Consumption Tax Trends

VAT/GST AND EXCISE RATES, TRENDS AND ADMINISTRATION ISSUES

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ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT

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Foreword

This publication is the sixth in the series Consumption Tax Trends. *It presents information relative to indirect taxes in OECD member countries, as at 1 January, 2005.*

This biennial publication illustrates the evolution of consumption taxes as revenue instruments. They now account for 30 per cent 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.

This edition's special features highlight aspects of developments in international issues on taxation of services and intangibles under general consumption taxes and on emerging trends in the VAT treatment of small and medium size enterprises (SMEs), including the measures taken by governments to reduce compliance burdens and improve tax administration efficiency.

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Introduction

Consumption taxes form an important source of revenue for an increasing number of governments. On average, general consumption taxes (mainly value added taxes and sales taxes) and specific consumption taxes (mainly excise duties) now account for 30% of all revenue collected by governments across the OECD. Value added taxes[1] (VAT) are the principal form of taxing consumption in 29 of the 30 OECD member countries and account for two thirds of consumption taxes revenues whilst specific consumption taxes raise one third. This probably 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 oil products.

Value added tax policy

Since the publication of the 2004 edition of *Consumption Tax Trends,* the OECD's work on electronic commerce and consumption taxes was largely concluded by the publication in February 2005 of the report *Facilitating Collection of Consumption Taxes on Business-to-Consumer Cross-Border E-Commerce Transactions.* Most of the work in the international consumption tax area is now focused on the broader issue of taxation of the cross-border trade in services and intangibles.

The continuing globalisation of trade, especially in services and intangibles, continues to impose pressure on the international aspects of value added tax systems. The *Report on Consumption Tax Obstacles to Cross-border Trade in International Services and Intangibles* released by the OECD in July 2004 showed that the current inconsistencies in the VAT rules across jurisdictions are hindering the development of international trade, generating uncertainties, double taxation or involuntary non-taxation as well as opening up opportunities for tax avoidance. Given the absence of internationally agreed rules and standards for the treatment of cross-border supplies of services and intangibles, the OECD launched a public consultation in 2005. This consultation process confirmed general support for an international norm based on taxation according to the rules applicable in the jurisdiction of consumption. It was agreed therefore that the OECD should develop a set of guidelines that would aim to minimise the problems identified.

In order to ensure greater coherence and transparency to the rules applicable to value added taxation of international trade, the OECD will develop the *International VAT/GST Guidelines,* which will include the work already done on e-commerce and current and future work on cross-border trade in services and intangibles (see Annex 1).

1. This concept includes Value Added Taxes and Goods and Services Taxes but does not cover sales taxes.

Value added tax administration

Increasingly tax administrations are addressing the challenges posed by the need to improve efficiency of tax administrations, to reduce compliance costs for business, in particular for small and medium size enterprises and to minimise the potential for tax evasion and avoidance.

Excise taxes and vehicle taxation

As in previous editions, *Consumption Tax Trends* reports on the excise taxes that member countries levy on a number of specific products, including alcoholic beverages, mineral oil products and tobacco products. It also provides a detailed survey of vehicle taxes.

Environmentally related taxes

This edition provides an update of data on environmentally related taxes published in the fifth edition. The OECD database on environmentally related taxes contains more complete data. The database may be consulted free of charge at the following address: *www.oecd.org/env/policies/database*.

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Chapter 1

Taxing Consumption

Consumption taxes

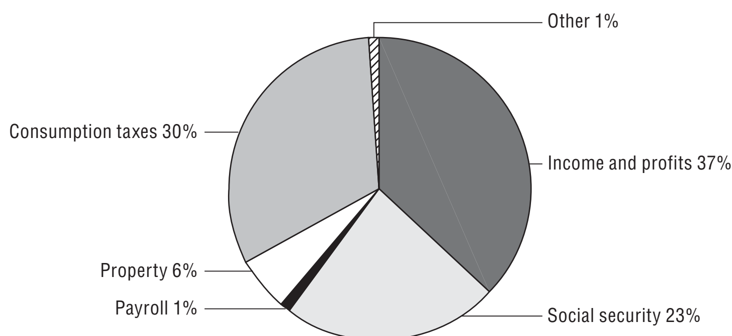
In the OECD classification, "taxes" are confined to compulsory, unrequited payments to general government. They are divided into five broad categories: income and profits; payroll; property; consumption and compulsory social security contributions, which are treated as taxes (see *Revenue Statistics 1965-2004*).

In the statistical nomenclature of the OECD, consumption taxes are split into two categories:

- *General* consumption taxes, typically Value Added Tax (VAT) and its equivalent, the Goods and Services Tax (GST). This category also includes the "sales tax" collected by state and local authorities in the United States, which is also levied on consumption but differs significantly from VAT.
- Taxes on *specific* goods and services, consisting primarily of excise taxes. It also includes customs duties and certain special taxes on insurance or financial operations, which are not covered in *Consumption Tax Trends*.

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 and 3.4), it can be seen that the proportion is roughly 30%. In 2003, 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**



Source: OECD Revenue Statistics 1965-2004.

General consumption taxes

The most widespread general consumption tax is the Value Added Tax (VAT), also called Goods and Services Tax (GST) in several countries. After only fifty years of existence, this tax has become a key source of government revenue in more than 130 countries. It is

implemented in 29 of the 30 OECD member countries. Only the United States has retained a sales tax system in which all of the tax is collected at the final stage of consumption. In addition, 19 of the 30 OECD member countries are members of the European Union and share a common legal framework for VAT.

Despite its name, the VAT is not intended to be a tax on value added as such but rather to be a tax on consumption. It is its specific staged collection mechanism, charged at all stages of production that gives it its name. Although there is a wide diversity in the way VAT systems are implemented, the value added tax can be defined as follows:

"*A broad-based tax levied on commodity sales up to and including, at least, the manufacturing stage, with systematic offsetting of tax charged on commodities purchased as inputs – except perhaps on capital goods – against that due on outputs*" (Bodin, Ebrill, Keen, Summers 2001).

This definition highlights the key features of the VAT:

- Value added taxes are taxes on consumption, paid, ultimately, by final consumers.
- The tax is levied on a broad base (as opposed to *e.g.,* excise duties that cover specific products).
- The tax is charged and collected on transactions throughout the production and distribution process, with provision for tax payable to be reduced by the tax paid in respect of purchases (right to deduction). As the final consumer is unable to recover the tax, the amount of tax actually collected is equal to the amount of VAT charged by the last vendor in the supply chain.

As the right to deduction broadly covers all inputs, the final burden of the tax does not lie on businesses but on consumers. However, this is not always the case as 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.

Value added tax is an *indirect tax* in that it is collected from someone other than the person who actually bears the cost of the tax. In addition, it does not tax profits or income but transactions.

Although VAT systems implemented in most countries are based on these 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.

General functioning

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 each transaction, or the difference between the VAT paid out to suppliers and the VAT charged to customers. There are two main approaches for running this 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 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 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 characteristic, 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).

Value added tax in international trade

These features lead naturally to the implementation of the destination principle. This means that the total tax paid in relation to a commodity is determined by the rules applicable in the jurisdiction of its consumption and therefore all revenue should accrue to the jurisdiction where the sale to the final customer occurs. This allows the VAT to keep its neutrality towards international trade, even when the implementation of this principle at country level might be less obvious for transactions made within federations or economically integrated areas.

This is in contrast to the "origin principle" whose meaning is less clear.[1] This principle would mean that, in cases where the value chain crosses several jurisdictions, each jurisdiction where a value added is made would collect the tax on this value added at the local rate. In this case the tax paid on a commodity would reflect the pattern of its origins and the aggregate revenue would be distributed in that pattern. This would be in contradiction with one of the main features of the VAT *i.e.* being a tax on consumption. Moreover, this would breach its neutrality towards international trade. The term "origin principle" is sometimes used to indicate that tax is charged on exports and not on imports, but in this case the cascading effect breaches the neutrality of the tax. This cascading effect might be counterbalanced by limiting the origin principle to business-to-consumer transaction but in this case, this would be a variation of a sales tax and would be in contradiction with the principle of taxation where consumption takes place.

In the destination-based system, which is the international norm, exports are exempt with refund of input taxes ("zero-rated") and imports are taxed on the same basis and with the same rate as local production. The practical means implemented to achieve this are nevertheless diverse across countries, and can, in some instances, lead to double or involuntary non-taxation and uncertainties for both business and tax administrations.

1. 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 country of origin and the revenue later channelled to another jurisdiction.

In the international trade in tangible goods, this feature of the system is underpinned by the filtering role of customs. Exported goods are subject to a zero rate (and are cleansed of any residual VAT via successive taxpayers' deductions of input tax), whilst imports are subject to the same VAT as equivalent domestic goods. This 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 no distortion of international trade.

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 international trade. However, in most sales tax systems, businesses do incur irrecoverable sales tax and, if they subsequently export goods, there will be an element of sales tax embedded in the price.

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.

The nature of services and intangible products means that mechanisms other than those used for tangible goods must be found. In principle, the provider should account for value added taxes in the jurisdiction where the service or the intangible property is consumed or used. In several countries, legislation provides that services and intangibles are taxed where they are performed in the country. If performed or used in another country, they are zero rated in the same way as exports of goods. Whether intangible property is used or a service is actually performed in the country is essentially a matter of fact, although with some services and intangibles there are difficulties in determining use or performance.

Within the European Union, this result is achieved differently: services are, in principle, taxed where the supplier is established (an "origin" rule). However, recognising that this would breach neutrality in many cases, there are a large number of exceptions to this basic rule. Most tangible services are taxed in the country in which they are in fact performed (*e.g.* car hire, construction work, live entertainment, etc.), whereas intangible services (*e.g.* intellectual services, consulting, electronic services, etc.) are taxed in the country in which the business customer is located or where the customer is located when it is outside of the European Union.

The zero rating of exports and taxation of imports introduce a breach in the staged collection process. In most countries where an invoice credit method is used, tax on several services and intangibles provided from abroad are collected by to 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 fulfill all VAT obligations in that country. To avoid such administrative burden to foreign providers, the reverse charge mechanism provides that the VAT-registered customer is liable 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 imply any actual payment to the tax authorities. The reverse charge mechanism therefore implies a difference of

treatment for sales to domestic and foreign customers. It also has a cash-flow impact as input VAT paid by suppliers cannot be offset against output VAT charged to customers.

Governments began the process of establishing common guidelines for international VAT issues in 1998 at the Ottawa Conference on electronic commerce. At this Conference, ministers welcomed the *Ottawa Taxation Framework Conditions* for the consumption taxation of electronic commerce. These conditions are:

- Rules for the consumption taxation of cross-border trade should result in taxation in the jurisdiction where consumption takes place.
- 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.

In 2001, after two years' work in co-operation with businesses and a number of non-OECD economies, the OECD's Committee on Fiscal Affairs (CFA) adopted guidelines for determining the place of consumption in respect of cross-border delivery of services and digital property in the context of e-commerce:

- 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.
- For business-to-consumer transactions, it is the jurisdiction in which the recipient has his or her usual place of residence.

In 2003, the CFA approved the publication of the *Consumption Tax Guidance Series* in order to guide governments and businesses in the implementation of these guidelines. These Guidelines and Guidance Series are annexed to this publication as part of the *International VAT/GST Guidelines*. The full documentation is available on the Internet site of the OECD Centre for Tax Policy and Administration (*www.oecd.org/ctp/vatguidelines*).

Building on the 1998 Ottawa Taxation Framework Conditions, the OECD Guidelines on e-commerce taxation recommend the use of the reverse charge system for business-to-business international transactions in the field of e-commerce. With the development of international trade in services, the use (and sometimes the scope) of this mechanism has spread. Nevertheless, many transactions still fall outside the scope of this mechanism, in particular business-to-private customer supplies, together with business-to-business supplies.

Even though the approaches taken by countries to tax internationally traded services and intangibles are compatible with each other in theory, as they both aim at taxation in the jurisdiction of consumption, wide divergences exist in practice, creating double taxation, involuntary non taxation, uncertainties and opportunities for abuse. The pressure on VAT systems exerted by the continuing globalisation process and the increasing technological capabilities make the implementation of more coherent international rules necessary.

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Latest developments

Originally aimed at solving the problems caused by the development of electronic commerce, the OECD work has laid down the foundations for the first international norms (outside the European Union) in the field of value added taxes. Many of the issues surrounding the application of VAT to e-commerce actually had their roots in the wider area of services and intangibles. Considering that these problems were significant enough to require remedies, the CFA, in co-operation with a number of non-OECD economies and the business community began work on a set of framework principles on the international application of consumption taxes: the *International VAT/GST Guidelines* (see Annex 1 to this publication).

There is no international framework (outside the European Union) which imposes legally binding rules to countries, and this is probably not necessary, nor desirable. It is not the OECD role to draft detailed consumption taxes legislation but by developing agreed international rules for countries to incorporate in their own legislation, it can contribute to reducing significantly the potential for the current conflicts and uncertainties.

Chapter 2 reports on OECD work in this field as well as, more generally, on developments in the consumption taxes area.

Taxing consumption of specific goods and services: excise taxes

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 are entered into 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 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 years to ascribe to these taxes characteristics other than simply revenue rising. They are increasingly referred to in terms of taxes to influence consumer behaviour, such as reducing environmentally harmful emissions from cars and other means of transport, and encouraging reductions in consumption of tobacco and alcohol products for health reasons.

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Chapter 2

Consumption Tax Topics

Value added taxes

Value Added Tax (VAT), which is also called *Goods and Services Tax* (GST) in some countries, has for many years demonstrated its capacity to raise tax revenue in a neutral and transparent manner. More than 130 countries, including major non-OECD countries such as Brazil, China, India, Russia and South Africa have adopted this method of taxation and it is now the most widespread general tax on consumption. Since 2000, following the successful introduction of GST in Australia, 29 of the 30 OECD member countries now have a VAT system in place.

The United States remains the only OECD member country without a value added tax. The US continues to deploy retail sales taxes at the state level (and below), rather than a federal consumption tax. These taxes are not without their own problems, especially in the context of the development of interstate and international trade. New means of communication have made purchasing goods across state borders without addition of tax even easier than it was before. A Supreme Court ruling makes it difficult for states to require tax collection on all cross-border sales, so the debate about the introduction of a VAT-type consumption tax continues.

