new motorcycles EUR 2 per cc up to and EUR 1 per cc above 350 cc. Reduced rates for used motorcycles.	Value. Cylinder capacity. Type. Age. Fuel/electricity power.	50% vehicle registration tax relief on the registration of series production hybrid electric vehicles, flexible fuel vehicles and electric vehicles. 100% relief under disabled driver scheme.
Israel	VAT:16%. Purchase tax: private and commercial vehicle weight not exceeding 3 500 kg – be taxed at 83%, but may be eligible for a grant. Commercial vehicles over 3 500 kg – be taxed at 72%, but not eligible for a grant.	Weight. Polluting emissions.	Private and commercial vehicles weighing up to 3 500 kg, be taxed at 83%, but are grant according to the degree of pollution of the vehicle. There are 15 levels of pollution that are set by a "Green Score" (weighting the emission of five major pollutants). Grant is up to the amount of ILS 15 000. Hybrid vehicles – Pollution level 2 – taxed at a rate of 30%. If infection is on a higher rank – it will be taxed as a regular car, but without the grant. Electric vehicle – depending on the customs and purchase tax rate, will be taxed a rate of 10%.
Italy	VAT: 20%. Registration TAX (IPT): EUR 151 for cars < 53 kW, EUR 3.5 per kW for cars > 53 kW. For other vehicles, such as, for instance, buses, tractors and lorries with trailer, the tax is determined on the basis of their engine power, weight, number of seats or other criteria.	Type (category of vehicles). Engine power. Weight, number of seats or other criteria according to the category.	Flat rate tax applied for vehicles over 30 or 20 years old. 100% exemption for disabled persons.
Japan	VAT: 5%. Automobile acquisition tax at 5% of purchase price (3% for commercial and light vehicles).	Value.	–
Korea	VAT: 10%. Special excise tax: from zero to 10% of the manufacturer's price according to cylinder capacity. Education tax: 30% on the amount of excise tax. Acquisition tax: 2% of the retail price excluding VAT. Registration tax: 2-5% of the retail price excluding VAT.	Value. Cylinder capacity.	–
Luxembourg	VAT: 15%.	Value.	–
Mexico	VAT: 15%. At the border region: 10%. New vehicles tax: from 2% to 17% according to vehicle value.	Value.	Exemption of 100% to vehicles with value up to MXN 156 135. Exemption of 50% to vehicles with value from MXN 156 135 to MXN 197 771.
Netherlands	VAT: 19%. **Registration tax** Cars: 45.2% of net value less EUR 1 540 or increased by EUR 328 (diesel engine). Motorcycles: 10.2% of the net value (for net value up to EUR 2 133) and 20.7% of the net value (for net value above EUR 2 133). The resulting amount reduced by EUR 224.	Value. Motor fuel. Polluting emissions. Fuel/electricity power.	Exemption for cars with electromotor/hybrids/hydrogen.
New Zealand	VAT: 12.5%. Registration fee on initial registration: rates vary depending on the cylinder capacity and type of vehicle from NZD 74 to NZD 232. For motorcycles rates vary from NZD 28 to NZD 47.	Value. Cylinder capacity.	

Table 6.1. **Taxes on sale and registration of motor vehicles**[1] *(cont.)*

	Taxes	Criteria	Rebates/exemptions
Norway	VAT: 25%. Registration tax: levied upon first time registration of road motor vehicles in the central motor vehicle register. Rates vary according to weight, engine performance (kW) and CO_2-emissions. When CO_2-emissions information is not stated, the tax will be calculated based on cylinder capacity instead of CO_2-emissions. Re-registration tax: levied on vehicles previously registered in Norway. Rates vary according to type of vehicle and year of registration.	Weight. Engine performance. CO_2-emissions. Fuel/electricity power.	Electric vehicles are exempt.
Poland	VAT: 22%. Excise-duty for passenger cars: it is levied on passenger cars prior to their first registration due to their sale, intra-community acquisition and import. The excise tax rates for personal cars depend on engine capacity and amount to: ● For passenger cars with engine cubic capacity over 2 000 cm^3, 18.6%. ● For others, 3.1%.	Value. Cylinder capacity.	–
Portugal	VAT: 20%. Vehicle excise duty: varies according to the following formula and rates: Cylinder capacity × rate – fixed rebate Vehicles up to 1 250 cc = number of cc * EUR 0.90 – EUR 670. Vehicles above 1 250 cc = number of cc * EUR 4.25 – EUR 4 857.50. CO_2 emissions (g/km) x rate – fixed rebate **Petrol vehicles** Up to 115 EUR 3.50 EUR 329.00 From 116 to 145 EUR 31.50 EUR 3 549.00 From 146 to 175 EUR 38.00 EUR 4 491.50 From 176 to 205 EUR 90.00 EUR 13 591.50 More than 205 EUR 125.00 EUR 20 766.50 **Diesel vehicles** Up to 95 EUR 10.00 EUR 730.00 From 96 to 120 EUR 48.00 EUR 4 340.00 From 121 to 140 EUR 98.00 EUR 10 340.00 From 141 to 170 EUR 119.00 EUR 13 280.0 More than 170 EUR.168.00 EUR 21 610.00 There are other rate brackets for light commercial vehicles and some segments of combined (passenger and freight) vehicles.	Value. Cylinder capacity/CO_2 emissions	–
Slovak Republic	VAT: 19%. Administrative fees: ● Registration fee payable by the first and any other owner of a motor vehicle: EUR 33. ● Registration fee for assigning and releasing of a licence plate number: EUR 16.50 per one plate number (*i.e.* EUR 33 for 1 vehicle).	Value.	Rebates in administration fees are applied for disabled persons.

Table 6.1. **Taxes on sale and registration of motor vehicles**[1] *(cont.)*

	Taxes	Criteria	Rebates/exemptions
Slovenia	VAT: 20%. Motor vehicle tax – for passenger motor vehicles which are put into circulation in Slovenia for the first time, imports and acquisitions from other EU member states. The tax rate is determined on a progressive scale at 1-13% of the selling price of the vehicle. This tax is also chargeable on every transfer of used passenger cars, which must be registered, if VAT has not been paid on this transfer, with MVT in this case amounting to 5% of the selling price of the used car.	Value. Selling price.	Tax exemptions: 1. Vehicles acquired for transport of families with three or more children. 2. Vehicles purchased for carrying disabled people. 3. Vehicles intended for: ● Official use by diplomatic and consular representations accredited to Slovenia. ● Official use by international organisations, if so stipulated by international treaties binding on Slovenia. ● Personal use by foreign staff of diplomatic and consular missions, accredited to Slovenia, including their family members. ● Personal use by foreign staff of international organisations, including their family members, if so stipulated by international treaties binding on Slovenia. 4. Historic vehicles (old-timers). 5. Vehicles imported on a temporary basis (the temporary or permanent change of residence of the vehicle's proprietor who does not maintain his permanent residence in Slovenia). 6. Sports vehicles that have not been adapted for road use and are intended only for driving on circuits. 7. Transfer of vehicles in the case of reorganisations of vehicle's proprietor.
Spain	VAT: 16%. Vehicle registration tax: 7% for cars with engines of less than 1 600 cc for petrol cars and less than 2 000 cc for diesel cars. 12% for others.	Value. Cylinder capacity.	–
Sweden	VAT: 25%. No registration tax.	Value.	–
Switzerland	VAT: 7.6%. Acquisition tax on new vehicles (up to 1 600 kg and all passenger cars up to 3 500 kg): 4% of purchase price. No registration tax (but small fees for number plates and registration papers).	Value. Fuel/electricity power.	Electric vehicles are exempt from acquisition tax.
Turkey	VAT: 18%. VAT for used passenger cars is 1%. Special Consumption Tax (SCT) is payable on first acquisition of vehicles (importation, acquisition by public auction, acquisition from those who carry out motor vehicle trade, inception of use, capitalisation or registration in the name of those who carry out motor vehicle trading). Motor vehicles: proportional duty is applied. For motor vehicles under CN Code 87.02 and designed for transport of passengers, tax rate is 9% for minibuses, 4% for minibuses and 1% for buses. Passenger cars and other motor vehicles: designed for transport of passengers excluding those under CN Code 87.02 and placed under CN Code 87.03 and having a maximum weight of 3.5 tonnes and passenger carrying capacity less than 50% of maximum load capacity. Vehicles with a maximum loading capacity not over 850 kg and having an engine capacity below 2 000 cm^3 are subject to the SCT at a rate of 10% and the ones with a maximum loading capacity over 850 kg and having an engine capacity below 2 800 cm^3 are subject to the SCT at a rate of 10% and SCT rates for others vary from 37% to 84% according to their engine capacity. For motor vehicles designed for transport of goods and placed under CN Code 87.04 and have a maximum loaded weight not over 4 700 kg and have a seat other than the driver's seat or have side windows other than those besides the driver's seat, SCT rate is 10% for the ones with an engine capacity not over 3 000 cm^3, 52% for those with an engine capacity over 3 000 cm^3 but not over 4 000 cm^3 and 75% for those with an engine capacity over 4 000 cm^3. Tax rate for those provided with a covered body and have a maximum loading capacity under 620 kg is 10%. For others 4%. The tax on motor cycles varies from 22% to 37% according to the cylinder capacity.	Value. Cylinder capacity. Weight. CN Code	First acquisition of motor vehicles laid down in: ● CN Code 87.03 (cylinder capacity not exceeding 1 600 cm^3). ● CN Code 87.04 (cylinder capacity not exceeding 2 800 cm^3). ● CN Code 87.11. By disabled or impaired persons is exempted from the tax. Importation of vehicles for disabled persons are exempted from customs duty.