Reflecting the growth of value added taxes, particularly in developing countries, and high international interest in their management, the first International Tax Dialogue (ITD)[1] conference held in March 2005 was devoted to VAT. This first intergovernmental global conference on VAT was very well attended with 99 countries represented, together with a number of international organisations and aid agencies. Three main themes emerged as being priority issues: combating VAT fraud, VAT treatment of SMEs, and VAT management at the sub-federal level (more information can be found on *www.itdweb.org*).

The booming of e-commerce in the late 1990's marked the beginning of a period of rapid change creating areas of uncertainty that need to be addressed in a coherent manner. Tax authorities now recognise that value added taxes need to be adapted to the borderless world of global trade. Administrations and businesses have adopted a co-operative approach to solve common problems.

Since the adoption in 2001 of the OECD Guidelines on consumption taxation of e-commerce transactions, the focus has been on how value added tax can properly accrue to the jurisdiction of consumption. In 2003, the European Union implemented a VAT Directive requiring the collection of VAT in the member State of consumption on a range of electronic services provided by non EU providers while exempting (with right to deduction of input tax) exports of electronic services to customers outside the EU. Discussions continue, including within the EU, on how to extend and reinforce the principle of the application of

1. The International Tax Dialogue (ITD) is a collaborative arrangement involving the Inter-American Development Bank, the International Monetary Fund, the OECD, the United Nations and the World Bank to encourage and facilitate discussion of tax matters among national tax officials, international organisations, and a range of other key stakeholders.

the taxation in the country of consumption, beyond e-commerce transactions, without imposing excessive compliance burdens on businesses.

Given the increasing international trade in services and intangibles, as well business restructuring, tax administrations and business recognised that problems surrounding the application of consumption taxes to international transactions needed shared and global solutions. On the basis of a report illustrating the extent to which the current situation was causing problems of double taxation, lack of clear rules, uncertainty for suppliers and opportunities for abuse (*The Application of Consumption Taxes to the International Trade in Services and Intangibles*, OECD, July 2004), the OECD's Committee on Fiscal Affairs (CFA) launched a consultation process in 2005 with non-OECD economies, academics and business. As a result support emerged for 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 two principles were approved by the CFA in January 2006.[1] At the same time, the CFA also launched a long-term project to develop *International VAT/GST Guidelines*. These principles will be developed into the Guidelines that will guide governments in the drafting of new legislation in order to minimise uncertainties and barriers to international trade for businesses. Initially, the focus will be on the key factors affecting taxation of services, in particular the definition of place of consumption and the identification of the supplier and the customer.

In principle, VAT is a consumption tax and its goal is to tax services and intangibles in the jurisdiction where they are actually consumed. Nevertheless, the very nature of intangible transactions make the achievement of this goal difficult, especially as there may be differing views as to what might constitute consumption in a jurisdiction. In practice, taxation of services under a "pure" consumption test can lead to complex situations where tax would be very complex for business to manage and difficult for tax administrations to control. To overcome these difficulties, the use of approximations for consumption (proxies) is employed in most countries. This is a practical means of defining the place of consumption, such as customer location or the place of performance (*e.g.* for tangible services immediately consumed at a readily identifiable place). Work will continue on these topics in the next two years in cooperation with business and others (see *www.oecd.org/taxation*).

International VAT/GST Guidelines

There is recognition, both by governments and business, of the importance of value added taxes and the difficulties encountered as a result of the current lack of international norms in the taxation of many cross-border transactions. In this context, there is clear expectation for a more structured approach. As noted above, the OECD will develop *International VAT/GST Guidelines* as a means of establishing agreed "rules of the game". The framework of these Guidelines is annexed to this publication (Annex 1). It will serve as basis for their future development and the results of the work will be incorporated progressively into this structure. The results of OECD work on e-commerce taxation and the principles for consumption taxation of international trade in services and intangibles have

1. Germany and Luxembourg both maintained their reservations on these principles.

already been integrated. This is a comprehensive and flexible framework that will be adapted as OECD work develops in this area.

Improving VAT efficiency

Reinforced international competition creates an increasing pressure on the efficiency of consumption tax systems. The importance of this budgetary resource for governments as well as the pressure to reduce income taxes creates a need for an improved efficiency of the value added taxes. The comparative assessment of this efficiency allows for a better understanding of how several features of domestic VAT structure (number and level of rates; scope for exemptions; compliance and administrative efficiency) impact the yield of the tax. This topic is developed in Chapter 3.

Tackling VAT fraud

There has been a significant and worrying trend in recent years for VAT to become a target for serious criminal activity. Carousel frauds within the EU continue despite the efforts of several tax administrations. Most of these frauds take advantage of the rules for intra-Community trade in goods that allow for an effective zero-rate on a sale from one member State to another. Serious fraud also exists outside the EU and the amounts of tax involved become a cause for significant concern for both finance ministers and tax administrators. Responses from governments, including increased exchange of information, dedicated investigation into fraud activity and, in some cases, reinforced legislation have helped, but problems remain. The UK has, through a very open process, conducted a comprehensive review of indirect tax losses (excise, as well as VAT) and, as a result, has developed an overall strategy to counter all types of losses rather than those lost through specific frauds. First results of this comprehensive strategy look encouraging, but it remains to be seen how effective it will be in the long term.

Improving taxpayer service

Developments in information technology have enabled governments across the OECD countries to improve services to taxpayers. Given the regular contact businesses have with tax authorities it is not surprising that many countries have introduced on-line 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.

Conclusion

The OECD is the principal international forum for establishing basic principles that can guide governments in developing more coherence in the application of value added taxes to the international trade.

More information on these topics and the latest developments can be found on the web site of the Centre for Tax Policy and Administration, at the following address: *www.oecd.org/ctp*.

In addition, selected tables from the biennial publication *Consumption Tax Trends* are updated annually in the OECD tax database and may be consulted at the following address: *www.oecd.org/ctp/taxdatabase*.

Excise taxes

After a lengthy decline, specific consumption taxes stabilised in recent years as a proportion of aggregate taxation (Table 3.4 below). 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.

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Chapter 3

Value Added Tax/Tax on Goods and Services Yield, Rates and Structure

Introduction

Although most countries have adopted the general consumption tax system called Value Added Tax (VAT or in several countries Goods and Services Tax – GST), there are many differences in the way it is implemented, including between EU member States whose VAT laws share the same legislative root. These differences may be divided into two categories: differences that have a decisive impact on international trade and those that mainly impact local tax management.

Differences in the design of VAT, such as the way place of taxation is determined or the scope of the tax, may impact on international trade by creating double taxation, involuntary non taxation and distortion of competition. Such difficulties have been addressed at the international level since the late 1990's by the OECD. 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 taxation of international transactions on the basis of the destination principle.

There are also many differences in 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. International comparisons and exchanges of experience are useful in helping countries improve the design and operation of their consumption taxes.

Globalisation and expansion of world trade generates greater competition. As such, 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, involuntary non-taxation, tax evasion and distortion of competition. Furthermore, tax authorities need more efficient tax management. To achieve this efficiency, a number of factors are desirable:

- A broad base at the standard rate.
- Minimal exemptions and reduced rates.
- A registration threshold that allows tax administration to concentrate on more significant taxpayers.

There is no "ideal" system and tax design strongly 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.

Importance of and trend 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 10 per cent of total taxation and less than

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

	1965	1970	1975	1980	1985	1990	1995	2000	2002	2003	2004
Canada	4.6	4.4	4.0	3.6	4.3	5.1	5.0	5.1	5.1	5.1	5.0
Mexico				2.5	2.7	3.6	2.8	3.5	3.5	3.7	3.7
United States	1.2	1.6	1.8	1.9	2.0	2.2	2.2	2.3	2.2	2.1	2.1
Australia	1.6	1.7	1.8	1.4	2.3	2.4	2.6	3.9	4.2	4.3	
Japan						1.3	1.4	2.4	2.5	2.4	2.4
Korea			1.9	3.8	3.5	3.7	3.7	4.0	4.6	4.6	4.4
New Zealand	1.8	2.1	2.6	3.1	3.2	8.5	8.4	8.4	8.8	9.1	9.1
Austria	6.3	6.3	7.3	7.8	8.6	8.2	7.7	8.0	8.1	7.9	7.9
Belgium	6.6	7.4	6.6	7.2	7.2	7.1	6.9	7.4	7.3	7.1	
Czech Republic							6.3	6.6	6.4	6.4	7.4
Denmark	2.7	7.4	6.8	9.8	9.5	9.8	9.5	9.7	9.8	9.7	9.9
Finland	5.6	6.2	5.8	6.3	7.4	8.5	8.0	8.4	8.3	8.7	8.7
France[1]	8.0	8.6	8.3	8.5	8.5	7.9	7.5	7.5	7.2	7.3	7.4
Germany	5.2	5.5	5.2	6.2	5.9	5.9	6.5	6.8	6.4	6.4	6.2
Greece	2.0	3.8	4.0	3.2	4.9	7.8	7.4	8.3	8.7	8.0	
Hungary							8.2	10.2	9.5	10.1	10.5
Iceland	4.4	6.0	8.5	8.5	9.5	10.3	10.2	11.7	10.8	11.0	12.1
Ireland	1.4	3.8	4.3	4.6	7.2	6.9	7.0	7.4	7.2	7.3	7.5
Italy	3.3	3.4	3.7	4.8	5.0	5.7	5.7	6.6	6.4	6.1	6.0
Luxembourg	3.4	2.8	4.5	4.7	5.8	5.6	5.9	5.9	6.1	6.4	7.1
Netherlands	4.1	5.2	5.9	6.9	6.9	7.1	6.5	7.2	7.5	7.7	7.7
Norway	6.4	8.2	8.0	7.7	7.8	7.8	8.7	8.8	8.9	8.7	8.5
Poland							6.3	7.1	7.4	7.4	
Portugal		1.6	2.3	3.9	3.3	5.7	7.5	8.4	8.3	8.5	
Slovak Republic								7.7	7.7	6.8	8.1
Spain	3.3	3.2	2.8	2.3	3.9	5.2	5.0	6.1	5.8	6.0	6.1
Sweden	3.6	4.0	5.0	6.3	6.7	7.9	9.4	9.0	9.2	9.3	9.3
Switzerland	1.9	1.7	2.1	2.6	2.8	3.0	3.3	4.0	3.9	4.0	4.0
Turkey					3.6	4.0	7.0	7.8	8.1	8.2	7.1
United Kingdom	1.8	2.5	3.1	5.2	6.0	6.1	6.8	6.8	6.9	7.0	7.0
Unweighted average:											
OECD Total	3.8	4.4	4.6	5.1	5.5	6.0	6.3	6.9	6.9	6.9	
OECD America	2.9	3.0	2.9	2.7	3.0	3.6	3.3	3.6	3.6	3.6	3.6
OECD Pacific	1.7	1.9	2.1	2.8	3.0	4.0	4.0	4.7	5.0	5.1	
OECD Europe	4.1	4.9	5.2	5.9	6.3	6.9	7.2	7.7	7.7	7.6	
EU 19	4.1	4.8	5.0	5.8	6.5	7.0	7.1	7.6	7.6	7.6	
EU 15	4.1	4.8	5.0	5.8	6.5	7.0	7.2	7.6	7.6	7.6	

* **Note to the tables 3.1 to 3.4:** these tables are taken from Revenue Statistics which are published annually by the OECD and are based on a nomenclature common to the OECD countries. Category 5110, which covers general taxes on goods and services, is used for Tables 3.1 and 3.2 and includes VAT/GST, sales taxes and other general taxes on goods and services. Category 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. Revenue Statistics 1965-2004 is for sale at the OECD's online bookshop: *www.oecd.org/bookshop*.

Note: Estimates/provisional data for 2004.

1. From 1992, 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.

Source: Revenue Statistics 1965-2004, 2005 Edition.

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

	1965	1970	1975	1980	1985	1990	1995	2000	2002	2003	2004
Canada	17.8	14.4	12.5	11.5	13.2	14.1	14.0	14.3	15.0	15.1	15.1
Mexico				15.7	15.9	20.8	16.9	18.7	19.3	19.4	20.2
United States	4.8	5.8	7.0	7.0	7.9	8.0	8.0	7.6	8.2	8.4	8.4
Australia	7.4	7.4	6.7	5.3	7.9	8.0	8.7	12.0	13.5	13.7	
Japan						4.4	5.4	9.1	9.5	9.5	15.4
Korea			12.7	22.0	21.1	19.7	18.9	17.0	18.9	18.2	18.0
New Zealand	7.7	8.0	9.0	10.2	10.4	22.4	22.8	24.9	25.3	26.1	25.6
Austria	18.7	18.5	19.8	20.1	21.0	20.8	18.7	18.8	18.7	18.4	18.5
Belgium	21.1	21.2	16.3	17.0	15.8	16.5	15.3	16.3	15.7	15.6	
Czech Republic							16.7	18.3	17.4	17.1	19.8
Denmark	9.1	18.8	16.9	22.3	20.1	20.5	19.3	19.3	20.1	20.1	20.0
Finland	18.5	19.3	15.8	17.4	18.3	19.3	17.4	17.4	18.2	19.4	19.6
France[1]	23.3	25.5	23.4	21.1	20.0	18.8	17.4	16.9	16.7	16.8	17.0
Germany	16.5	17.1	14.6	16.6	15.8	16.6	17.4	18.4	18.0	17.9	18.0
Greece	10.3	16.8	18.3	13.2	17.2	26.5	23.0	21.8	23.6	22.4	
Hungary							19.4	26.1	24.5	26.1	27.9
Iceland	16.7	22.0	28.6	28.9	33.0	32.3	31.7	29.8	28.1	27.7	28.8
Ireland	5.7	13.1	14.7	14.8	20.6	20.6	21.2	23.1	25.0	24.5	24.8
Italy	12.9	13.2	14.3	15.6	14.5	14.7	13.8	15.4	15.0	14.2	14.3
Luxembourg	12.4	10.6	12.1	11.6	12.8	13.9	14.0	14.6	14.8	15.5	17.5
Netherlands	12.4	14.6	14.4	15.8	16.2	16.5	15.6	17.4	19.2	19.7	19.6
Norway	21.5	23.8	20.5	18.2	18.2	18.8	21.2	20.3	20.4	20.0	19.0
Poland							17.1	22.0	21.3	21.7	
Portugal		8.4	11.2	16.2	12.6	19.6	22.4	23.2	22.8	22.9	
Slovak Republic								22.5	23.3	22.0	26.2
Spain	22.2	20.3	15.3	10.2	14.7	16.0	15.9	17.5	16.7	17.2	17.3
Sweden	10.4	10.3	12.0	13.4	14.0	14.9	19.4	16.7	18.4	18.4	18.3
Switzerland	9.4	7.8	7.8	9.2	10.7	11.6	12.0	13.1	13.0	13.4	13.5
Turkey					23.3	20.1	31.1	24.2	26.2	24.9	23.0
United Kingdom	5.9	6.8	8.9	14.7	15.9	16.8	19.3	18.3	19.3	19.8	19.5
Unweighted average:											
OECD Total	13.5	14.7	14.5	15.3	16.4	17.4	17.7	18.5	18.9	18.9	
OECD America	11.3	10.1	9.7	11.4	12.3	14.3	13.0	13.5	14.2	14.3	14.6
OECD Pacific	7.5	7.7	9.5	12.5	13.1	13.7	13.9	15.8	16.8	16.9	
OECD Europe	14.5	16.0	15.8	16.5	17.6	18.7	19.1	19.6	19.8	19.8	
EU 19	14.2	15.6	15.2	16.0	16.6	18.1	18.0	19.2	19.4	19.5	
EU 15	14.2	15.6	15.2	16.0	16.6	18.1	18.0	18.3	18.8	18.9	

* **Note to the tables 3.1 to 3.4:** these tables are taken from Revenue Statistics which are published annually by the OECD and are based on a nomenclature common to the OECD countries. Category 5110, which covers general taxes on goods and services, is used for Tables 3.1 and 3.2 and includes VAT/GST, sales taxes and other general taxes on goods and services. Category 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. Revenue Statistics 1965-2004 is for sale at the OECD's online bookshop: *www.oecd.org/bookshop*.

Note: Estimates/provisional data for 2004.

1. From 1992, 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.

Source: Revenue Statistics 1965-2004, 2005 Edition.

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

	1965	1970	1975	1980	1985	1990	1995	2000	2002	2003	2004
Canada	4.3	4.1	4.3	4.0	4.2	3.7	3.5	3.0	3.2	3.2	3.1
Mexico				5.6	8.2	5.9	6.0	6.2	5.2	6.1	6.7
United States	3.7	3.2	2.6	2.2	2.1	1.9	2.1	1.9	1.8	1.8	1.8
Australia	4.9	4.5	5.1	6.2	6.0	4.5	4.3	4.5	4.5	4.3	
Japan	4.6	4.1	3.1	3.6	3.3	2.2	2.2	2.1	2.1	2.1	2.1
Korea			7.1	6.8	6.1	4.9	4.3	4.6	4.6	4.5	4.3
New Zealand	4.4	4.5	3.9	3.4	3.7	3.5	3.2	2.6	2.7	2.4	2.3
Austria	6.1	6.1	5.1	3.9	4.1	3.6	3.2	3.3	3.3	3.4	3.5
Belgium	4.0	4.6	4.0	3.8	3.9	3.8	4.0	3.4	3.3	3.3	
Czech Republic							4.9	4.0	3.7	3.8	3.8
Denmark	8.7	7.0	5.9	5.9	6.1	5.3	5.7	5.6	5.6	5.4	5.5
Finland	7.1	6.3	5.9	6.4	6.1	5.7	5.6	5.2	5.2	5.3	4.9
France[1]	4.9	3.9	3.2	3.4	3.7	3.7	3.8	3.6	3.6	3.5	3.5
Germany	4.6	4.2	3.8	3.5	3.3	3.3	3.5	3.3	3.6	3.7	3.4
Greece	6.7	6.1	5.2	6.1	6.0	4.6	5.3	3.9	3.7	3.6	
Hungary							8.8	5.4	4.9	4.9	4.3
Iceland	11.8	10.3	10.0	8.8	7.6	5.4	4.5	4.7	3.7	4.1	4.1
Ireland	10.8	10.5	8.6	8.9	7.7	6.7	5.8	4.5	3.7	3.6	3.5
Italy	6.2	6.0	3.6	3.0	3.1	4.1	4.6	4.2	3.8	3.8	4.0
Luxembourg	3.1	2.3	3.0	3.8	5.0	4.3	5.2	5.1	5.0	5.1	5.6
Netherlands	4.8	4.1	3.4	3.2	3.1	3.2	3.8	3.7	3.5	3.5	3.7
Norway	5.5	6.1	6.3	6.8	7.8	6.4	6.4	4.1	3.9	4.0	3.8
Poland							6.5	4.6	4.6	4.8	
Portugal	6.6	6.6	5.6	6.6	7.6	6.8	5.4	5.0	5.1	5.0	
Slovak Republic								4.1	3.5	3.9	3.9
Spain	2.7	2.4	1.6	2.4	3.5	3.4	3.3	3.3	3.2	3.2	3.1
Sweden	6.7	6.3	4.5	4.3	5.6	4.9	3.8	3.7	3.7	3.7	3.5
Switzerland	3.7	3.8	2.9	2.8	2.5	2.1	2.3	2.4	2.5	2.5	2.5
Turkey	5.6	6.1	6.5	4.5	1.9	1.5	1.4	5.3	5.9	7.2	7.3
United Kingdom	7.7	7.4	5.2	4.7	5.2	4.6	5.0	4.6	4.3	4.1	4.0
Unweighted average:											
OECD Total	5.8	5.4	4.8	4.8	4.9	4.2	4.4	4.1	3.9	4.0	
OECD America	4.0	3.6	3.5	3.9	4.9	3.8	3.9	3.7	3.4	3.7	3.8
OECD Pacific	4.6	4.4	4.8	5.0	4.8	3.7	3.5	3.5	3.5	3.3	
OECD Europe	6.2	5.8	5.0	4.9	4.9	4.4	4.7	4.2	4.1	4.1	
EU 19	6.0	5.6	4.6	4.6	4.9	4.5	4.9	4.2	4.1	4.1	
EU 15	6.0	5.6	4.6	4.6	4.9	4.5	4.5	4.1	4.0	4.0	

* **Note to the tables 3.1 to 3.4:** these tables are taken from Revenue Statistics which are published annually by the OECD and are based on a nomenclature common to the OECD countries. Category 5110, which covers general taxes on goods and services, is used for Tables 3.1 and 3.2 and includes VAT/GST, sales taxes and other general taxes on goods and services. Category 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. Revenue Statistics 1965-2004 is for sale at the OECD's online bookshop: *www.oecd.org/bookshop*.

Note: Estimates/provisional data for 2004.

1. From 1992, 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.

Source: Revenue Statistics 1965-2004, 2005 Edition.

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

	1965	1970	1975	1980	1985	1990	1995	2000	2002	2003	2004
Canada	16.8	13.3	13.6	13.0	13.0	10.3	9.9	8.5	9.6	9.6	9.3
Mexico				34.4	48.6	34.0	35.8	33.4	28.6	32.1	36.1
United States	15.1	11.7	10.0	8.3	8.4	7.0	7.5	6.3	6.9	7.1	6.9
Australia	22.7	20.3	19.1	22.6	20.7	15.3	14.5	14.2	14.4	13.5	
Japan	25.0	20.9	15.1	14.1	12.1	7.6	8.3	8.0	8.2	8.4	13.2
Korea			47.3	39.5	37.4	25.7	21.9	19.7	18.8	17.9	17.3
New Zealand	18.5	17.2	13.8	11.2	11.7	9.2	8.6	7.5	7.6	6.9	6.5
Austria	18.0	18.0	14.0	10.1	9.9	9.0	7.8	7.7	7.6	7.9	8.1
Belgium	13.0	13.3	9.9	9.0	8.5	8.8	8.9	7.4	7.3	7.4	
Czech Republic							13.0	11.0	10.0	10.2	10.0
Denmark	29.2	17.9	14.7	13.4	13.0	11.0	11.4	11.1	11.5	11.1	11.0
Finland	23.4	19.8	16.1	17.7	15.2	12.9	12.1	10.9	11.3	11.8	11.1
France[1]	14.3	11.6	9.0	8.4	8.7	8.7	8.9	8.2	8.3	8.1	8.0
Germany	14.6	12.9	10.8	9.3	8.7	9.2	9.5	8.8	10.1	10.5	9.9
Greece	33.8	27.4	23.9	25.1	20.9	15.6	16.4	10.1	10.0	10.1	
Hungary							20.9	13.8	12.6	12.7	11.5
Iceland	45.0	37.9	33.6	29.8	26.5	16.9	14.0	11.9	9.6	10.2	9.8
Ireland	43.4	36.4	29.7	28.3	22.0	20.1	17.5	13.9	12.9	12.1	11.7
Italy	24.1	23.2	14.0	9.7	9.1	10.6	11.1	9.7	9.0	8.9	9.6
Luxembourg	11.1	8.7	8.0	9.3	11.1	10.5	12.2	12.5	12.1	12.3	13.9
Netherlands	14.7	11.6	8.1	7.3	7.2	7.5	9.0	8.9	8.9	9.1	9.4
Norway	18.4	17.8	16.1	16.1	18.1	15.3	15.5	9.5	9.0	9.2	8.5
Poland							17.5	14.0	13.3	13.9	
Portugal	41.5	33.8	27.0	27.2	28.7	23.4	16.2	13.8	14.0	13.6	
Slovak Republic								12.0	10.7	12.4	12.6
Spain	18.4	15.5	8.7	10.5	13.0	10.5	10.3	9.6	9.1	9.0	8.8
Sweden	19.2	16.3	10.7	9.2	11.6	9.2	7.9	6.9	7.3	7.2	7.0
Switzerland	19.0	17.1	10.6	9.8	9.5	8.2	8.4	8.0	8.2	8.4	8.5
Turkey	53.4	48.8	40.9	25.2	12.4	7.3	6.0	16.4	19.1	22.0	23.6
United Kingdom	25.2	19.9	14.8	13.3	13.8	12.5	14.3	12.3	12.0	11.6	11.2
Unweighted average:											
OECD Total	24.1	20.5	17.6	16.6	16.1	12.9	12.9	11.5	11.3	11.5	
OECD America	16.0	12.5	11.8	18.6	23.3	17.1	17.7	16.1	15.0	16.3	17.5
OECD Pacific	22.1	19.5	23.8	21.8	20.5	14.4	13.3	12.3	12.2	11.7	
OECD Europe	25.2	21.5	16.9	15.2	14.1	12.0	12.2	10.8	10.6	10.9	
EU 19	22.9	19.1	14.6	13.8	13.4	12.0	12.5	10.7	10.4	10.5	
EU 15	22.9	19.1	14.6	13.8	13.4	12.0	11.6	10.1	10.1	10.1	

* **Note to the tables 3.1 to 3.4:** these tables are taken from Revenue Statistics which are published annually by the OECD and are based on a nomenclature common to the OECD countries. Category 5110, which covers general taxes on goods and services, is used for Tables 3.1 and 3.2 and includes VAT/GST, sales taxes and other general taxes on goods and services. Category 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. Revenue Statistics 1965-2004 is for sale at the OECD's online bookshop: *www.oecd.org/bookshop*.

Note: Estimates/provisional data for 2004.

1. From 1992, 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.

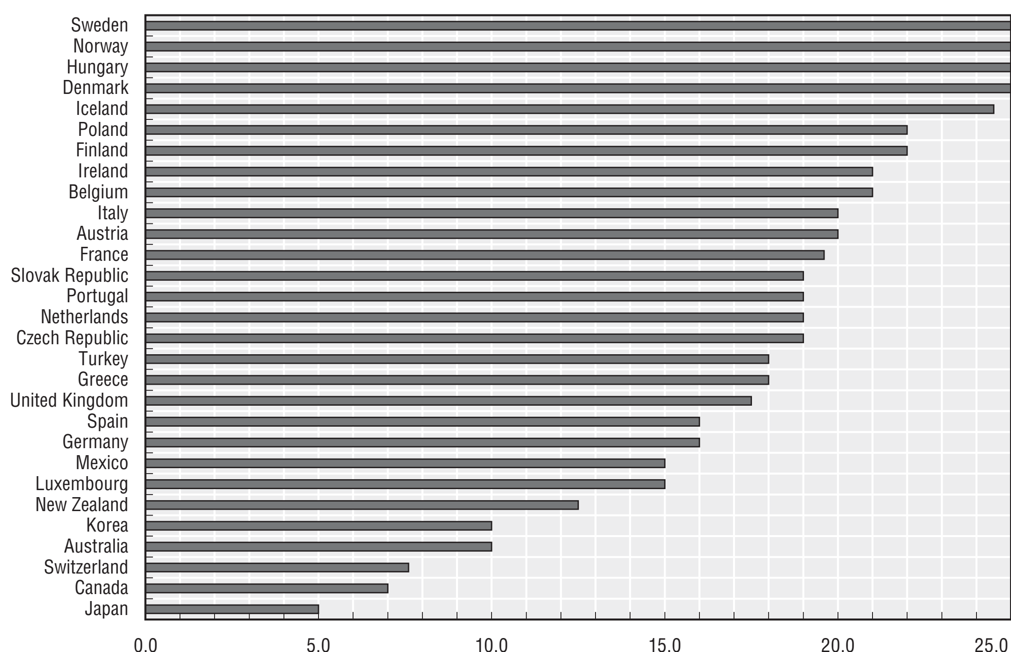
Source: Revenue Statistics 1965-2004, 2005 Edition.

2.5 per cent of GDP, to Hungary and New Zealand where they account for more than 26 per cent of total tax and more than 9 per cent of GDP. Nevertheless, 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 as a percentage of both GDP and total taxation. This followed a period of many years in which it gradually increased. Between 2000 and 2003 Korea, Luxemburg and New Zealand are the only countries to have seen taxes on general consumption increase in relation to GDP by at least 0.5 percentage point, while in Italy, Netherlands and the Slovak Republic the percentage has fallen in the same proportion.

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 almost doubled as an unweighted average, rising from 3.8% to 6.9%. The share has also risen by a third as a percentage of total taxation (up from 13.5% to 18.9%).

Figure 3.1. **Standard rates of VAT**



Source: National delegates, data as a 1st January 2005.

This is especially true of VAT, which exists in all but one of the OECD countries. Following the introduction of the GST in Australia, the United States is now the only OECD country not to have adopted a VAT-type consumption tax. Greece, Spain Portugal, Japan and New Zealand introduced VAT in the 1980s while Switzerland followed shortly afterwards. The Eastern European economies introduced VAT in the 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 3.5) 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, continues to fall slowly as a percentage of GDP, although it has stabilised as a percentage of total tax revenue since 2000. As VAT/GST has spread, so revenue from excise taxes has declined. Excise taxes are discussed in greater detail in Chapter 4.