Table 6.1. **Taxes on sale and registration of motor vehicles**[1] *(cont.)*

	Taxes	Criteria	Rebates/exemptions
United Kingdom	VAT: 15.0% (This rate is a temporary reduction for the period 1 December 2008-31 December 2009 inclusive and reverts to 17.5% with effect from 1 January 2010). Vehicle first registration fee. A flat rate fee of GBP 55.0 is payable on the first registration or licensing of a motor vehicle in the United Kingdom.	Value.	The first registration fee is applicable to all vehicles except the following exemptions: ● Those first registered and licensed in the "disabled exempt" taxation class. ● Historic vehicles previously registered with the old local authorities (late conversions). ● Vehicles previously registered in Northern Ireland. ● Imported vehicles previously registered under the personal export scheme and new means of transport scheme. ● Visiting forces vehicles. ● Vehicles registered under the direct export scheme. ● Vehicles registered for off road use. ● Crown exempt vehicles. ● Diplomatic and consular vehicles.
United States	Gas guzzler excise: levied on the sale of autos whose fuel efficiency is less than 22.5 miles per gallon. The tax varies from USD 1 000 to USD 7 700 depending on the fuel efficiency. A tax is imposed on the first sale of heavy trucks in an amount equal to 12% of the sales price. A tax is imposed on the sale of tyres for highway vehicles. A tax is imposed on taxable tyres sold by the manufacturer, producer, or importer at the rate of 9.45 cents (4.725 cents in the case of a biasply tyre or super single tyre) for each 10 pounds of the maximum rated load capacity over 3 500 pounds. State and local governments impose a one-time sales tax and/or title fee.	Value. Fuel efficiency. Weight	–

1. Excluding customs duties; specific regimes for second-hand cars (*e.g.* margin scheme, old timers) and insurance premium tax.
Source: National delegates; position as at 1 January 2009.

Table 6.2. **Taxes on use of motor vehicles**[1]

	Taxes	Criteria	Rebates/exemptions
Australia	The states and Territories levy fees for annual registration. Third party compulsory insurance and drivers' licenses. Fees for commercial vehicles are generally higher than the fees for private vehicles. In most states, fees for trucks vary depending on the type of vehicle and the gross vehicle mass.	Commercial/private use. Gross vehicle mass.	–
Austria	Motor vehicle tax based on the engine power of motor vehicles up to a total weight of 3.5 tonnes and on the total weight of motor vehicles above 3.5 tonnes. Road transport duty levied on lorries and trailers of a total weight of more than 12 tonnes (EUR 6 per day, or EUR 34 per week, or EUR 128 per month, or EUR 1 285 *per annum*).	Engine power. Weight.	–
Belgium	Annual road tax: progressive rates apply from EUR 63.60 up to EUR 1 627.92 depending fiscal horsepower (CV). For vehicles above 20 CV (more than 4 litre cylinder capacity) an additional amount of EUR 88.80 by CV is levied. Compensation tax for vehicles fuelled with LPG or by other liquefied gaseous hydrocarbons is levied from EUR 89.16 up to EUR 208.20 according to CV with progressive scales. The "Eurovignette" is levied on vehicles or vehicle combinations used for the carriage of goods by road and having a maximum permissible load weight of not less than 12 tonnes. Rates depend on the number of axles, euro class. It can be paid on a daily, weekly, monthly or annual basis. It ranges from EUR 8 per day to EUR 1 550 per year.	Engine power. Cylinder capacity. Fuel used. Number of axles for lorries.	Exemption for: cars used by public authorities; vehicles for disabled people and war invalids; agricultural vehicles; rescue vehicles; trial moving vehicles; ships and little boats; taxi services; mopeds and motorcycles with a cylinder capacity of maximum 250 cc. Rebates for: the salaried transport of persons; vehicles used for road haulage in the ports. Concerning the Eurovignette the exemptions are regulated by the European Directive 99/62.
Canada	All provinces impose annual fees for the use of motor vehicles. In general. The fees depend on the type of vehicles and in most cases on the weight of the vehicle.	Type. Weight.	–
Chile	Annual vehicle registration fee depending on the commercial value of the vehicle. This fee is payable although the vehicle is not in use.	Commercial/private use. Age. Gross weight of trucks.	–
Czech Republic	The road tax is imposed on all road motor vehicles and their trailers registered and operated in the Czech Republic and used for a business activity. Also subject to the tax are all vehicles with the maximum permitted weight of at least 12 tonnes, designated exclusively for transport of cargo and registered in the Czech Republic, irrespective whether such vehicles are or are not used for business activities. The annual tax rate for passenger cars is from CZK 1 200 to CZK 4 200 and for other vehicles from CZK 1 800 to CZK 50 400.	Cylinder capacity. Total permitted load on axles and number of axles. Total weight. Polluting emissions.	Tax exemptions: motorcycles; vehicles used by diplomatic missions and consular offices; armed forces; civil defence; mobilisation reserve or emergency supply; police; fire protection; ambulances; mining and mountain rescue; gas emergency service and power engineering emergency service. Special road sweeping vehicles; special single-purpose vehicles (*e.g.* vehicles used in road marking) and vehicles belonging to road authorities or to persons authorised by road authorities exclusively used to maintain land communications, except for passenger cars. Electricity powered vehicles. Tax reduction (25% to 100%) for vehicle used in multimodal transport. Reduced tax rates for vehicles below EUR 2 polluting emissions limits (tax rate reduced by 40% or 48%).
Denmark	Passenger cars annual tax: the tax is based on fuel consumption, with different rates for petrol/diesel. Rates range from DKK 520 (> 20 km per litre) up to DKK 18 460 (< 4.5 km per litre). Lorries' annual tax: the charge for private use is DKK 900 annually for cars with total permissible weight (tpw) up to 2 000 kg and DKK 5 040 annually for cars with tpw between 2 000 and 4 000 kg. For cars used for both private and commercial purposes the rates are 50%. Cars used exclusively for commercial purposes are free of charge.	Fuel efficiency. Weight (for lorries).	–

Table 6.2. **Taxes on use of motor vehicles**[1] *(cont.)*

	Taxes	Criteria	Rebates/exemptions
Finland	Annual tax for passenger cars and delivery vans EUR 0.35 per day. Additional tax for diesel vehicles: passenger cars 6.7 cents per every 100 kg of maximum allowed weight of the vehicle per day; delivery vans: 0.9 cents per every 100 kg of maximum allowed weight of the vehicle and for lorries 0.9-3.1 cents per every 100 kg of maximum allowed weight of the vehicle depending the number of axles and use of trailers.	Weight. Type of fuel. Number of axles (trucks). Use of trailer.	–
France	Tax on business passenger cars: Up to 7 HP: EUR 1 130; more than 7 HP: EUR 2 440.	Engine power. Fuel/electricity power.	Exemptions: ● Cars more than 10 years old. ● Cars used for public passenger transport, cars used for leasing or sale. ● Electrically or gas propelled cars (for mixed oil and gas propelled vehicles exemption is reduced by half). Vehicles that can use both petrol and GPL are exempt at rate of 50%.
Germany	Motor vehicle tax on passenger cars based on cylinder capacity, pollutant emission and type of engine. Annual tax rate for each 100 cc cylinder capacity commenced: EUR 6.75 for low-pollutant petrol-engine cars to EUR 25.36 for high-pollutant petrol-engine cars. Tax rates for diesel-engine cars are EUR 8.69 or EUR 12.22 higher in each case. Tax on motorcycles EUR 1.84 per 25 cc cylinder capacity. Tax on commercial vehicles based on maximum permissible weight, pollutant emission and decibel. Maximum annual tax charges: EUR 664 for low-pollutant category (reached at over 13 tonnes) to EUR 1 789 for high-pollutant category (both reached at over 15 tonnes).	Polluting emissions. Decibel. Cylinder capacity. Type of engine. Weight (commercial vehicles).	–
Greece	Annual road tax on private passenger cars and motorcycles: based on cylinder capacity from EUR 18 to EUR 580. Annual road tax on trucks based on gross weight and on buses on the number of seats.	Cylinder capacity. Weight (trucks). Number of seats (buses). Fuel/electricity power.	The main exemptions are: ● Cars used by public authorities, municipalities, ambulances, etc. ● Cars used by disabled persons and members of foreign diplomatic services. ● Electrically propelled cars. ● Motorcycles with 300 cc cylinder capacity used in order to replace old technology ones (replacement should take place up to 31.12.2009). ● For motorcycles with cylinder capacity over 300 cc used in order to replace old technology motorcycles exemption applies for 5 years only following the date of first registration of the new motorcycle (replacement should take place up to 31.12.2009).
Hungary	Motor vehicle tax levied according to capacity of engine (in kW) of passenger cars and motorcycles. For lorries the tax is based on net weight plus 50% of cargo weight. The tax rate for passenger cars and motorcycles is from HUF 120/kW to HUF 300/kW depending on the age of the vehicle (the older the vehicle, the less is due). For lorries the tax rate is HUF 1 200/100 kg of the tax base. The exact amount is determined by the local government.	Engine capacity. Weight (for lorries).	Cars owned by public authorities, churches, foundations, etc., passenger cars owned or used by handicapped persons, lorries classified above EUR 3.

Table 6.2. **Taxes on use of motor vehicles**[1] *(cont.)*

	Taxes	Criteria	Rebates/exemptions
Iceland	A disposal charge of ISK 350 is levied on each vehicle for each six-month period. This charge is payable for fifteen years from the date of the first registration of the vehicle in Iceland, except when the vehicle is already 25 years old at the beginning of the payment year. The charge is an environmental tax that is intended to finance the disposal of the vehicle at the end of its useful life. Once the vehicle is delivered for scrap, a ISK 15.000 refund will be paid to the owner. Motor vehicles fuelled with diesel in excess of 10 tonnes are subject to a special weight/distance tax, calculated on the basis of the weight of the vehicle and the number of kilometres driven. Owners of diesel vehicles that weigh less than 10 tonnes do not pay a weight/distance tax.	Weight. Distance.	–
Ireland	Road tax on private cars based on cylinder capacity: from EUR 151 up to EUR 1 343. Tax on commercial vehicles based on net weight: from EUR 253 (< 3 000 kg) up to EUR 3 948 (> 20 000 kg).	Cylinder capacity. Weight (commercial vehicles). Fuel/electricity power.	Electrically propelled vehicles: EUR 146 flat rate – private and EUR 80 flat rate – commercial not over 1 500 kg.
Israel	Annual licensing fees: Private and commercial vehicles weighing up to 3 500 kg total:the vehicles are sorted into seven groups (generally the price). The annual licensing fees are reliant upon the year of vehicle production, and the group the vehicle belongs to The annual licensing fees range between ILS 669 to ILS 4 248. Commercial vehicles above 3 500 kg, motorised by diesel, have a different tariff.	Price. Age. Category.	Vehicles for disabled person, diplomats, United Nations Organisations, specific charity institutions.
Italy	Yearly ownership tax: From EUR 2.58 per kW to EUR 4.95 per kW according to engine cylinder capacity and environmental category of engine. Regions are entitled to vary the national rate.	Engine power. Environmental category.	Exemption for historical vehicles over 30 years old; vehicles over 20 years old are exempt only if recognised as being of special historical or collectors' interest; flat rate road tax on vehicles over 30 or 20 years old if still running on public roads. 100% exemption for disabled persons.
Japan	National motor vehicle tonnage tax (N.B.: * Commercial vehicles): levied according to weight, the rates are for passenger vehicles JPY 6 300 per 0.5 tonne (JPY 2 800*); for lorries from JPY 4 400 per tonne up to JPY 6 300 per tonne (JPY 2 800*). Automobile tax: levied according to cylinder capacity from JPY 29.500 up to JPY 111 000 (JPY 7 500 to JPY 40 700)*. Lorries: (4-5 tonnes capacity): JPY 25 500 (JPY 18 500*). Buses (40-50 passengers capacity): JPY 49 000 (JPY 17 500*). Light vehicle tax (local) levied on motorcycles and light vehicles according to cylinder.	Cylinder capacity. Weight (commercial vehicles).	–
Korea	Automobile tax: rates are applicable according to cylinder capacity from KRW 80 per cc up to KRW 220 per cc for non-commercial vehicles; and from KRW 18 per cc to KRW 24 per cc for commercial vehicles.	Cylinder capacity.	–
Luxembourg	Automobile tax: different rate is applicable according to the type and usage of the vehicle. Registered before 01.01.2001 tax is based on cm^3. Registered since 01.01.2001 tax is based on CO_2 emissions.	Vehicle type. Usage. CO_2 emissions.	–

Table 6.2. **Taxes on use of motor vehicles**[1] *(cont.)*

	Taxes	Criteria	Rebates/exemptions
Mexico	Cars: tax on ownership or use of motor vehicles is levied on the value of motor vehicles up to 10 years old. The payments decrease with the years of use. Progressive tax tariff: 3.0% (value < MXN 428 768) up to 19.1% (value > MXN 1 393 020). Cars for more than 15 passengers and trucks with a maximum weight of 15 tonnes. Tax rate: 0.245%. Trucks that weigh more than 15 tonnes. Tax rate: 0.50%. Motorcycles: tax on ownership or use of motorcycles is levied on the value of motorcycles up to 10 years old. The payments decrease with the years of use. Progressive tax tariff: 3.0% (value < MXN 97 826) up to 16.8% (value > MXN 253 043).	Value. Type of vehicle. Number of passengers. Fuel/electricity power.	Electric vehicles used for public passenger transport.
Netherlands	Motor vehicle tax levied according to type, weight and (for private cars only) fuel used. Tax on heavy vehicles (also know as the Eurovignette) is levied on vehicles (lorries) with a gross weight of 12 tonnes or more for the use of motor ways in the Netherlands.	Vehicle type. Fuel used. Weight (for lorries).	–
New Zealand	Annual registration fees: rates vary depending on the type of vehicle. Most classes of vehicle including all motor cars and heavy vehicles pay a fee of NZD 206.82.	Vehicle type.	–
Norway	Annual fee: NOK 3185 for diesel cars without factory-fitted particle filter and NOK 2 740 for other cars; NOK 1 675 for motorbikes and NOK 1 025 for caravans.	Vehicle type. Fuel/electricity power.	Electric vehicles are exempt.
Poland	Annual motor vehicles tax levied at municipal level on heavy goods vehicles of maximum permissible gross laden weight over 3.5 tonnes, road and ballast tractors, trailers and semi-trailers and busses.	Weight. Type of vehicle. Number of passengers for busses.	Vehicles under possession of diplomatic representations, consular offices and other foreign missions. Transport vehicles constituting mobilisation supply. Special vehicles and vehicles used for special purposes. Historic vehicles.
Portugal	Annual state and municipal tax due by the ownership of the vehicle, it was reformed on 1st of July of 2007 for passengers vehicles and mixed use cars with gross weight not exceeding 2500 Kg, if registered after the reform, tax rate is based on motor capacity and CO_2 emissions and for vehicles registered since 1981 up to the reform rates vary depending on motor capacity or voltage, date of registration and fuel type. Vehicle excise duty on lorries above 2.5 tonnes used in public and private transport of merchandise.	Motor capacity. CO_2 emissions. Weight. Number of axels. Vehicle type and fuel.	Vehicles owned by the state (central, regional or local administration), fire brigades, foreign states, diplomatic and consular missions, international organisations, specialised European agencies and disabled persons. Are also exempt ambulances, passengers vehicles destined to rental or taxi services, tractors, funerary vehicles, non-motorised vehicles that are purely electric or moved by renewable energies.
Slovak Republic	Motor vehicle tax: a kind of local tax (levied by higher territorial units) is imposed only on vehicles used for business purposes. Rates vary depending on type, weight, cylinder capacity and number of axles (for utility vehicles and buses) of the vehicle. Rates differ between higher territorial units.	Usage. Vehicle type. Weight cylinder capacity. Number of axles. Polluting emissions.	1. The vehicles exempt from the motor vehicle tax are the following: *a)* vehicles the documents of which name as the vehicle holder the higher territorial unit to the budget of which the motor vehicle tax is transferred; *b)* vehicles of diplomatic missions and consular corps, provided that reciprocity is guaranteed. 2. By a generally binding regulation based on the local conditions, a higher territorial unit may reduce tax on a vehicle used: *a)* as a vehicle of ambulance, mining rescue service, mountain rescue service, air rescue service and fire brigade service; *b)* as a vehicle of a regular bus service to the extent the service is provided in public interest; *c)* as a vehicle used solely in agricultural production and forestry; *d)* for business purposes, if the vehicle meets the polluting emissions limits of EUR 3, EUR 4 and EUR 5.