Table 3.5. **VAT/GST in OECD member countries**

	Implemented	Standard rate												Reduced rate	Domestic zero rate[1]	Specific rate applied within specific region
		1976	1980	1984	1988	1990	1992	1994	1996	1998	2000	2003	2005			
Australia	2000	–	–	–	–	–	–	–	–	–	10.0	10.0	10.0	–	Yes	–
Austria	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	10.0 and 12.0	No	16[2]
Belgium	1971	18.0	16.0	19.0	19.0	19.0	19.50	20.5	21.0	21.0	21.0	21.0	21.0	6 and 12.0	Yes	–
Canada	1991	–	–	–	–	–	7.0	7.0	7.0	7.0	7.0	7.0	7.0	–	Yes	15[3]
Czech Republic	1993	–	–	–	–	–	–	22.0	22.0	22.0	22.0	22.0	19.0	5	No	–
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	–	Yes	–
Finland	1994	–	–	–	–	–	–	22.0	22.0	22.0	22.0	22.0	22.0	8.0 and 17.0	Yes	–
France	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	2.0 and 5.5	No	0.9, 2.1, 8.0, 13.0[4] 1.05, 1.75, 2.1 and 8.5[5]
Germany	1968	11.0	13.0	14.0	14.0	14.0	14.0	15.0	15.0	16.0	16.0	16.0	16.0	7	No	–
Greece	1987	–	–	–	16.0	18.0	18.0	18.0	18.0	18.0	18.0	18.0	18.0	4.0 and 8.0	No	3.0, 6.0, 13.0[6]
Hungary	1988	–	–	–	25.0	25.0	25.0	25.0	25.0	25.0	25.0	25.0	25.0	5 and 15	No	–
Iceland	1989	–	–	–	–	22.0	22.0	24.5	24.5	24.5	24.5	24.5	24.5	14	Yes	–
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	4.8 and 13.5	Yes	–
Italy	1973	12.0	15.0	18.0	19.0	19.0	19.0	19.0	19.0	20.0	20.0	20.0	20.0	4.0 and 10.0	Yes	–
Japan	1989	–	–	–	–	3.0	3.0	3.0	3.0	5.0	5.0	5.0	5.0	–	No	–
Korea	1977	–	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	–	Yes	–
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	3.0, 6.0 and 12.0	No	–
Mexico	1980	–	10.0	10.0	10.0	10.0	10.0	10.0	15.0	15.0	15.0	15.0	15.0		Yes	10[7]
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	6	No	–
New Zealand	1986	–	–	–	10.0	12.5	12.5	12.5	12.5	12.5	12.5	12.5	12.5	–	Yes	–
Norway	1970	20.0	20.0	20.0	20.0	20.0	22.0	22.0	23.0	23.0	23.0	24.0	25.0	7.0 and 11.0	Yes	–
Poland	1993	–	–	–	–	–	–	22.0	22.0	22.0	22.0	22.0	22.0	7 and 3	Yes	–
Portugal	1986	–	–	–	17.0	17.0	16.0	16.0	17.0	17.0	17.0	19.0	19.0	5.0 and 12.0	No	4.0, 8.0 and 13.0[8]
Slovak Republic	1993	–	–	–	–	–	–	25.0	23.0	23.0	23.0	20.0	19.0		No	–
Spain	1986	–	–	–	12.0	12.0	13.0	16.0	16.0	16.0	16.0	16.0	16.0	4.0 and 7.0	No	2.0, 5.0, 9.0 and 13.0[9] 0.5 and 4.0[10]
Sweden	1969	17.7	23.46	23.46	23.46	23.46	25.0	25.0	25.0	25.0	25.0	25.0	25.0	6.0 and 12.0	Yes	–
Switzerland	1995	–	–	–	–	–	–	6.5	6.5	6.5	7.5	7.6	7.6	2.4 and 3.6	Yes	–
Turkey	1985	–	–	–	10.0	10.0	10.0	15.0	15.0	15.0	17.0	18.0	18.0	1.0 and 8.0	No	–
United Kingdom	1973	8.0	15.0	15.0	15.0	15.0	17.5	17.5	17.5	17.5	17.5	17.5	17.5	5	Yes	–

Table 3.5. **VAT/GST in OECD member countries** *(cont.)*

Implemented	Standard rate												Reduced rate	Domestic zero rate[1]	Specific rate applied within specific region
	1976	1980	1984	1988	1990	1992	1994	1996	1998	2000	2003	2005			
EU 19 Unweighted average										20.2	20.0	20.0			
OECD Unweighted average	15.6	16.6	17.4	16.9	16.5	16.5	17.5	17.8	17.9	17.8	17.8	17.7			

1. “Domestic zero rate” means tax is applied at a rate of zero to certain domestic sales. It does not include zero rated exports.
2. Applies in Jungholz and Mittelberg.
3. The provinces of Newfoundland and Labrador, New Brunswick, and Nova Scotia have harmonized their provincial sales taxes with the federal Goods and Services Tax and levy a rate of 15% . 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.
4. Applies in Corsica.
5. Applies to overseas departments (DOM) excluding French Guyana.
6. Applies in the regions Lesbos, Chios, Samos, Dodecanese, Cycladen, Thassos, Northern Sporades, Samothrace and Skiros.
7. Applies in the border regions.
8. Applies in Azores and Madeira.
9. Applies in the Canary Islands.
10. Applies in Ceuta and Melilla axes on specific goods and services.

Source: National delegates, position as at 1st January 2005.

Table 3.6. **Annual turnover concessions for VAT/GST registration and collection**

	National currency	Registration thresholds[1]						Collection threshold (if different from registration threshold)[2]		Registration allowed prior to exceeding threshold[3]	Minimum registration period[4]
		General threshold		Reduced threshold for suppliers of services only		Special threshold for non-profit and charitable sector					
		Nat. curr.	USD	Nat. curr.	USD	Nat. curr.	USD	Nat. curr.	USD		
Australia	AUD	50 000	36 496			100 000	72 993			Yes	1 year
Austria	EUR	22 000	24 229							Yes	5 years
Belgium	EUR	None						5 580*	6 319	Not applicable	None
Canada	CAD	30 000	23 622			50 000	39 370			Yes	1 year
Czech Republic	CZK	1 000 000	68 493							Yes	1 year
Denmark	DKK	50 000	5 910							Yes	None
Finland	EUR	8 500	9 081							Yes	None
France	EUR	76 300	85 061	27 000	30 100					Yes	2 years
Germany	EUR	17 500	18 637							Yes	5 years
Greece	EUR	9 000	12 912	4 000	5 739					Yes	5 years
Hungary	HUF	None						4 000 000	31 746	Yes	2 years
Iceland	ISK	220 000	2 442							Yes	2 years
Ireland	EUR	51 000	50 495	25 500	25 248					Yes	None
Italy	EUR	None								Not applicable	None
Japan	JPY	10 000 000	75 188							Yes	2 years
Korea	KRW	None								Not applicable	None
Luxembourg	EUR	10 000	10 163							Yes	5 years
Mexico	MXN	None								Not applicable	None
Netherlands	EUR	None						1 883*	2 049	Not applicable	None
New Zealand	NZD	40 000	26 846							Yes	None
Norway	NOK	50 000	5 274			140 000	14 768			No	2 years
Poland	PLN	43 800	10 580							Yes	3 years
Portugal	EUR	None						9 975	5 451	Not applicable	5 years
Slovak Republic	SKK	1 500 000	87 209							Yes	1 year
Spain	EUR	None								Not applicable	None
Sweden	SEK	None								Not applicable	None
Switzerland	CHF	75 000	42 373			150 000	84 746			Yes	None
Turkey	YTL	None								Not applicable	None
United Kingdom	GBP	58 000	93 700							Yes	None

Table 3.6. **Annual turnover concessions for VAT/GST registration and collection** *(cont.)*

1. Registration thresholds identified in this chart are general concessions that relieve suppliers from the requirement to register for VAT/GST until such time as they exceed the threshold. Except where specifically identified, these 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. A collection threshold may apply where a jurisdiction does not have a registration threshold. In these jurisdictions, all suppliers are required to register for VAT/GST, but will not be required to charge and collect VAT/GST until they exceed the collection threshold.
3. "Yes" means a supplier is allowed to voluntarily register and collect VAT/GST where their total annual turnover is less than the registration threshold.
4. Minimum registration periods apply to general concessions. Specific industries, types of traders, or vendors that voluntarily register may be subject to different requirements.

* Belgium: A supplier is allowed to voluntarily collect VAT/GST where their total annual turnover is less than the collection threshold.

* Netherlands: This is a net threshold equal to VAT on total annual turnover minus input tax.

Source: National delegates, position as at 1st January 2005.

Table 3.7. **Exemptions**[1]

	Exemptions	Taxation of "standard exemptions"
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 – zero rate); commercial property and new residential property (except certain supplies of commercial property where an enterprise is continuing its operation).
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.
Czech Republic	Standard exemptions; public television and radio.	Certain cultural services (*e.g.* admission to theatres, cinemas, concerts, etc subject to reduced rates).
Denmark	Standard exemptions; passenger transport; burials; sale of products of artistic work valued under 300 000 DKK; 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; new industrial waste and recyclable material; 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.
Germany	Standard exemptions.	–
Greece	Standard exemptions; legal services; authors' rights; artists' services; public radio and TV; supply of water by public bodies; supply of new buildings.	Cultural services (under conditions – admission to theatres, cinemas, concerts, etc.: lower rate).
Hungary	Standard exemptions; public radio and TV broadcasting; sale, rental and leasing of parcels of land (other than for housing purposes); services rendered by intermediaries (in case of exempt supply of goods and services); lending of buildings for education; transfer of creditors and ownership rights.	The first supply of immovable property which is for living purposes is taxed at 25 %.
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.	Long-term letting of commercial immovable property; supply of land and buildings.
Italy	Standard exemptions; municipal passenger transport by sea, river and taxi; burials.	Supply and letting of commercial land and buildings (standard rate). Residential housing taxed only when letby building enterprises (at lower rate of 10%).
Japan	Standard exemptions; social welfare services; sale of certain kinds of equipment for the disabled people; administrative services; alienation of securities.	Postal services; sporting services; cultural services; letting of commercial buildings; supply of buildings.
Korea	Standard exemptions; certain public transport; supply of water and coal; mineral oil used for certain purposes in agriculture and fishery; funeral undertaking; certain personal services similar to labour.	Rental and supply of commercial buildings; commercial cultural services; gambling in licensed clubs.
Luxembourg	Standard exemptions.	–
Mexico	Standard exemptions; magazines; gold and silver coins and shares; foreign currency; retailing of gold bullion; authors' rights; public transport of passengers by land; agriculture, forestry and fishing activities.	Postal and insurance services except life and agricultural insurance; letting of commercial buildings and financial services for consumer credits and personal credits.

Table 3.7. **Exemptions**[1] *(cont.)*

	Exemptions	Taxation of "standard exemptions"
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.
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; accommodation in hotels, motels, etc.	Postal services; infrastructural services within the passenger transport sector.
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.	–
Spain	Standard exemptions; copyright to literature and works of art.	Some cultural services provided to paying consumers.
Sweden	Standard exemptions; public television and radio; public cemetery services; social services.	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 work place 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; investment gold; sports competitions; certain luxury hospital care; works of art.	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.

1. "Standard exemptions" are the following: 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.

Source: National delegates, position as at 1st January 2005.

Table 3.8. **Coverage of different VAT rates**[1]

	Domestic zero rate	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; Books; food; forestry; hospitals; newspapers; art; culture; letting transport; supply of wine by farmers (12%).
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).
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).	–
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.	First time sale of products of artistic work valued over 300 000 DKK (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	–	Medicine; equipment for disabled; books; hotels; entertainment; author's rights; museums; transport; accommodation; agriculture; books; catering; newspapers; water; work on dwellings over 2 years old.
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	–	Electric energy; passenger transport; food; water supply; medicine; equipment for the disabled; admission to shows, cultural and sporting events; agricultural services; hotels; restaurants; use of sporting facilities; funeral services; collection and treatment of waste; authors and artists (if not exempt); books; press; some labour-intensive services (domestic care services, clothing repair).
Hungary	–	Food; dairy products; combustible gas and mineral fuel for heating; urban waste; transport; water (except mineral water) and water supply services; equipment for the disabled; optical lenses; veterinary products and services; live animals; pharmaceutical products; books; newspapers; repairs of medical appliances; broadcasting; agricultural and fishery services; accommodation; film services; art services; library services; bath services; funerals.
Iceland	International transport provisions; fuel and equipment delivered for use in ships & aircraft engaged in international traffic; ship-building.	Food; newspapers; books; hotels; warm water; electricity & fuel oil used for the heating of houses and swimming pools.

Table 3.8. **Coverage of different VAT rates**[1] *(cont.)*

	Domestic zero rate	Lower rate
Ireland	Books; children's clothing and footwear; oral medicine; certain medical equipment; food products; seeds; fertiliser; certain aircraft and sea-going vessels.	Newspapers and certain periodicals; fuel for certain purposes; electricity; works of art; veterinary services; agricultural services; car and boat hire; driving instruction; photographs; 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.
Italy	–	Food; medicine and health products/services for the disabled; telecommunications; housing; books; newspapers; weekly publications; combustible gas for home heating; urban waste; purification stations; renewable-source energy; works of art; shows; transport; accommodation let by building enterprises (10%).
Japan	–	–
Korea	Certain machinery and materials for agriculture; fishery; livestock 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-processed animals and vegetables (including wood in pieces) except rubber; patent medicines; milk; water; ice; food except processed food; smoked salmon and caviar; agricultural equipment; machinery and fishing boats; the wholesale of gold; gold bullion and jewellery; some agricultural and fishing services; the letting of some agricultural machinery and equipment; the sale of books and newspapers edited by the taxpayer himself; the provision of the water supply service for domestic purposes.	Sale of goods and services in the border regions.
Netherlands	–	Accommodation; agricultural inputs; books; catering; food; goods and services for the disabled; medicine; newspapers; magazines; passenger transport; 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; lending of books.
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.	Passenger transport; public broadcasting and cinemas (7%); foodstuffs (11%).
Poland	Certain books and specialised magazines; international transport of goods and passengers.	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 3.8. **Coverage of different VAT rates**[1] *(cont.)*

	Domestic zero rate	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	–	–
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; 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; ski-lifts; newspapers; 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; supplies of goods and services to international organisations and diplomatic missions.	Water; food; medicine; books; newspapers; non-commercial television; accommodation; plants, seeds and flowers; livestock; cereals; animal food; fertilizer; 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; diplomatic exemption; some goods and services related to international 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; 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; residential and some charity 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 "Passport Benefits".

1. Exports of goods, intangibles and services are generally zero rated in all OECD countries.
Source: National delegates, position as at 1st January 2005.

Rate and structure of VAT

Evolution of VAT rates

The standard rates of VAT as at 1st January 2005 (Table 3.5), have remained generally stable since 2000. France, the Czech Republic and the Slovak Republic were the only countries to reduce their rate while four countries raised them: Netherlands, Norway, Portugal and Turkey.

There are still major differences between the OECD member countries, with standard rates ranging from 5% (Japan) to 25% (Denmark, Hungary, Sweden). However, the majority of member countries (23 out of 29) have standard rates of between 15% and 25%, while the (unweighted) average remained stable at 17.7% (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%.

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 3.7).

These exceptions tend to cover four 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 such as charitable services, culture and sport.
- Certain sectors that are exempt from VAT for historical or practical reasons and may be subject to specific taxes (property, insurance, financial services).

With the exceptions of Japan and the Slovak Republic, all OECD countries have one or more reduced rates and/or domestic zero rates (a domestic zero rate means that VAT/GST is not levied on goods and services consumed within the country but deduction of input tax is allowed). In some countries, the latter are called "GST-free supplies". 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, clothes). However, the effectiveness of reduced VAT rates to achieve this distributional objective is questionable. The wealthier members of the population also benefit from these reduced rates and in terms of expenditure on non-essential goods the wealthier are anyway likely to pay more tax in absolute terms. Using VAT/GST rates to meet social objectives may not always be the most efficient way of ensuring that those who need assistance actually receive it. The availability of more effective redistributive instruments such as progressive income tax rates and targeted expenditure policies (*e.g.* in the areas of health and education) also weakens the case for rate differentiation. Rate differentiation also increases administrative and compliance costs, legal uncertainty and opportunities for fraud through deliberate misclassification of items.

Exemptions

In addition to reduced rates, there is also an extensive use of exemption across countries (see Table 3.7). An exemption occurs when outputs are untaxed but input tax is not recoverable. It is a significant departure from the basic logic of VAT. With the exceptions

of New Zealand and Turkey, all OECD countries exempt a few specific sectors considered as essential for social reasons: health, education and charities. In addition most countries also use exemptions for practical reasons (*e.g.* financial or 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). The exemption of financial services has been under examination for several years but the potential impact on revenue often prevents countries from making any radical change. 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. 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.

Firms who sell both taxable and exempt outputs are faced with complex tax calculations. Their right to deduction of input tax must be allocated between the two kinds of sales either by the 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.

Thresholds

An exemption may be defined either in terms of particular goods and services (see above) or in terms of particular traders. The most common example of the latter kind is the exclusion of small traders from the VAT system through the use of a threshold below which they are (compulsorily or voluntarily) exempted or not required to register (Table 3.6). Relief from registration and/or collection may also be available to specific industries or types of traders.

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

- Eleven member countries have a high threshold (more than USD 20 000): Australia, Austria, Canada, the Czech Republic, France, Ireland, Japan, New Zealand, the Slovak Republic, Switzerland and the United Kingdom.
- Eight member countries have a low threshold (between USD 2 000 and 19 999): Denmark, Finland, Germany, Greece, Iceland, Luxembourg, Norway and Poland.
- Ten member countries have no general exemption threshold (even if some of them apply a threshold below which the duly registered taxpayer is exempt from applying the tax): Belgium, Hungary, Italy, Korea, Mexico, Netherlands, Portugal, Spain, Sweden and Turkey.

There is no consensus amongst OECD countries on the need for or level of thresholds. The main reason for excluding "small" taxpayers[1] from VAT is that the administrative and compliance costs exceed the VAT revenues from their activity. On the other hand, a high threshold may be considered as giving an advantage to small taxpayers, creating distortion of competition with larger ones. Thus, the level of the threshold is often a compromise between the desire to save compliance and collection costs and the desire not to jeopardise revenue or distort 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 system (see Chapter 1). Table 3.9 shows the increase in the use of reverse charge mechanism for cross-border supplies of services and intangible products between firms (Iceland, Japan and Mexico are the only countries that do not use this system). This mechanism is also used in the international trade in goods (including several 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, reverse charge is also used as a means of combating fraud.

Table 3.9 also shows that more than two-thirds of member countries have systems of taxing the margin between purchase and selling price rather than the selling price. These systems apply mainly to gambling, travel agencies, second-hand goods (including antiques) and works of art.

Revenue performance of VAT

As shown above, 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. Given this diversity, it is reasonable to consider whether there is a "perfect" (or, at least, a "best practices") VAT.

1. This notion may vary considerably across countries – see Chapter 6.

One tool considered as an appropriate indicator of the performance of the VAT (see Bodin, Ebrill, Keen, Summers, 2001) in a country is the "C-efficiency ratio" (CER), which is defined as the ratio of the share of VAT revenues to consumption divided by the standard rate, expressed as a percentage.

$$\frac{\text{VAT revenues/National consumption} \times 100}{\text{Standard VAT rate}} \times 100 = \text{C-efficiency ratio}$$

This ratio, using national consumption as a benchmark, is more appropriate than the classic ratio using Gross Domestic Product (GDP), as VAT is a tax on domestic consumption rather than value added (see Chapter 2). In theory, a "perfect" VAT system (*i.e.* in which all consumption is taxed at a uniform rate) will have a CER of 100%. Any other value – higher or lower – indicates deviation from a single tax rate applied on all private consumption.

A high efficiency ratio is taken as evidence of a VAT bearing uniformly on a broad base with effective tax collection. On the other hand, a low CER may indicate an erosion of the tax base either by exemption or reduced rates, poor compliance or poor tax administration or a combination of these. The application of low or zero rates to many goods and services may lead to a below average CER.

Thus, countries with similar standard rates can have significantly different revenue performance as measured by the CER. In both Luxembourg and Mexico, for instance, the standard rate of VAT is 15 per cent: yet in Luxemburg the VAT collects over 68 per cent of consumption in revenue whereas in Mexico the tax yields only 30.4 per cent of consumption. Table 3.12 shows the considerable variation in the revenue performance of the VAT. It varies from 30.4 per cent (Mexico) to 96.4 per cent (New Zealand), the latter having an exceptionally high ratio (43.5 points above OECD average), which is probably due to a very broad tax base and a relatively low standard rate. Between these extremes, the ratio varies between 71.7 per cent (Switzerland) and Italy (38.2 per cent).

Taking account of currently available data, it appears difficult to draw typical profiles for "efficient" and "inefficient" countries in the collection of VAT revenues on the basis of this CER. Only Japan combines a single (low) VAT rate, an absence of domestic zero rate and a high CER (65.3 per cent). Even though all six countries that have a CER above 65 per cent (Canada, Japan, Korea, Luxembourg New Zealand and Switzerland) have a standard rate below average, five of them have domestic zero or reduced rates.

This measure of VAT efficiency should therefore be used with some caution. An extensive use of reduced VAT rates or exemption might be offset for example by breaks in the VAT chain at an early stage resulting in the taxation of both final consumption and some intermediate production (see Chapter 2).

Overall, 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.
- 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 may 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.

More work is needed to identify the specific factors that influence the performance of VAT and how they interact.

Bibliography

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Table 3.9. **Special VAT taxation methods**

	Usage of reverse charge system	Usage of margin schemes
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 prizes awarded. Second-hand goods.
Austria[1]	Several services delivered internationally and intra-Community delivery of goods (EU Scheme); 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 an other 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 Scheme); 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.	–
Czech Republic[1]	Several services delivered internationally and intra-community delivery of goods (EU Scheme).	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 Scheme); 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.	Second-hand goods.
Finland[1]	Several services delivered internationally and intra-Community delivery of goods (EU Scheme); 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.	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 Scheme).	Travel agencies; second-hand goods, works of art, collector's items and antiques (EU Directive); Real estate agents.

Table 3.9. **Special VAT taxation methods** *(cont.)*

	Usage of reverse charge system	Usage of margin schemes
Germany[1]	Several services delivered internationally and intra-Community delivery of goods (EU Scheme); 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; (from 1 April 2004) turnover covered by the Real Property Transfer Tax Law (in particular transfers of real estate). If the customer is an entrepreneur: (from 1 April 2004) 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; (from 1 January 2005) 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 Scheme).	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); financial services; telecommunication services; letting of properties (except immovable property); transfer of ownership rights in connection with copyright, patent, invention, trademark etc.; advertisement; legal tax, accounting, computer, data processing etc. services; letting of manpower and personnel including the intermediate services.	Works of art, antiques, collectors' items, second hand goods (EU Directive); the marketing of waste materials; activities relating to tourism.
Iceland	–	–
Ireland[1]	Several services delivered internationally and intra-Community delivery of goods (EU Scheme).	Optional margin scheme for antiques, works of art and second hand goods (EU Directive). There is an obligatory margin scheme for auctioneers.
Italy[1]	Several services delivered internationally and intra-Community delivery of goods (EU Scheme); Investment gold: supply of semi-finished products, gold purity >0.325, so called industrial gold, scrap iron.	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 Scheme).	Travel agencies; second-hand goods, works of art, collector's items and antiques (EU Directive).
Mexico	–	–
Netherlands[1]	Several services delivered internationally and intra-Community delivery of goods (EU Scheme).	Travel agencies; second-hand goods, works of art, collector's items and antiques (EU Directive).
New Zealand	Reverse charge applies on business-to-business transactions.	–
Norway	Taxable persons and public institutions that receive services capable of delivery from a remote location abroad are obliged to account for VAT under a self-assessment arrangement.	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 Scheme).	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 Scheme).	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 Scheme).	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 Scheme).	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 Scheme).	Travel agencies; second-hand goods, works of art, collector's items and antiques (EU Directive).

Table 3.9. **Special VAT taxation methods** *(cont.)*

	Usage of reverse charge system	Usage of margin schemes
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 in Turkey, any of the people involved in a taxable transaction are responsible for the payment of tax.	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 Scheme).	Travel agencies; second-hand goods, works of art, collector's items and antiques (EU Directive).

1. "EU Scheme": 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 (6th VAT Directive 77/388/EC). This is mainly the case for the intra-Community delivery of goods between taxpayers (art. 28 c); several services listed in art. 9,2,e (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) and services included in article 28b of 6th Directive (intra-community transport of goods, services by intermediaries, valuations or work on movable tangible property).

Source: National delegates, position as at 1st January 2005.

Table 3.10. **Import/export of goods by individuals**

	Thresholds for tax-free import of goods by individual travellers			Refund for individuals upon export		
	Scheme	Max threshold		Scheme	Min. value	
		Nat. curr.	USD		Nat. curr.	USD
Australia[1]	AUD 400 worth of goods (or AUD 200 for people under the age of 18), 1.125 litres of alcohol and 250 cigarettes or 250g of cigars or other tobacco products 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. However, if the total duty and tax payable is less than AUD 50, collection is waived.	AUD 400	292	Tourist Refund Scheme (TRS): individuals may claim a refund of GST on purchases made over AUD 300 from a single business within 28 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	218
Austria	EU Scheme[2]	EUR 175	193	Refund to individuals exporting goods in their personal luggage to a destination outside the EU minimum invoice amount EUR 75.	EUR 75	83
Belgium	EU Scheme[2]	EUR 175	198	Refund to individuals exporting goods in their personal luggage to a destination outside the EU minimum invoice EUR 125.	EUR 125	142
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 200 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). 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 prizes 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.	CAD 750	591	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, deisel fuel and other motor fuels. Eligible accommodation is accommodation in a unit provided for less than one month of continuous occupancy. The total purchase amount for eligible goods and short-term accommodation (before taxes) must be at least CAD 200 and for eligible goods, each receipt must show a minimum purchase amount (before taxes) of CAD 50.	CAD 200	158

Table 3.10. **Import/export of goods by individuals** *(cont.)*

	Thresholds for tax-free import of goods by individual travellers			Refund for individuals upon export		
	Scheme	Max threshold		Scheme	Min. value	
		Nat. curr.	USD		Nat. curr.	USD
Czech Republic	EU Scheme[2]	CZK 6 000	411	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	137
Denmark	EU Scheme[2]	DKK 360	43	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	142
Finland	EU Scheme[2]	EUR 175	187	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	43
France	EU Scheme[2]	EUR 175	195	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	195
Germany	EU Scheme[2]	EUR 175	186	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[2]	EUR 175	251	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	172
Hungary	EU Scheme[2]	HUF 45 000	357	Refund to individuals exporting goods in their personal luggage to a destination outside the EU. Minimum invoice HUF 45 000 Limitation: certain works of art, antiques and tobacco products.	HUF 45 000	357
Iceland	ISK46 000 for travellers	ISK 46 000	511	Refund for individuals when leaving the country for goods worth more than ISK 4 000.	ISK 4 000	44
Ireland	EU Scheme[2]	EUR 175	173	Refund to individuals exporting goods in their personal luggage to a destination outside the EU. There is no threshold as to the amount.	–	–
Italy	EU Scheme[2]	EUR 175	209	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	185

Table 3.10. **Import/export of goods by individuals** *(cont.)*

	Thresholds for tax-free import of goods by individual travellers			Refund for individuals upon export		
	Scheme	Max threshold		Scheme	Min. value	
		Nat. curr.	USD		Nat. curr.	USD
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	75	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 (KRW 400 000) 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 400 000	517	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.[2]	EUR 175	178	Refund to individuals exporting goods in their personal luggage to a destination outside the EU. Minimum invoice EUR 74.	EUR 74	75
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 3 120	428	No refund scheme.	–	–
Netherlands	EU Scheme.[2]	EUR 175	190	Refund to individuals exporting goods in their personal luggage to a destination outside the EU minimum invoice EUR 136.	EUR 136	148
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 grammes of tobacco, or 50 cigars, or a mixture of all three weighing not more than 250 gr. 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	470	No refund scheme.	–	–