Table 6.2. **Taxes on use of motor vehicles**[1] *(cont.)*

	Taxes	Criteria	Rebates/exemptions
Slovenia	Circulation tax: an annual fee is imposed on vehicles registered in Slovenia. The rates are set according to different categories of vehicles, and the outstanding amount is calculated in proportion to the duration of the registration period.	Engine capacity. Weight. Fuel/electricity power.	Tax exemptions: electric vehicles, tractors and tractor trailers, motorcycles, three-wheeled cycles with engine capacity up to 50 cc and light four-wheeled cycles, light trailers with maximum permissible weight up to 750 kg, fire-fighting vehicles, ambulances, motor vehicles registered to the Slovenian Army, Civil Protection, Mountain Rescue Service, Ecological Laboratory with mobile unit, motor vehicles and trailers registered for diplomatic and consular missions, vehicles owned by certain international organisations, and vehicles used for the transport of disabled persons.
Spain	Motor vehicle tax (levied by municipalities) based on engine power for passenger cars, passenger capacity for buses, loading capacity for trucks and cylinder volume for motorcycles.	Vehicle type. Engine power. Cylinder capacity.	–
Sweden	Vehicle excise duty levied on weight, carbon dioxide emissions, number of axles, vehicle type and fuel.	Weight. CO_2 emissions. Number of axles. Vehicle type. Type of fuel.	–
Switzerland	The annual motor vehicle tax is levied on cantonal (provincial) level. The tax depends on the weight or engine volume of the vehicle. At the federal level, a motorway tax of CHF 40 per year is levied on all vehicles below 3.5 tonnes. For vehicles weighing more than 3.5 tonnes that are used for transportation of persons, the tax ranges from CHF 650 up to CHF 4 000 (depending on the weight). For vehicles weighing more than 3.5 tonnes that are used for the transport of goods (lorries, tractors and their trailers), a heavy vehicle fee (HVF) is levied on the basis of the kilometres driven, the weight as well as the emission values of the towing vehicle.	Weight. Engine volume. Kilometres driven. Emission values. Fuel/electricity power.	A reduced rate of the motor vehicle tax usually applies to electric and agricultural vehicles.
Turkey	Motor vehicle tax levied on all motor vehicles: based on weight, type and cylinder capacity. Paid twice annually by registered owner.	Weight. Vehicle type. Cylinder capacity.	–
United Kingdom	VED on lorries is set according to the number of axles, weight and type of vehicle. For private cars there is a two-tier threshold: vehicles not over 1 549 cc pay an annual rate of duty of GBP 120, and those over, pay GBP 185. Cars that are presented for registration in the UK, on the basis of a type approval certificate specifying a carbon dioxide (CO_2) emission figure, attract a rate of VED according to the amount of CO_2 emitted and the type of fuel used. These cars fall within a seven-banded graduated VED system. The bands are labelled A-G, with band A containing the least polluting vehicles and band G comprising of vehicles that have high CO_2 emissions. Full details can be found at *www.direct.gov.uk/Motoring*.	Vehicle type. CO_2 emissions. Type of fuel. Fuel/electricity power.	Vehicles for disabled people, historic vehicles constructed before 1.1.1973, limited use vehicles, agricultural machines, mowing machines, steam powered vehicles, electrically propelled vehicles, electrically assisted pedal cycles.
United States	A tax is imposed on the use of trucks weighing at least 55 000 pounds. For those trucks weighing no more than 75 000 pounds, the tax is USD 100 per year plus USD 22 for each 1 000 pounds in excess of 55 000 pounds. For those trucks weighing more than 75 000 pounds the tax is USD 550. State and local governments may impose a periodic registration, operators' license, parking and inspection fees as well as property taxes.	Weight (for trucks)	–

1. Excluding insurance premium tax.

Source: National delegates; position as at 1 January 2009.

Table 6.3. **Taxes[1] on sale and registration of selected new vehicles**

	Category A[3]	Category B[3]	Category C[3]	Category D[3]
Australia (Canberra)				
Selling price	13 000	25 000	27 000	97 000
GST 10%	1 300	2 500	2 700	9 700
Luxury tax	–	–	–	20 002
Stamp duty	429	825	891	5 705
Registration fee	219	240	322	322
Price (all taxes included)	**14 948**	**28 565**	**30 913**	**132 729**
Austria (Vienna)				
Selling price	13 000	25 000	27 000	97 000
VAT 20%	2 600	5 000	5 400	19 400
New car registration tax	780	2 000	3 780	13 580
Price (all taxes included)	**16 380**	**32 000**	**36 380**	**129 980**
Belgium (Brussels)				
Selling price	13 000	25 000	27 000	97 000
VAT 21%	2 730	5 250	5 670	20 370
Registration tax	62	495	1 239	4 957
Price (all taxes included)	**15 792**	**31 045**	**33 909**	**122 327**
Canada (Ottawa)				
Selling price	13 000	25 000	27 000	97 000
GST 5%	650	1 250	1 350	4 850
Provincial tax 8%	1 040	1 750	2 160	7 760
Air conditioning tax	85	85	85	85
Tax on heavy cars			850	2 550
Price (all taxes included)	**14 775**	**28 085**	**31 445**	**112 245**
Chile (Santiago)				
Selling price	13 000	25 000	27 000	97 000
VAT 19%	2 470	4 750	5 130	18 430
Registration fee (USD 30 490; exchange rate used: CLP 480 per USD 1)	64	64	64	64
Plate's fee	38	38	38	38
Mandatory insurance fee (depending on the type of vehicle)	20	20	30	20
Annual vehicle registration fee (depending on the commercial vehicle)	200	680	730	3 550
Price (all taxes included)	**15 792**	**30 552**	**32 992**	**119 102**
Czech Republic (Prague)				
Selling price	13 000	25 000	27 000	97 000
VAT 19%	2 470	4 750	5 130	18 430
Registration fee	800	800	800	800
Price (all taxes included)	**16 270**	**30 550**	**32 930**	**116 230**
Denmark (Copenhagen)				
Selling price	13 000	25 000	27 000	97 000
VAT 25%	3 250	6 250	6 750	24 250
Deduction in value liable to registration duty for mayor safety equipment	–1 639	–1 639	–1 639	–1 639
Value liable to registration	(14 205)	(29 205)	(31 705)	(119 205)
Registration tax 105% on USD 11 633 (DKK 65 900)	12 215	12 215	12 215	12 215
Additional registration tax (180% on the remainder above USD 11 633)	4 629	31 629	36 129	193 629
Deduction for minor safety equipment	150	150	150	150
Price (all taxes included)	**31 605**	**73 605**	**80 605**	**325 605**
Finland (Helsinki)				
Selling price	13 000	25 000	27 000	97 000
VAT 22%	2 860	5 500	5 940	21 340
Car tax	4 147	10 288	14 264	42 540
Price (all taxes included)	**20 007**	**40 788**	**47 204**	**175 295**