Table 3.10. **Import/export of goods by individuals** *(cont.)*

	Thresholds for tax-free import of goods by individual travellers			Refund for individuals upon export		
	Scheme	Max threshold		Scheme	Min. value	
		Nat. curr.	USD		Nat. curr.	USD
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	632	VAT refunds are available for tourists. For Nordic countries a higher value applies.	NOK 250	26
Poland	EU Scheme.[2]	PLN 678	164	Refund to individuals exporting goods (excluding fuels) in their personal luggage to a destination outside the EU. Minimum invoice PLN 200.	PLN 200	48
Portugal	EU Scheme.[2]	EUR 175	95	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	27
Slovak Republic	EU Scheme.[2]	SKK 4 972	289	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 SKK 5 000 and goods should be exported within 3 months after the last day of the month where goods were purchased.	SKK 5 000	290
Spain	EU Scheme.[2]	EUR 175	228	Refund to individuals exporting goods in their personal luggage to a destination outside the EU Minimum invoice EUR 90.	EUR 90	117
Sweden	EU Scheme.[2]	SEK 1 597	171	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 grammes of pipe-tobacco and 2 lt. up to 15% alc. plus 1 lt. over 15% alc.; 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	170	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	226
Turkey	–	–	–	VAT refund to passengers who do not reside in Turkey for the purchasing goods taken to abroad. Minimum invoice: YTL 100.	YTL 100	128
United Kingdom	EU Scheme.[2]	GBP145	234	Refund to individuals exporting goods in their personal luggage to a destination outside the EU. Threshold on refunds set by retailer.	–	–

Table 3.10. **Import/export of goods by individuals** *(cont.)*

	Thresholds for tax-free import of goods by individual travellers			Refund for individuals upon export		
	Scheme	Max threshold		Scheme	Min. value	
		Nat. curr.	USD		Nat. curr.	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.	–	–
European Union	EU Regulations 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. Nevertheless, special quantitative limits by traveller apply for the following high-duty goods (Regulations 69/169 – VAT and Excise – and 918/83 – Duties): *a)* Tobacco: 200 cigarettes, or 100 cigarillos (cigars of a maximum weight of three grammes each), or 50 cigars, or 250 grammes of smoking tobacco; *b)* Alcoholic beverages: – distilled beverages and spirits of an alcoholic strength exceeding 22% vol.: 1 litre; or – distilled beverages and spirits, and aperitifs with a wine or alcoholic base, of an alcoholic strength not exceeding 22% vol.; sparkling wines, liqueur wines and still wines: 2 litres; c) Perfumes: 50 grams and toilet waters: 0.25 litre. Several additional limitations may apply for travellers under 15 years of age, persons residing in the frontier zone or frontier workers. Several goods may be admitted free of import duties and VAT according to the non-tariff exemptions of Regulation 918/83 (duties) and 83/181 (VAT), for example, educational, scientific and cultural materials, scientific instruments and apparatus, therapeutic substances, goods for charitable or philanthropic organisations, articles intended for the blind and other handicapped persons.	EUR 175	184	No EU regulation.		

1. On 1st February 2005 passenger import concessions were changed so that AUD 900 (or AUD 450 for people under the age of 18) worth of goods (excluding tobacco or alcohol) may be imported without individuals needing to be assessed for GST and customs duty. The tax-free threshold for alcoholic beverages was also increased to 2.25 litres. The tobacco threshold remained unchanged. If individuals have in excess of this amount, they need to declare goods and be assessed. However, unlike the previous arrangement where tax payable less than AUD 50 was waived, now where passengers exceed a concession they are charged duty and/or tax on the entire importation or purchase (within that concession).
2. Thresholds & limits for VAT-free import of goods by individual travellers within the EU from non-EU countries are defined by Council Regulation 918/83 of 28 March 1983. This customs regulation is explained under "European Union" at the end of this table.

Source: National delegates, position as at 1st January 2005.

Table 3.11. **VAT revenues (5111) as percentage of total taxation**

	1998	1999	2000	2001	2002	2003
Australia	0	0	11.13	12.59	13.13	13.26
Austria	18.68	19.24	18.83	18.00	18.71	18.42
Belgium	15.06	15.96	16.16	15.43	15.61	15.47
Canada	9.17	9.15	9.30	9.60	10.01	10.19
Czech Republic	17.45	18.447	18.261	17.88	17.34	17.07
Denmark	19.78	19.51	19.323	19.81	20.11	20.10
Finland	17.98	18.05	17.413	17.84	18.20	19.40
France	17.07	16.865	16.461	16.18	16.21	16.31
Germany	17.87	18.37	18.37	18.21	18.05	17.90
Greece	20.78	21.45	21.15	22.72	23.00	21.84
Hungary	20.35	21.15	22.45	21.46	20.63	21.70
Iceland	28.44	29.15	27.65	25.83	25.88	25.52
Ireland	22.72	22.40	23.11	23.13	24.97	24.52
Italy	14.19	13.69	15.38	14.86	14.99	14.18
Japan	9.36	9.84	9.08	9.10	9.55	9.54
Korea	15.41	17.90	17.02	17.25	18.93	18.21
Luxembourg	12.98	13.23	13.57	14.01	14.29	14.92
Mexico	18.81	18.98	18.69	19.12	19.31	19.39
Netherlands	17.19	17.38	17.40	19.02	19.20	19.74
New Zealand	26.13	25.87	24.86	25.64	25.28	26.10
Norway	21.26	21.86	20.21	20.19	20.34	19.95
Poland	20.76	22.65	22.02	20.36	21.27	21.66
Portugal	22.77	22.70	23.17	22.94	22.82	22.88
Slovak Republic	19.98	21.13	22.46	22.89	23.25	21.95
Spain	16.57	17.40	17.50	17.06	16.72	17.19
Sweden	17.24	17.29	16.60	17.39	18.21	18.18
Switzerland	11.75	13.03	13.10	13.41	13.00	13.42
Turkey	21.92	20.01	24.18	23.02	26.16	24.91
United Kingdom	18.38	18.68	18.26	18.26	19.26	19.83
Unweighted average:						
OECD Total	17.00	17.38	17.77	17.77	18.15	18.13
OECD America	9.32	9.38	9.33	9.57	9.77	9.86
OECD Pacific	12.73	13.40	15.52	16.14	16.72	16.78
OECD Europe	18.75	19.11	19.26	19.13	19.49	19.44
European Union (15)	17.95	18.15	18.18	18.32	18.69	18.72

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Table 3.12. C-efficiency ratio for VAT 2003

	Standard rate	Consumption*	VAT revenues*	C-efficiency ratio
Australia	10.0	643 615	34 121	53.0
Austria	20.0	169 610	17 944	52.9
Belgium	21.0	210 017	18 938	42.9
Canada	7.0	906 450	42 181	66.5
Czech Republic	22.0	1 919 439	164 250	38.9
Denmark	25.0	1 046 742	135 092	51.6
Finland	22.0	107 091	12 455	52.9
France	19.6	1 267 458	112 440	45.3
Germany	16.0	1 703 090	137 568	50.5
Greece	18.0	128 880	11 951	51.5
Hungary	25.0	14 905 069	1 539 868	41.3
Iceland	24.5	671 892	80 940	49.2
Ireland	21.0	84 241	9 814	55.5
Italy	20.0	1 040 063	79 486	38.2
Japan	5.0	370 658 900	12 107 000	65.3
Korea	10.0	485 380 400	33 447 000	68.9
Luxembourg	15.0	14 409	1 474	68.2
Mexico	15.0	5 586 952	254 433	30.4
Netherlands	19.0	352 566	34 754	51.9
New Zealand	12.5	106 035	12 775	96.4
Norway	24.0	1 074 245	135 296	52.5
Poland	22.0	681 313	60 315	40.2
Portugal	19.0	108 607	11 072	53.7
Slovak Republic	20.0	917 663	81 876	44.6
Spain	16.0	583 760	46 767	50.1
Sweden	25.0	1 894 364	224 134	47.3
Switzerland	7.6	314 959	17 156	71.7
Turkey	18.0	288 590	29 367	56.5
United Kingdom	17.5	956 789	77 630	46.4
Unweighted average:				
OECD Total (ua)	17.8			52.9
OECD European Union (15) (ua)	20.21			50.6

* Data in national currency, at current prices, in millions.
2003 is the most recent year for which complete data are available.

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Chapter 4

Selected Excise Duties in OECD Member Countries

Introduction

Before the introduction of general consumption taxes, excise and customs duties were the recognised means of taxing consumption. Unlike customs duties, however, excise duties are normally levied on consumption of specific goods whether domestically produced or imported. As with the value added taxes (VAT), excise duties share the principle of neutrality towards goods produced abroad.

Excise duty, unlike VAT and general consumption taxes, is levied only on specifically defined goods. The three principal product groups, which remain 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 tax administrations, a number of general characteristics on excise taxes may be noted:

- Excise charges are generally calculated by reference to the weight, volume, strength, or quantity of the product, combined in several cases with the value.
- Excise duty does not normally become payable until the goods are entered into 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.

While the main purpose and the original reason for the introduction of excise duties were to raise revenue, an alternative philosophy has emerged, recognising the application of excise duties as a means of influencing consumer behaviour.

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 the purchase or use of motor vehicles (see Chapter 5) and fuels, including petrol and diesel, generate most of the revenues from environmentally related taxes (see Annex 3).

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 duty on wine (Table 4.2) may vary from zero (Austria, the Czech Republic, Germany, Greece, Italy, Luxemburg, Portugal, the Slovak Republic, Spain and Switzerland) to USD 5.86 a litre (Iceland).

Table 4.1. **Taxation of beer**

	Specific excise per hectolitre per degree Plato		Specific excise per hectolitre per degree alc.		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	Per cent	National currency	USD	Excise rates which are progressive by strength	Low rates for small producers
Australia	See note		See note		10.00	0.00	0.00	Yes	Yes – see note
Austria	2.08	2.29		0.00	20.00		0.00	No	Yes
Belgium	1.71	1.94		0.00	21.00		0.00	No	Yes
Canada		0.00	27.99	22.04	7 or 15	See note		Yes	No
Czech Republic	24.00	1.64		0.00	19.00		0.00	No	Yes
Denmark		0.00	58.40	6.90	25.00	0.00	0.00	No	Yes
Finland		0.00	19.45	20.78	22.00	1.68	1.79	No	Yes
France		0.00	2.60	2.90	19.60	1.30	1.45	No	No
Germany	0.79	0.84		0.00	16.00		0.00	No	Yes
Greece	1.13	1.62		0.00	18.00		0.00	No	Yes
Hungary	420.00	3.33		0.00	25.00		0.00	No	No
Iceland		0.00	5 870.00	65.15	24.50	0.00	0.00	No	No
Ireland			19.87	19.67	21.00	See note		No	Yes
Italy	1.59	1.90		0.00	20.00		0.00	No	No
Japan		0.00	See note		5.00		0.00	No	No
Korea	See note		See note		10.00	See note		No	No
Luxembourg	0.79	0.80	0.00	0.00	15.00	0.79	0.80	No	Yes
Mexico		0.00	25%		15.00		0.00	Yes	No
Netherlands	2.10	2.29		0.00	19.00		0.00	Yes	Yes
New Zealand		0.00	See note		12.50	See note		No	No
Norway		0.00	See note		25.00	See note		Yes	No
Poland	6.86	1.66		0.00	22.00		0.00	No	Yes
Portugal		0.00	See note		19.00	6.19	3.38	Yes	Yes
Slovak Republic	50.00	2.91		0.00	19.00		0.00	No	Yes
Spain	See note			0.00	16.00	See note		Yes	No
Sweden		0.00	147.00	15.77	25/12	0.00	0.00	No	No
Switzerland	24.75	13.98	See note		7.60	See note		No	No
Turkey		0.00	23.80*	30.51	18.00		0.00	No	No
United Kingdom		0.00	12.59	20.34	17.50	0.00	0.00	No	Yes
United States		0.00	21.00	21.00	–		0.00	No	Yes

Notes:

Australia. The excise rates for beer in individual containers not exceeding 48 litres are: AUD 39.40 per litre of alcohol where volume of alcohol does not exceed 3 per cent, AUD 35.53 where volume of alcohol exceeds 3 per cent. The rates for beer in individual containers exceeding 48 litres are: AUD 6.09 per litre of alcohol where volume of alcohol does not exceed 3 per cent, AUD 19.12 where volume of alcohol exceeds 3 per cent but not 3.5 per cent, and AUD 25.02 where volume of alcohol exceeds 3.5 per cent. Each rate is calculated on the amount by which the alcohol content (by volume) exceeds 1.15%. Beer that does not contain more than 1.15% by volume of alcohol is free of excise.

Austria. Rates for small breweries (annual production up to 50 000 hl) range from EUR 1.24 to EUR 1.87 according to size of production.

Belgium. Rates for small breweries (annual production up to 200,000 litres of beer) range from EUR 1.4873 to EUR 1.6857 per hl per degree Plato, according to the size of production. Beer containing less than 5%alc by volume is subject to an excise duty of EUR 4.9579 per hl.

Canada. Excise rates are as follows per hectolitre of product: *a)* Over 2.5% vol. CAD 27.985; *b)* Over 1.2% vol. but not more than 2.5% vol. CAD 13.99; *c)* 1.2% vol. or less CAD 2.591.

Denmark. The following rates apply on 9 January 2005: DKK 50.90 per litre of pure alcohol. No duty on beer under 2.8%vol. An additional duty is placed on products which contain 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.

Table 4.1. **Taxation of beer** *(cont.)*

Finland. Four reduced rates for small independent breweries: *a)* EUR 9.73 (annual production up to 2 000 hl); *b)* EUR 13.62 (annual production over 2 000 hl and up to 30 000 hl); *c)* EUR 15.56 (annual production over 30 000 hl and up to 55 000 hl); *d)* 17.51 (annual production over 5 500 hl and up to 100 000 hl.

Germany. Rates for small breweries (annual production up to 200 000 hl) range from EUR 0.4402 to EUR 0.6610 per hl per degree Plato.

Greece. Since 25.06.2003 the excise rate for independant small breweries producing annually up to 200 000 hl of beer is EUR 0.57 per hl per degree plato.

Iceland. Excise rate in ISK 5 870 per % alcohol by volume exceeding 2.25%.

Ireland. Excise rate Nil 1.2% and below.

Italy. Beers with volume of alcohol does not exceed 0.5 per cent is not taxed.

Japan. Excise rates are JPY 22 200 per hectolitre of product.

Korea. The current rate of Liquor Tax on beer is 100% of the manufacturer's price, and will be gradually lowered to 90% in 2005, to 80% in 2006 and to 72% in 2007. In addition to Liquor Tax, Education Tax is levied at varying rates on the amount of Liquor Tax. The rate of Education Tax on beer is 30% on the amount of Liquor Tax.

Luxembourg. Rates for small breweries (annual production up to 200 000 hl) range from EUR 0.40 to EUR 0.45.

Mexico. All rates are according to the value. The rates for beer apply as follows: 25% up to 13.5° G.L.; 30% above 13.5° G.L. and up to 20° G.L.; 50% above 20° G.L.

Netherlands. 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; *d)* Over 15 degree Plato EUR 31.40. Rates for small breweries (annual production up to 200 000 hl) 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; *d)* Over 15 degree Plato EUR 29.05. For beer with an alcohol content of. 0.5% the VAT rate is 6%.