Table 6.3. **Taxes[1] on sale and registration of selected new vehicles** *(cont.)*

	Category A[3]	Category B[3]	Category C[3]	Category D[3]
France (Paris)				
Selling price	13 000	25 000	27 000	97 000
VAT 19.6%	2 548	4 900	5 292	19 012
Tax on registration certificates	200	280	400	760
Additional special tax on registration certificates	–	–	438	1 040
Price (all taxes included)	**15 748**	**30 180**	**33 130**	**117 812**
Germany (Berlin)				
Selling price	13 000	25 000	27 000	97 000
VAT 19%	2 470	4 750	5 130	18 430
Price (all taxes included)	**15 470**	**29 750**	**32 130**	**115 430**
Greece (Athens)				
Selling price	13 000	25 000	27 000	97 000
VAT 19%	2 470	4 750	5 130	18 430
Registration tax	1 560	7 500	13 500	48 500
Price (all taxes included)	**17 030**	**37 250**	**45 630**	**163 930**
Hungary (Budapest)				
Selling price	13 000	25 000	27 000	97 000
VAT 20%	2 600	5 000	5 400	19 400
Registration tax	1 921	3 954	5 428	17 067
Price (all taxes included)	**17 521**	**33 954**	**37 828**	**133 467**
Iceland (Rejkavik)				
Selling price	13 000	25 000	27 000	97 000
VAT 24.5%	3 185	6 125	6 615	23 765
Registration tax	3 900	7 500	12 150	23 765
Price (all taxes included)	**20 085**	**38 625**	**45 765**	**164 415**
Ireland (Dublin)				
Selling price	13 000	25 000	27 000	97 000
VAT 21%	2 730	5 250	5 670	20 370
Vehicle registration tax	4 567	10 083	14 001	50 301
Price (all taxes included)	**20 297**	**40 333**	**46 671**	**167 671**
Israel[4] (Jerusalem)				
Selling price	13 000	25 000	27 000	97 000
Gross sales tax 83%	10 790	20 750	22 410	80 510
Credit for safety equipment	–110	–220		–220
Credit for cleaner cars	–1 550			–570
VAT 16% (on price including net sales tax)	3 541	7 285	7 906	28 275
Price (all taxes included)	**25 671**	**52 815**	**57 316**	**204 995**
Italy (Rome)				
Selling price	13 000	25 000	27 000	97 000
VAT 20%	2 600	5 000	5 400	19 400
Registration tax	206	442	576	960
Price (all taxes included)	**15 806**	**30 442**	**32 976**	**117 360**
Japan (Tokyo)				
Selling price	13 000	25 000	27 000	97 000
VAT 5%	650	1 250	1 350	4 850
Automobile acquisition tax (5%)	650	1 250	1 350	4 850
Price (all taxes included)	**14 300**	**27 500**	**29 700**	**106 700**
Korea (Seoul)				
Selling price	13 000	25 000	27 000	97 000
VAT 10%	1 300	2 500	2 700	9 700
Special excise tax	650	1 250	2 700	9 700
Education tax	217	417	900	3 233
Acquisition tax	277	533	612	2 199
Registration tax	693	1 333	1 530	5 498
Price (all taxes included)	**16 137**	**31 033**	**35 442**	**127 330**

Table 6.3. **Taxes[1] on sale and registration of selected new vehicles** *(cont.)*

	Category A[3]	Category B[3]	Category C[3]	Category D[3]
Luxembourg (Luxembourg)				
Selling price	13 000	25 000	27 000	97 000
VAT 15%	1 950	3 750	4 050	14 550
Price (all taxes included)	**14 950**	**28 750**	**31 050**	**111 550**
Mexico (Mexico)				
Selling price	13 000	25 000	27 000	97 000
VAT 15%	1 950	3 750	4 050	14 550
New vehicles tax	–	1 293	1 593	9 658
Price (all taxes included)	**14 950**	**30 043**	**32 643**	**121 208**
Netherlands (The Hague)				
Selling price	13 000	25 000	27 000	97 000
VAT 19%	2 470	4 750	5 130	18 430
Registration tax	4 156	9 580	11 900	42 274
Price (all taxes included)	**19 626**	**39 330**	**44 030**	**157 704**
New Zealand (Wellington)				
Selling price	13 000	25 000	27 000	97 000
VAT 12.5%	1 625	3 125	3 375	12 125
Registration fee	–	213	277	233
Price (all taxes included)	**14 625**	**28 338**	**30 652**	**109 358**
Norway (Oslo)				
Selling price	13 000	25 000	27 000	97 000
VAT 25%	3 250	6 250	6 750	24 250
Weight tax	5 507	8 158	13 206	35 416
KW tax	819	3 444	8 543	36 918
CO_2 emissions tax	1 503	4 310	12 823	16 646
Price (all taxes included)	**24 080**	**47 1663**	**68 322**	**210 230**
Poland (Warsaw)				
Selling price	13 000	25 000	27 000	97 000
VAT 22%	2 949	5 671	6 748	24 243
Excise tax	403	775	5 022	18 042
Price (all taxes included)	**16 352**	**31 446**	**38 770**	**139 285**
Portugal (Lisbon)				
Selling price	13 000	25 000	27 000	97 000
VAT 20%	2 955	6 434	6 592	24 674
Car tax	1 776	7 172	5 960	26 371
Vehicle registration fee	92	92	92	92
plates fee	46	46	46	46
Price (all taxes included)	**17 870**	**38 744**	**39 690**	**148 184**
Slovak Republic (Bratislava)				
Selling price	13 000	25 000	27 000	97 000
VAT 19%	2 470	4 750	5 130	18 430
Plates fee	88	88	88	88
Price (all taxes included)	**15 558**	**29 838**	**32 218**	**115 518**
Slovenia (Ljubljana)				
Selling price	13 000	25 000	27 000	97 000
VAT 20%	2 600	5 000	5 400	19 400
Motor vehicle tax	455	2 250	2 430	12 610
Price (all taxes included)	**16 055**	**32 250**	**34 830**	**129 010**

Table 6.3. **Taxes[1] on sale and registration of selected new vehicles** *(cont.)*

	Category A[3]	Category B[3]	Category C[3]	Category D[3]
Spain (Madrid)				
Selling price	13 000	25 000	27 000	97 000
VAT 16%	2 080	4 000	4 320	15 520
Registration tax (cylinder capacity)	910	3 000	3 240	11 640
Price (all taxes included)	**15 990**	**32 000**	**34 560**	**124 160**
Sweden (Stokholm)				
Selling price	13 000	25 000	27 000	97 000
VAT 25%	3 250	6 250	6 750	24 250
Price (all taxes included)	**16 250**	**31 250**	**33 750**	**121 250**
Switzerland (Bern)				
Selling price	13 000	25 000	27 000	97 000
VAT 7.6%	988	1 900	2 052	7 372
Acquisition tax 4%	520	1 000	1 080	3 880
Price (all taxes included)	**14 508**	**27 900**	**30 132**	**108 252**
Turkey (Ankara)				
Selling price	13 000	25 000	27 000	97 000
VAT 18%	2 340	4 500	4 860	17 460
Special consumption tax	4 810	15 000	1 080	81 480
Price (all taxes included)	**20 150**	**44 500**	**32 940**	**195 940**
United Kingdom (London)				
Selling price	13 000	25 000	27 000	97 000
VAT 15%[2]	1 950	3 750	4 050	14 550
Vehicle duty	174	210	305	580
Registration fee	80	80	80	80
Price (all taxes included)	**15 204**	**29 040**	**31 435**	**112 210**
United States (Washington DC)				
Selling price	13 000	25 000	27 000	97 000
Sales tax (6% to 8% depending upon weight)	780	1 500	1 890	7 760
Registration fee	72	72	115	155
Title fee	26	26	26	26
Inspection fee	10	10	10	10
Vehicle tags	100	100	100	100
Price (all taxes included)	**13 988**	**26 708**	**29 141**	**105 051**

1. This table partially reflects Table 5.1 and includes all taxes, fees and duties that must be paid to allow the vehicle for circulation on public roads.
   Technical limitations: The purpose of this table is to allow for a broad practical comparison of the level of taxation across member countries for four typical vehicles: small car, touring car, four wheel drive and luxury car. It is not intended to reflect all specificities that may occur in the calculation of the taxes (*e.g.* specific tax base calculation rules such as possible inclusion of registration taxes in the VAT/GST base). It does not reflect the price (without tax) differences that may occur between countries because of local market constraints. In addition, relatively low registration taxes or an absence of such taxes do not necessarily reflect a general low taxation of vehicles as a whole. In some countries, low registration taxes can be compensated by higher annual taxes. For simplification purposes, all vehicles are supposed to have air conditioning and are used for private purposes. When local taxes, fees or duties apply, the table shows data for the capital of the country.
   Exchange rates: The amounts of taxes presented in this table result from a conversion into USD.
2. The VAT rate for the United Kingdom is a temporary reduction for the period 1 December 2008-31 December 2009 inclusive and reverts to 17.5% with effect from 1 January 2010.
3. The categories are as follows: Category A: car with 1 200 cc; 45 kW; gasoline, 1 100 kg; 140 g CO_2/km; selling price (free of tax): USD 13 000 (any vehicle technically comparable with: *e.g.* Renault Clio). Category B: car with 1 800 cc/92 kW; gasoline, 1 370 kg; 177 g CO_2/km; selling price (free of tax): USD 25 000 (any vehicle technically comparable with: *e.g.* Ford Mondeo). Category C: four wheel drive 2 494 cc/120 kW; diesel; 1 600 kg; 219 g CO_2/km; selling price (free of tax): USD 27 000 (any vehicle technically comparable with: *e.g.* Toyota Hilux double cabin). Category D: Luxury car 3 490 cc/200 kW; gasoline, 2 475 kg; 237 g CO_2/km Selling price (free of tax): USD 97 000 (any vehicle technically comparable with: *e.g.* Mercedes Classe S350 Limousine). For the purpose of this table, the words "technically comparable" mean comparable in terms of cylinder capacity, weight, engine power, polluting emissions, etc.
4. The statistical data for Israel are supplied by and under the responsibility of the relevant Israeli authorities. The use of such data by the OECD is without prejudice to the status of the Golan Heights, East Jerusalem and Israeli settlements in the West Bank under the terms of international law.

Source: National delegations; situation as at 1 January 2009.

Car taxation and polluting emissions

More than half (22 of 33) of OECD member countries apply rate differentiation for one-off registration taxes and/or annual/recurrent taxes according to environmental criteria (see Tables 6.1 and 6.2). Amongst them, thirteen rely directly on polluting or CO_2 emissions to assess the tax rate or provide specific rebates (the Czech Republic, Finland, France, Germany, Greece, Israel, Luxembourg, the Netherlands, Norway, Portugal, Slovak Republic, Sweden and the United Kingdom). Eleven countries provide rebates or exemptions for electrically propelled vehicles (France, Greece, Hungary, Ireland, Israel, Mexico, the Netherlands, Norway, Slovenia, Switzerland and the United Kingdom). Others rely on fuel efficiency or type of fuel to adjust tax levels.

Differentiating motor vehicle purchase taxes according to the fuel-efficiency or the CO_2 emissions can give potential vehicle purchasers an immediate incentive to buy a vehicle that causes relatively few CO_2 emissions. Differentiation in recurrent (annual) taxes on motor vehicle use may also provide such an incentive, but somewhat less directly. Very high registration taxes are also likely to limit the number of new motor vehicles on the road. However, while this would at first appear to favour environmental policy, these higher taxes mean that there is a greater population of older, more polluting, cars. To combat this some countries have introduced short term bonus schemes to scrap old cars and encourage the purchase of new cars. Some countries (*e.g.* France) have recently introduced taxes/bonus schemes encouraging consumers to buy low polluting vehicles.

By making assumptions regarding how far a vehicle is driven over its lifetime, one can also calculate tax rates expressed per tonne CO_2 each vehicle will emit over its lifetime. Comparisons make it clear that the tax rates applied per tonne CO_2 emitted over a vehicle's lifetime vary significantly between countries (for an in-depth study on this topic see OECD, 2009).

Place of taxation

According to the circumstances, motor vehicles may be taxed either in the country of registration or in the country where they are operating. Acquisition and recurring ownership taxes normally apply in the country of registration and taxes on fuels and road user charges apply where the vehicle is operating. A haulier from a country with high registration and/or ownership taxes may be commercially disadvantaged by also having to pay high fuel taxes and tolls for the circulation of its vehicles in countries where ownership charges are low. The question is how to balance these two factors.

Taxes on sale and registration of motor vehicles

Taxes on the acquisition of motor vehicles may include VAT, sales taxes, excise duties and other fees and charges associated with the registration of a vehicle. These taxes may vary considerably from one country to another (see Table 6.1).

Taxes on the acquisition or registration of motor vehicles are based on a wide diversity of criteria or a combination of these criteria. They can be divided into four main categories:

- Criteria based on the price or the power of vehicles: luxury tax, taxes according to engine power or cylinder capacity.

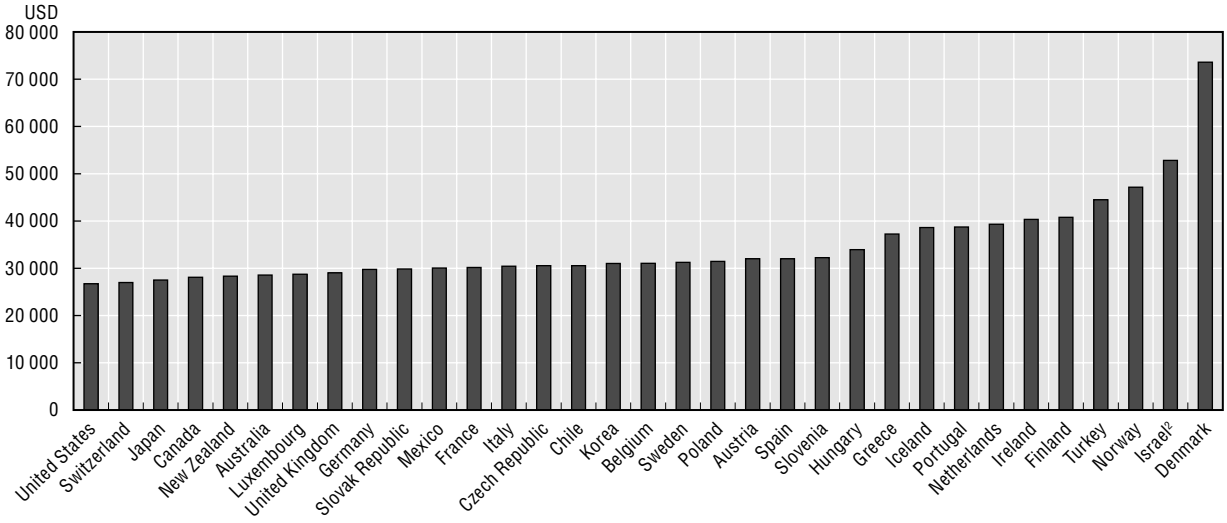
- Criteria based on environmental or other externalities: weight, presence of safety equipment, fuel consumption, polluting emissions, presence of air conditioning and catalyser. This includes rebates and exemptions for vehicles running with Liquefied Gas Petroleum or other low polluting fuels and electrically propelled cars.
- Criteria based on social considerations: specific rates or exemptions for emergency vehicles, ambulances, vehicles for disabled people, vehicles for public transport or use by public services.
- Specific criteria applicable to commercial vehicles (delivery vans, trucks, vehicles designed for commercial use): weight, number of axles, cargo room, number of seats (buses).