New Zealand. The excise rate for beer containing more than 2.5% vol. is NZD 22.592 per litre of alcohol in finished product. The rate for beer containing more than 1.15% vol. but not more than 2.5% vol. is NZD 33.882 per hl of product. There is no excise duty on beer containing less than 1.15% vol.

Norway. Excise rates are as follows per hectoliter of product: *a)* 0.00-0.70% vol. NOK 158; *b)* 0.70-2.75% vol. NOK 247; *c)* 2.75-3.75% vol. NOK 935; *d)* 3.75-4.75% vol. NOK 1 618. The excise rate for beer with an alcoholic content of more than 7% vol is NOK 355 per degree of alcohol and hectoliter.

Poland. Allowances for small breweries: 25 PLN/hl if the producer sells no more than 20 000 hl a year. 12.50 PLN/hl if the producer sells no more than 70 000 hl a year. 10 PLN/hl if the producer sells no more than 150 000 hl a year. 7.50 PLN/hl if the producer sells no more than 200 000 hl a year.

Portugal. Excise rates for beer are as follows per hectolitre of product: *a)* More than 0.5% vol. and up to 1.2% – EUR 6.31 ; *b)* more than 1.2% vol. and a degree Plato up to 8 – EUR 7.92; *c)* more than 1.2% vol. and a degree Plato in excess of 8 but up to 11 – EUR 12.64; *d)* more than 1.2% vol. and a degree of Plato in excess of 11 but up to 13 – EUR 15.83; *e)* more than 1.2% vol. and a degree of Plato in excess of 13 but up to 15 – EUR 18.86; *f)* more than 1.2% vol. and a degree of Plato in excess of 15 – EUR 22.19. Rates for small breweries (annual production up to 200 000 hl) are 50% of the normal rates.

Slovak Republic. Excise rate for small breweries (annual production up to 200 000 hl of beer) is SKK 37 per hectoliter per degree Plato.

Spain. Beer with an alcoholic content not exceeding 1.2% vol. is free of excise. The rate for beer between 1.2% and 2.8% is EUR 2.32 per hl; Beer with an alcoholic degree > 2.8% and a degree Plato < 11 = EUR 5.34/hl; Beer with a degree Plato > 11 and not > 15 = EUR 8.38/hl; Beer with a degree Plato > 15 and not > 19 = EUR 11.43/hl; Beer with a degree Plato > 19 = EUR 0.77 per hl and per degree Plato. There is no tax on Beer in Ceuta and Melilla – Spanish cities situated in the North of Africa.

Sweden. The rate shown is for beer stronger than 2.8% vol. The VAT rate for beer with an alcoholic strength lower than 3.5% vol. is 12%.

Switzerland. Uniform rate for all beers from 0.5 to 15.0 % vol.

Turkey. 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.

United Kingdom. Beer with an alcoholic content not exceeding 1.2% vol. is free of excise. Reduced duty rates apply for independent breweries producing 5 000 hectolitres or less = GBP 6.30 per %abv. Between 5 000 hectolitres and 30 000 hectolitres = GBP 6.30 –11.54 per % abv. Between 30 000 hectolitres and 60 000 hectolitres GBP 11.54 to 12.59 per % abv.

United States. 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 1st January, 2005.

Table 4.2. **Taxation of wine**

	Still wine			Sparkling wine			Low-alcohol (still) wine (< 8.5% alc)		
	Excise per hectolitre of product		VAT (%)	Excise per hectolitre of product		VAT (%)	Excise per hectolitre of product		VAT (%)
	National currency	USD		National currency	USD		National currency	USD	
Australia	See note		10.00	See note		10.00	See note		10.00
Austria	0.00	0.00	20.00	144.00	158.59	20.00	0.00	0.00	20.00
Belgium	47.10	53.34	21.00	161.13	182.48	21.00	14.87	16.84	21.00
Canada	51.22	40.33	7 or 15	51.22	40.33	7 or 15	See note		7 or 15
Czech Republic	0.00	0.00	19.00	2 340.00	160.27	19.00	0.00	0.00	19.00
Denmark	705.00	83.33	25.00	1 055.00	124.70	25.00	450.00	53.19	25.00
Finland	212.00	226.50	22.00	212.00	226.50	22.00	See note		22.00
France	3.40	3.79	19.60	8.40	9.36	19.60	0.00	0.00	19.60
Germany	0.00	0.00	16.00	136.00	144.83	16.00	0.00	0.00	16.00
Greece	0.00	0.00	18.00	0.00	0.00	18.00	0.00	0.00	18.00
Hungary	800.00	6.35	25.00	9 120.00	72.38	25.00	800.00	6.35	25.00
Iceland	52 800.00	586.02	24.50	51 480.00	571.37	24.50	See note		24.50
Ireland	273.00	270.30	21.00	546.01	540.60	21.00	90.98	90.08	21.00
Italy	0.00	0.00	20.00	0.00	0.00	20.00	0.00	0.00	20.00
Japan	7 047.20	52.99	5.00	7 047.20	52.99	5.00	0.00	0.00	5.00
Korea	0.30	0.00	10.00	0.30	0.00	10.00	0.30	0.00	10.00
Luxembourg	0.00	0.00	12 or 15	0.00	0.00	15.00	0.00	0.00	15.00
Mexico	25%/30%		15.00	25%/30%		15.00	25%		15.00
Netherlands	59.02	64.22	19.00	201.24	218.98	19.00	29.51	32.11	19.00
New Zealand	See note		12.50	See note		12.50	See note		12.50
Norway	4 332.00	456.96	25.00	4 332.00	456.96	25.00	See note		25.00
Poland	136.00	32.85	22.00	136.00	32.85	22.00			22.00
Portugal	0.00	0.00	12.00	0.00	0.00	19.00		0.00	19.00
Slovak Republic	0.00	0.00	19.00	2 400.00	139.53	19.00	1 700.00	98.84	19.00
Spain	0.00	0.00	16.00	0.00	0.00	16.00		0.00	16.00
Sweden	2 208.00	236.91	25.00	2 208.00	236.91	25.00	See note		25.00
Switzerland	0.00	0.00	7.60	0.00	0.00	7.60	0.00	0.00	7.60
Turkey	328.00	420.51	18.00	1 121.20	1 437.44	18.00	328.00	420.51	18.00
United Kingdom	163.47	264.09	17.50	220.54	356.28	17.50		0.00	
United States	46.00	46.00	0.00	113.00	113.00	0.00	See note		0.00

Notes:

Australia. No distinction is made between still, sparkling or low alcohol wine, all are taxed at 10% by the Goods and Services Tax (GST) and all are liable for the Wine Equalisation Tax (WET). The WET is levied at 29% of the wholesale value. The WET applies to the following alcoholic products provided they contain more than 1.15% by 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. From 1 October, 2004, a rebate of WET applies to eligible producers, up to a maximum of AUD 290 000 each per financial year. Some State Governments will also operate separate rebate/subsidy schemes in limited circumstances for cellar door sales.

Canada. A rate of CAD 0.5122 per litre applies to wine with an alcohol volume of more than 7% absolute ethyl alcohol by volume. The rate is CAD 0.2459 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% vol. or less the rate is CAD 0.0205 per litre.

Denmark. The rate for wine with more than 15% – maximum 22% volume is DKK 1055. 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 corresponds to the rates for still wine plus 350 DKK pr. hectolitre of product. The following rates applies on 9 January, 2005; Still wine 1.2% – maximum 6% 390, DKK, Still wine 6% – maximum 15% volume 614 DKK, Still wine volume 15% – maximum 22" 920 DKK volume and the rates for sparkling wine will correspond to the rates for still wine plus 306 DKK pr. hectolitre of product. An additional duty is placed on products which contains a mixture of wine and non-alcoholic drinks, Rates: DKK 7.25 pr. l. of mixture with alcohol content < = 10% in the final product and DKK 14,75 pr. l. of mixture with alcohol content >10% in the final product.

Finland. Excise rates for low alcohol wine are as follows: *a)* over 1.2% vol and up to 2.8% vol. EUR 4.54; *b)* over 2.8% vol and up to 5.5% vol. EUR 103.00; *c)* over 5.5% vol and up to 8.0% vol. EUR 152.00.

Germany. Excise rate for low alcohol sparkling wine < 6 % vol. is EUR 51.00.

Table 4.2. **Taxation of wine** *(cont.)*

Iceland. Excise rate shown in the Table is the rate for wine up to 15% vol. The rate is ISK 52.80 per each centilitre of alcohol by volume exceeding 2.25%.

Ireland. The rate for low alcohol wine applies to wine with an alcoholic content of less than 5.5% vol.

Korea. The rate of liquor tax on wine is 30% on the manufacturer's price and the rate of Education Tax is 10% of the amount of liquor tax levied. These rates are applicable to both still and sparkling wine regardless of alcohol content.

Mexico. All rates are according to the value.

Netherlands. Excise rate for low alcohol sparkling wine is EUR 38.16. For low alcohol wine < 5% the VAT rate is 6%.

New Zealand. The excise rate for unfortified wine is NZD 225.92 per hectolitre of product.

Norway. The rate shown in the Table is the rate for wine with an alcoholic content of 12% vol. Excise rates for wine with an alcoholic content of 4.76%-22% vol. = NOK 361 per vol. pct. alcohol and per hectoliter.

Spain. Intermediate products – products to which distilled alcohol has been added – and with a volume of alcoholic degree between 1.2% vol. and less than 22% are taxed according to the following rates: Alcoholic degree > 1.2% and less than 15% = EUR 27.50 per hl. Others = EUR 45.83 per hl.

Sweden. Excise rates for low alcohol wine are as follows: *a)* 7%-8.5% vol. SEK 1 541; *b)* 4.5%-7% vol. SEK 1 120; *c)* 2.25%-4.5% vol. SEK 758. No special rates for sparkling wine.

Switzerland. Only wine with more than 15% vol. is taxed at a rate of CHF 1450 per hectolitre.

Turkey. 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.

United Kingdom. Reduced excise rates for lower strength drinks (wine categories) are as follows: *a)* exceeding 1.2% – not exceeding 4% alcohol by volume = GBP 50.38 per hl; *b)* exceeding 4% – not exceeding 5.5% alcohol by volume = GBP 69.27 per hl; and *c)* low strength sparkling wine exceeding 5.5% – less than 8.5% = GBP 166.70 per hl. There is also a rate of duty in the band exceeding 15% but not exceeding 22%: GBP 217.95 per hl (wine and made wine). The United Kingdom also charges excise duty on cider and perry products. The following rates per hl applied on 1 January 2003: Exceeding 1.2% but not exceeding 7.5%: GBP 25.61; Exceeding 7.5% but less than 8.5%: GBP 38.43. Sparkling wine and perry – Exceeding 5.5% but less than 8.5%: GBP 166.70. Any still cider product which has a strength of 8.5% and over is dutied as a made wine.

United States. The weighted average Federal and State excise tax rate is USD 46 per hectolitre of product for still wine up to 14% vol., and USD 113 for sparkling wine. The Federal excise rates are as follows: *a)* up to 14% vol. USD 1.07 per gallon; *b)* 14%-21% vol. USD 1.57 per gallon; *c)* 21%-24% vol. 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 1st January, 2005.

Table 4.3. **Taxation of alcoholic beverages**

	Tax per hectolitre of absolute alcohol			
	Excise		VAT Per cent	Small distillery rate
	National currency	USD		
Australia	See note		10.00	No
Austria	1 000.00	1 101.32	20.00	Yes
Belgium	1 660.89	1 880.96	21.00	No
Canada	1 106.60	871.34	7 or 15	No
Czech Republic	26 500.00	1 815.07	19.00	No
Denmark	15 000.00	1 773.05	25.00	No
Finland	2 825.00	3 018.16	22.00	No
France	1 450.00	1 616.50	19.60	No
Germany	1 303.00	1 387.65	16.00	Yes
Greece	908.00	1 302.73	18.00	No
Hungary	192 000.00	1 523.81	25.00	No
Iceland	70 780.00	785.57	24.50	No
Ireland	3 925.00	3 886.14	21.00	No
Italy	730.87	871.12	20.00	No
Japan	See note		5.00	No
Korea	See note		10.00	No
Luxembourg	1 041.14	1 058.07	15.00	No
Mexico	50%		15.00	No
Netherlands	1 775.00	1 931.45	19.00	No
New Zealand	See note		12.50	No
Norway	55 400.00	5 843.88	25.00	No
Poland	4 550.00	1 099.03	22.00	No
Portugal	916.08	500.59	19.00	Yes
Slovak Republic	25 000.00	1 453.49	19.00	No
Spain	754.77	982.77	16.00	Yes
Sweden	50 141.00	5 379.94	25.00	No
Switzerland	2 900.00	1 638.42	7.60	No
Turkey	7 092.60	9 093.08	18.00	No
United Kingdom	1 956.00	3 159.94	17.50	No
United States	923.00	923.00	–	No

Notes:

Australia. The excise duty rate of AUD 60.20 per litre of alcohol applied to fruit brandy, whisky, rum, liquers and other excisable beverages (but not beer) of alcoholic strength exceeding 10 per cent. Brandy attracted the rate of AUD 56.21 per litre of alcohol and a lower rate of AUD 35.53 per litre of alcohol applied to other excisable beverages (but not beer) of alcoholic strength not exceeding 10 per cent.

Austria. The rate for small distilleries is EUR 540.

Canada. Spirits are subject to excise duty at the rate of CAD 11.066 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 0.2459 per litre.

Denmark. Tax was reduced to DKK 15.000 per hectolitre of pure alcohol as of 1 October, 2003.

Finland. Excise rates are as follows: *a)* CN – code 2208. alcoholic content between 1.2% and 2.8% vol. EUR 168; *b)* Other products EUR 2 825.

Germany. The rates for small distilleries are EUR 730 or EUR 1 022.

Greece. The rate for ouzo and ethyl alcohol (derogation possible for several regions but only applied in the department of Dodecanese) is EUR 454 per hectolitre of pure alcohol.

Hungary. Reduced rate (HUF 96 000) 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.

Iceland. 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%.

Italy. Taxation applies for beverages of alcoholic strenght exceeding 1.2 per cent.

Japan. Excise rates are as follows: *a)* Whisky and brandy (40% vol.) JPY 40 900; *b)* Spirits (37% vol.) JPY 36 718.8; *c)* Shochu Group A and B (25% vol.) JPY 24 810.