Taxation is also adjusted according to the age of the vehicle in several countries.

The burden of these taxes may vary considerably from one country to another (see Table 6.3 and Figure 6.1) and, sometimes between states, provinces, cities or regions in several countries (this is why Table 6.3 displays data for the capital of each country). The taxes and fees (including VAT/GST or sales taxes) on sale and registration of, *e.g.* a standard passenger car (1 800 cc-USD 25 000) may vary widely, from USD 1 708 in Washington DC (less than 7% of the value of the car) to USD 48 605 in Copenhagen (about 200% of the value of the car without tax). In twenty OECD countries such taxes vary between 20% and 40% of the value of the car without taxes* (Austria, Belgium, Chile, the Czech Republic, France, Finland, Greece, Hungary, Iceland, Ireland, Italy, Korea, the Netherlands, Norway, Poland, Portugal,

Figure 6.1. **Taxes on sale and registration of new cars**

Price all taxes inclusive in the capital of the country for a car whom value net of tax is USD 25 000[1]



1. These figures are provided for the purpose of a broad practical comparison of the level of taxation across member countries. It is not intended to reflect all specificities that may occur in the calculation of such taxes.
2. The statistical data for Israel are supplied by and under the responsibility of the relevant Israeli authorities. The use of such data by the OECD is without prejudice to the status of the Golan Heights, East Jerusalem and Israeli settlements in the West Bank under the terms of international law.

StatLink http://dx.doi.org/10.1787/888932369847

* These figures are provided for the purpose of a broad practical comparison of the level of taxation across member countries. It is not intended to reflect all specificities that may occur in the calculation of such taxes.

Slovenia, Spain, Sweden and Turkey). Two countries are above that level (Denmark and Israel) and ten countries are below (Australia, Canada, Japan, Luxembourg, New Zealand, the Slovak Republic, Switzerland, the United Kingdom and the United States).

The standard VAT rate applies to the sale of vehicles in all OECD countries with a VAT.

The taxes on sale and registration of vehicles reflect only a part of the tax burden incurred. Other taxes exist on use of vehicles such as annual motor taxes (see Table 5.2), tolls, highway fees or taxes on vehicle insurance premiums. In some cases, imported cars can also be subject to specific customs duties.

Unlike many other products, the international differences in taxation of sale and registration of motor vehicles do not give rise to cross-border shopping as motor vehicles need to be registered with a unique identification number in the principal country of use. Even in the integrated market of the European Union there has been no harmonisation or even approximation of taxes or tax rates on motor vehicles (except for minimum EU motor vehicles tax rates in respect of heavy lorries and the ending of the increased VAT rate). While a resident of an EU member state may buy a vehicle anywhere in the EU, the vehicle remains liable to be registered in the country of residence of the person acquiring the vehicle and the relevant taxes are, in principle, levied in that country.

Nevertheless, high registration taxes may affect the functioning of the motor vehicle market. Registration tax paid in the country of first registration is not paid back when a car is transferred from one country to another (*e.g.* when the owner moves from one country to another). As registration tax has to be paid (again) in the country of destination where the car is to remain permanently on its territory, double taxation occurs. In addition, the wide differences in tax systems reinforce the car market fragmentation. Pre-tax prices are influenced by tax considerations rather than by market ones. In addition, as tax requirements differ, cars marketed in one country with specifications designed to meet the national tax structure (*e.g.* brackets of fiscal horsepower, tax policy regarding diesel) are imperfect substitutes and may not effectively compete with cars sold in a different country. In some cases, significant tax differentials can even encourage consumers to buy cars in countries where registration taxes are very high (and, where car manufacturers tend to offer lower prices net of taxes by compensation) and import and register them in their own country.This may undermine the benefits that should derive from a competitive market for both consumer and industry. To remove those obstacles to competition within the Internal Market, the European Commission has made a proposal to restructure car taxation systems in the European Union (European Commission, 2005). This proposal includes the abolition or reduction of car registration taxes over a transitional period of 5 to 10 years, compensated by an increase of annual taxes on use of vehicles (see next section below). However, it has yet to be approved by the member states (such approval requires unanimity amongst the 27 member states).

Taxes on use of motor vehicles

Taxes on the use of vehicles include recurring charges levied on the right to drive on public roads, usually in the form of an annual motor tax (see Table 6.2). Taxes on the operation of motor vehicles also include excise duties on fuel and motorway charges or other road user tolls. Table 5.4 gives an overview of the taxation of motor fuel, the most significant tax related to the operation of motor vehicles.

Recurring taxes on the ownership of motor vehicles can take many forms (Table 6.2). The main elements used to assess these kinds of taxes are weight, usage, vehicle type, type of fuel, engine size, polluting emissions and fuel efficiency. Other specific criteria are also used.

According to the European Commission proposal mentioned above, taxes on use of vehicles should include a carbon dioxide element in order to reinforce the impact of taxation on the environment alongside specific fuel taxes. According to the proposal, tax would differentiate on the basis of the number of grams of carbon dioxide emitted per kilometre.

There is a clear trend since the early 1990s towards a restructuring of taxes on motor vehicles (both on sale and registration and on vehicle usage) to reflect growing environmental concerns. However, given the sensitivities of vehicle users to high fuel costs, increasing taxes on fuel can be difficult to implement politically. In addition, although taxes on automobile purchases are progressive (they are strongly linked to income and with a high budget share compared to the remaining part of expenditures), uniform taxes on use of cars, notably fuel, are regressive compared to income, in particular to the least wealthy of car-dependent households living in remote areas (Berri, Vincent Kyk-Jensen, Mulacic and Zachriadis, 2010).

Other reasons can also motivate governments to reform or adapt their car taxation rules such as the regulation of traffic, especially on motorways and urban areas. Such taxes include motorway taxes or vignettes (*e.g.* for trailers) and tolls to enter some cities. In some countries, such as Switzerland, such reforms include taxes based on metering the number of kilometres driven by vehicles.

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ANNEX A

Exchange Rates PPP 2010

Australia	AUD	1.45
Austria	EUR	0.84
Belgium	EUR	0.87
Canada	CAD	1.20
Chile	CLP	377.13
Czech Republic	CZK	13.52
Denmark	DKK	7.96
Finland	EUR	0.91
France	EUR	0.88
Germany	EUR	0.81
Greece	EUR	0.71
Hungary	HUF	128.19
Iceland	ISK	127.78
Ireland	EUR	0.90
Israel	ILS	3.73
Italy	EUR	0.78
Japan	JPY	114.70
Korea	KRW	804.72
Luxembourg	EUR	0.90
Mexico	MXN	7.72
Netherlands	EUR	0.85
New Zealand	NZD	1.50
Norway	NOK	8.85
Poland	PLN	1.86
Portugal	EUR	0.63
Slovak Republic	EUR	0.51
Slovenia	EUR	0.63
Spain	EUR	0.71
Sweden	SEK	8.94
Switzerland	CHF	1.53
Turkey	TRY	0.93
United Kingdom	GBP	0.64
United States	USD	1.00

Note: Purchase Parity Rates (PPP) are the rates of currency conversion that eliminate the differences in price levels between countries. They show the specified number of monetary units needed in each country to buy the same representative basket of consumer goods and services, which costs USD 1 in the United States. The PPPs are given in national currency unit per US dollar. For further detail see *www.oecd.org/std/ppp*.

ANNEX B

Countries with VAT (2010)

		Abbreviation for VAT
1	Albania	TVSH
2	Algeria	TVA
3	Andorra	TVA
4	Angola	VAT
5	Argentina	IVA
6	Antigua and Barbuda	ABST
7	Armenia	*AAH*
8	Australia	GST
9	Austria	USt.
10	Azerbaijan	НДС *NDS*
11	Bangladesh	VAT
12	Barbados	VAT
13	Belarus	НДС *NDS*
14	Belgium	BTW/TVA/MWSt
15	Belize	GST
16	Benin	TVA
17	Bolivia	IVA
18	Bosnia and Herzegovina	PDV
19	Botswana	VAT
20	Brazil	ICMS
21	Bulgaria	ДДС
22	Burkina Faso	TVA
23	Burundi	TVA
24	Cambodia	(VAT)[3]
25	Cameroon	TVA/VAT
26	Canada	GST
27	Cap Verde	IVA
28	Central African Republic	TVA
29	Chad	TVA
30	Chile	IVA
31	China, People's Republic of	(VAT)[3]
32	Colombia	IVA
33	Congo, Republic of	TVA
34	cook islands	VAT
35	Costa Rica	IGV
36	Côte d'Ivoire	TVA
37	Croatia	PDV
38	Cyprus[1]	ΦΠΑ
39	Czech Republic	DPH
40	Denmark	Moms
41	Dominica (Commonwealh of)	VAT
42	Dominican Republic	ITBIS
43	Ecuador	IVA
44	Egypt	*GST*

		Abbreviation for VAT
45	El Salvador	IVA
46	Equatorial Guinea	IVA
47	Estonia	km
48	Ethiopia	(VAT)[3]
49	Fiji	VAT
50	Finland	ALV
51	France	TVA
52	Gabon	TVA
53	Georgia	*DGhG*
54	Germany	MwSt./USt.
55	Ghana	VAT
56	Greece	ΦΠΑ
57	Grenada	VAT
58	Guatemala	IVA
59	Guinea	TVA
60	Guyana	VAT
61	Haiti	TVA
62	Honduras	IVA
63	Hungary	ÁFA
64	Iceland	VSK
65	India	VAT
66	Indonesia	PPN
67	Ireland	CBL VAT
68	Israel[2]	Ma'am
69	Italy	IVA
70	Jamaica	VAT
71	Japan	CT
72	Jersey	GST
73	Jordan	*GST*
74	Kazakhstan	Қсқ
75	Kenya	VAT
76	Korea (South)	VAT
77	Kyrgyz Republic	(VAT)[3]
78	Kosovo	TVSH
79	Latvia	PVN
80	Lebanon	TVA
81	Lesotho	VAT
82	Lithuania	PVM
83	Luxembourg	TVA
84	Macedonia (Former Yougoslav Republic of)	ДДВ
85	Madagascar	TVA
86	Malawi	VAT
87	Malaysia	(VAT)
88	Mali	TVA
89	Malta	VAT
90	Mauritania	TVA
91	Mauritius	TVA
92	Mexico	IVA
93	Moldova	(VAT)[3]
94	Mongolia	(VAT)[3]
95	Montenegro	PDV
96	Morocco	TVA
97	Mozambique	IVA
98	Namibia	VAT
99	Nepal	(VAT)[3]
100	Netherlands	BTW
101	Netherlands Antilles	BTW
102	New Zealand	GST
103	Nicaragua	IVA
104	Niger	TVA
105	Nigeria	VAT

		Abbreviation for VAT
106	Norway	MVA
107	Panama	ITBMS
108	Papua New Guinea	VAT
109	Paraguay	IVA
110	Peru	IGV
111	Philippines	RVAT
112	Poland	PTU/VAT
113	Portugal	IVA
114	Romania	TVA
115	Russian Federation	НДС *NDS*
116	Rwanda	TVA
117	Samoa	VAT
118	San Marino	IVA
119	Senegal	TVA
120	Serbia	PDV
121	Singapore	GST
122	Slovak Republic	DPH
123	Slovenia	DDV
124	South Africa	VAT
125	Spain	IVA
126	Sri Lanka	(VAT)[3]
127	St. Kitts and Nevis	VAT
128	St. Vincent and the Grenadines	VAT
129	Sudan	VAT
130	Suriname	BTW
131	Sweden	Moms
132	Switzerland	MWST
133	Taiwan (Republic of China)	(VAT)[3]
134	Tajikistan	(VAT)[3]
135	Tanzania	VAT
136	Thailand	(VAT)[3]
137	Togo	TVA
138	Tonga	CT
139	Trinidad and Tobago	IVA
140	Tunisia	TVA
141	Turkey	KDV
142	Turkmenistan	(VAT)[3]
143	Uganda	VAT
144	Ukraine	ПДВ
145	United Kingdom	VAT
146	Uruguay	IVA
147	Uzbekistan	(VAT)
148	Vanuatu	TVA
149	Venezuela	IVA
150	Viet Nam	GTGT
151	West Bank and Gaza	(VAT)[3]
152	Zambia	VAT
153	Zimbabwe	VAT

1. Footnote by all the European Union member states of the OECD and the European Commission: The Republic of Cyprus is recognised by all members of the United Nations with the exception of Turkey. The information in this document relates to the area under the effective control of the Government of the Republic of Cyprus.
   The information in this document with reference to "Cyprus" relates to the southern part of the Island. There is no single authority representing both Turkish and Greek Cypriot people on the Island. Turkey recognises the Turkish Republic of Northern Cyprus (TRNC). Until a lasting and equitable solution is found within the context of United Nations, Turkey shall preserve its position concerning the "Cyprus issue".
2. The statistical data for Israel are supplied by and under the responsibility of the relevant Israeli authorities. The use of such data by the OECD is without prejudice to the status of the Golan Heights, East Jerusalem and Israeli settlements in the West Bank under the terms of international law.
3. (VAT) means that the local acronym was not available (not found or not existing in latin alphabet).

ANNEX C

OECD International VAT/GST Guidelines *Draft*

This table of contents is provisional. It provides an overview of the structure for the future OECD International VAT/GST Guidelines. *It will evolve in the light of work in progress and will be amended and completed over time.*

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ANNEX D

Lucerne Conference – Communiqué

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

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

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

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

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

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

- We agree that VAT is likely to maintain its key position and could become even more central as the world emerges from recession and countries seek to deal with their public debt imbalances.
- We encourage countries to modernise their VAT systems to keep pace with economic and technological changes. We recognise that their economic efficiency should be improved while recognising the political difficulties attached to any increases in taxes.

* As the only OECD member country without a VAT, the United States attended the conference as an observer. The United States has not, therefore, been involved in the development of this *Communiqué*.

- We encourage all countries to ensure that simplification of VAT without putting the fight against VAT fraud at risk is carried through in the years ahead. In particular, we encourage tax administrations to ensure that they provide business with certainty and clarity in the way that the tax is applied and that the compliance costs can be minimised.
- We look forward to the completion of the work being undertaken by the OECD on the application of VAT internationally to the service sector and welcome the involvement of the business community in this work. Risks for double taxation and involuntary double non-taxation should be minimised.
- In order to combat VAT fraud, we encourage the OECD to develop further work in this area, including the availability of rapid exchange of information between countries using, for example, the Joint Council of Europe/OECD Convention on Mutual Administrative Assistance in Tax Matters.

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

Further notes

VAT is likely to maintain its key position

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

The economic efficiency of VAT should be improved

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

VAT compliance should be eased for businesses

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

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

Combating VAT fraud and other abuses

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

OECD role

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

ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT

The OECD is a unique forum where governments work together to address the economic, social and environmental challenges of globalisation. The OECD is also at the forefront of efforts to understand and to help governments respond to new developments and concerns, such as corporate governance, the information economy and the challenges of an ageing population. The Organisation provides a setting where governments can compare policy experiences, seek answers to common problems, identify good practice and work to co-ordinate domestic and international policies.

The OECD member countries are: Australia, Austria, Belgium, Canada, Chile, the Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Iceland, Ireland, Israel, Italy, Japan, Korea, Luxembourg, Mexico, the Netherlands, New Zealand, Norway, Poland, Portugal, the Slovak Republic, Slovenia, Spain, Sweden, Switzerland, Turkey, the United Kingdom and the United States. The European Commission takes part in the work of the OECD.

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Consumption Tax Trends 2010

VAT/GST and Excise Rates, Trends and Administration Issues

In this publication, the reader can find information about Value Added Tax/Goods and Services Tax (VAT/GST) and excise duty rates in OECD member countries. It provides information about indirect tax topics such as international aspects of VAT/GST developments in OECD member countries as well as in selected non-OECD economies. It describes a range of taxation provisions in OECD countries, such as the taxation of motor vehicles, tobacco and alcoholic beverages.

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