Table 4.3. **Taxation of alcoholic beverages** *(cont.)*

Korea. 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%.

Mexico. The rate is according to the value. There is a charge per litre of alcoholic beverages produced, bottled or imported, which is levied on the first sale. The excise amount varies according to the type of drink. This charge is final in all cases. The charges per litre for some specific liquors are: *a)* Cognac MXN 858.10; *b)* Whisky MXN 63.95; *c)* Tequila MXN 43.68; *d)* Brandy MXN 22.62; *e)* Ron MXN 18.81; Others (from MXN 881.25 to MXN 4.3).

Netherlands. For low alcohol spirits with an alcoholic content < 1.2% the VAT rate is 6%.

New Zealand. For alcholic beverages with 0-14% alcoholic content, the excise rate is NZD 2259.20 per hectolitre of absolute alcohol. For alcoholic beverages above 14% in alcoholic content, the excise rate is NZD 4114.60 per hectolitre of absolute alcohol (with the exception of unfortified wine and vermouth which has the rate of NZD 225.92 per hectolitre of product).

Portugal. A reduced rate for small distilleries applies.

Spain. The excise rate in the Canary Islands is EUR 494.06 per Hl of pure alcohol. There is a special regime for small distilleries for which the rate is EUR 599.57 per Hl (or EUR 466.82 in the Canary Islands).

Switzerland. Weighted average rate.

Turkey. No specific tax element. The element according to the value is the Excise Duty at a rate of 275.6%. 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.

United Kingdom. All drinks over 22% are dutied as spirits.

United States. 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 2003. A proof gallon is a US gallon (3.785 litres) containing 50% alcohol. There is no Federal VAT.

Source: National delegates; position as at 1st January, 2005.

However, the development of integrated markets (*e.g.* the European Union) and elimination of border controls at frontiers has shone a light on the disparate excise rates between neighbouring countries to the extent that market forces are affected. This is not only true at the international level but often exists within a federal structure such as the USA where different excise rates may apply in neighbouring states. 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

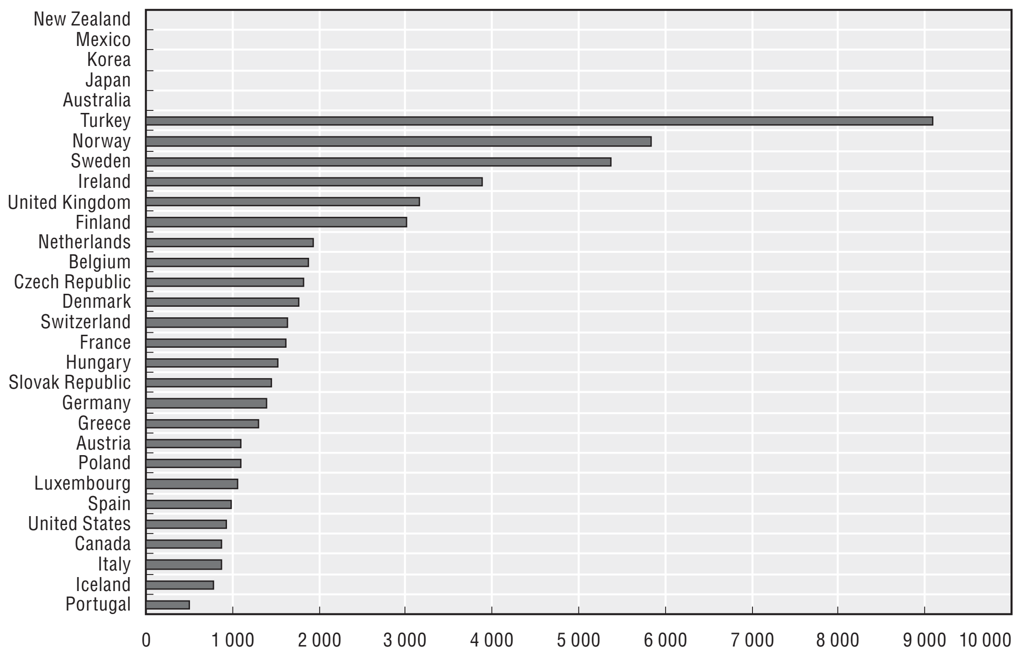
In general terms, beer, wine and spirits are considered separate products within the category of alcoholic beverages. There are inevitably sub-divisions within each of these broad categories but the use of the internationally accepted Customs Combined Nomenclature Code provides for consistency and helps 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 an element of specific duty and a value element. 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 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.

As with all forms of taxation, inconsistencies do exist in relation to excise duties on alcoholic beverages. And although, in theory, excise duties should be neutral, preferential treatment and the use of tax rebates for local products can lead to distortion of competition.

Tables 4.1, to 4.2 and 4.3 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 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 the obvious tax competition mentioned earlier between certain neighbouring countries giving rise to cross border "bootlegging" activities (*e.g.* UK/France and Denmark/Germany). Although some would argue that market forces should give rise to moves towards approximation of rates, this is contradictory with other policy factors when issues such as health have been taken into account in setting the rates. Figure 4.1 illustrates the vast spread of excise duty rates for wine and highlights the differences between Northern and Southern European countries. Figure 4.2 further endorses this in respect of spirits.

Figure 4.1. **Taxation of alcoholic beverages excise duties per hectolitre of absolute alcool**



Mineral oil products

Mineral oils are usually sub-divided into product categories in relation to technical specifications – leaded/unleaded petrol, diesel oil, heating 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.

Table 4.4. **Taxation of mineral oils (per 1 000 litres of product at 15° C)**

	Leaded petrol			Unleaded petrol			Diesel			Industrial use of diesel[1]			Heating gas oil (for households)		
	Excise		VAT	Excise		VAT	Excise		VAT	Excise		VAT	Excise		VAT
	National currency	USD	Per cent	National currency	USD	Per cent	National currency	USD	Per cent	National currency	USD	Per cent	National currency	USD	Per cent
Australia*	See note		10.00	381.43	278.42	10.00	381.43	278.42	10.00	See note		10.00	75.57	55.16	10.00
Austria*	489.00	538.55	20.00	417.00	459.25	20.00	302.00	332.60	20.00	302.00	332.60	20.00	98.00	107.93	20.00
Belgium*	551.81	624.93	21.00	535.56	606.52	21.00	318.04	360.18	21.00	21.00	23.78	21.00	18.50	20.95	21.00
Canada	110.00	86.61	7 or 15	100.00	78.74	7 or 15	40.00	31.50	7 or 15	40.00	31.50	7 or 15	0.00	0.00	7 or 15
Czech Republic*	13 710.00	939.04	19.00	11 840.00	810.96	19.00	9 950.00	681.51	19.00	9 950.00	681.51	19.00	9 950.00	681.51	19.00
Denmark*	4 434.00	524.11	25.00	3 789.00	447.87	25.00	2 492.00	294.56	25.00	1 846.00	218.20	25.00	1 846.00	218.20	25.00
Finland*	–	–	–	587.60	627.78	22.00	319.40	341.24	22.00	70.60	75.43	22.00	70.60	75.43	22.00
France*	–	–	–	589.20	656.86	19.60	416.90	464.77	19.60	56.60	63.10	19.60	56.60	63.10	19.60
Germany*	721.00	767.84	16.00	654.50	697.02	16.00	470.40	500.96	16.00	470.40	500.96	16.00	61.35	65.34	16.00
Greece*	337.00	483.50	18.00	296.00	424.68	18.00	245.00	351.51	18.00	245.00	351.51	18.00	245.00	351.51	18.00
Hungary	111 800.00	887.30	25.00	103 500.00	821.43	25.00	85 000.00	674.60	25.00	85 000.00	674.60	25.00	85 000.00	674.60	25.00
Iceland	44 200.00	490.57	24.50	42 230.00	468.70	24.50	41 000.00	455.05	24.50	0.00	0.00	24.50	0.00	0.00	14.00
Ireland*	553.04	547.56	21.00	442.68	438.30	21.00	368.05	364.41	21.00	47.36	46.89	21.00	47.36	46.89	13.50
Italy*	558.64	665.84	20.00	558.64	665.84	20.00	403.21	480.58	20.00	120.90	144.10	20.00	403.21	480.58	20.00
Japan	55 840.00	419.85	5.00	55 840.00	419.85	5.00	34 140.00	256.69	5.00	2 040.00	15.34	5.00	2 040.00	15.34	5.00
Korea*	724 500.00	936.05	10.00	724 500.00	936.05	10.00	464 600.00	600.26	10.00	464 600.00	600.26	10.00	235 650.00	304.46	10.00
Luxembourg*	424.14	431.04	15.00	381.08	387.28	15.00	252.83	256.94	15.00	18.59	18.89	15.00	10.00	10.16	12.00
Mexico*	–	–	–	36.82%	–	15.00	7.86%	–	15.00	11.90%	–	15.00	–	–	15.00
Netherlands*	744.00	809.58	19.00	668.10	726.99	19.00	364.91	397.07	19.00	46.56	50.66	19.00	46.56	50.66	19.00
New Zealand*	See note	–	–	362.00	242.95	12.50	0.00	0.00	12.50	0.00	0.00		0.00	0.00	12.50
Norway*	See note	–	–	4 810.00	507.38	25.00	3 440.00	362.87	25.00	520.00	54.85	25.00	934.00	98.52	25.00
Poland*	1 747.00	421.98	22.00	1 315.00	317.63	22.00	See note	-	22.00	See note	–	22.00	232.00	56.04	22.00
Portugal*	548.68	299.83	19.00	522.60	285.57	19.00	308.29	168.46	19.00	308.29	168.46	19.00	89.65	48.99	12.00
Slovak Republic*	18 000.00	1 046.51	19.00	15 500.00	901.16	19.00	14 500.00	843.02	19.00	–	–	–	–	–	–
Spain*	428.79	558.32	16.00	395.69	515.22	16.00	293.86	382.63	16.00	84.71	110.30	16.00	84.71	110.30	16.00
Sweden*	5 660.00	607.30	25.00	4 960.00	532.19	25.00	3 645.00	391.09	25.00	3 645.00	391.09	25.00	3 344.00	358.80	25.00
Switzerland*	–	–	–	731.20	413.11	7.60	758.70	428.64	7.60	–	–	7.60	3.00	1.69	7.60
Turkey	–	–	18.00	1 362.50	1 746.79	18.00	834.50	1 069.87	18.00	476.00	610.26	18.00	476.00	610.26	18.00
United Kingdom*	562.00	907.92	17.50	471.00	760.90	17.50	471.00	760.90	17.50	52.20	84.33	17.50	48.20	77.87	17.50
United States*	116.25	116.25	–	116.25	116.25	–	132.36	132.36	–	0.00	0.00	–	0.00	0.00	–

Table 4.4. **Taxation of mineral oils (per 1 000 litres of product at 15° C)** *(cont.)*

1. Industrial use of diesel. Diesel used for stationary motors, plants and machinery in construction, civil engineering and public works, and for vehicles intended for use off the public highway.

Notes:

Australia. Leaded petrol has been superseded by Lead Replacement Petrol that is classified, for the purposes of excise duty, as unleaded petrol. 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. The overall objective of the scheme is to remove the incidence of fuel taxation on business inputs to production. The scheme provides full excise relief for diesel fuel (and "like" fuels) used in a limited range of off-road activities (including primary production, mining operations, rail and marine transport, hospitals, nursing homes and electricity generation at hospitality/retail premises) and partial excise relief for diesel fuel used in on-road vehicles over 4.5 tonnes gross vehicle mass.

Austria: the above listed products have a sulfur content lower than 10mg/kg. If the sulfur content is higher than 10mg/kg higher excise rates apply.

Belgium. Data as at 10 January 2005. The excise rates shown for unleaded petrol, diesel and heating gas oil relate to low sulphur content products. The excise rate shown for heating gas oil includes the Energy Contribution and Control Retribution. In addition, unleaded petrol, diesel and heating gas oil are subject to an energy contribution of respectively EUR 28.6317; EUR 14.8736 and EUR 5 per 1 000 litres.

Czech Republic. For Industrial use of diesel, there is a refund for agricultural purposes of 60%. For Industrial use of biodiesel, the VAT rate is 5%. Mixture of petrol and alcohol or 15% ethil-tercial-butyl-ether is submitted to the same taxation as petrol. Fuels and lubricants used for air transport are exempt from excise duty. Heating gas-oil: there is a reimbursement of of excise duty when it was proved that the gas oil had been used for heating purposes.

Denmark. The rates for petrol are from service stations where a specific system has been installed, by which the greater part of the petrol fumes is lead back to the service stations' tank and re-used. The rates are 3 ore/l extra if not using this system. The rates include a 24.3 ore/l CO2 tax. There exist reduced rates for energy used in energy-intensive processes. The rate for diesel is for low sulphur (max 0.005%). Diesel light: DKK 2 671. Diesel normal: DKK 2771.

Finland. For other than environmentally friendly products, the rates are as follows: petrol EUR 614.10 and diesel EUR 345.90. In all rates listed, there is included a strategic stockpile fee of EUR 6.80 for petrol and EUR 3.50 for diesel and heating oil.

France. As of 1 January, 2000, leaded petrol is no longer sold. Petrol with specific additives USD 668.10 /1 000 L.

Germany. Diesel used for stationary motors: EUR 61.36 / VAT 16%.

Greece. 1) Unleaded petrol: < = 96.5 oct. Excise: EUR 296; > = 96.5 oct. Excise: EUR 316. 2) Gas oil for industrial use: a refund of duty (EUR 125 per 1 000 litres) is paid back to industries that use gas oil in their production activities, after a tax audit. The reduced rate of duty is also applicable in case of use for agricultural purposes. 3) Each year a winter period is defined (from 15 October to 30 April) during which a reduced rate applies. The normal rate of duty is EUR 245.

Ireland. A higher rate of duty of EUR 547.79 per 1 000 litres applies to super unleaded petrol.

Italy. The excise figure shown for industrial use of diesel only concerns diesel used for stationary motors, civil engineering and public works: it is not intended for plants and machinery in construction and vehicles to be used off the public road. As of 21st February 2005, the rates for leaded and unleaded petrol are EUR 564.00/1 000 litres. As of 21st February 2005, the excise rate for diesel fuel used in on-road vehicles is EUR 413.00/1 000 litres.

Korea. The figures above include the Education Tax (15% of the amount of excise Tax).

Luxemburg. The excise rate shown for heating gas oil includes the Energy Contribution and Control Retribution.

Mexico. All rates are according to the value and vary monthly according to international petrol prices. For unleaded petrol with higher rate of octanes (Premium) the rate is 50.98%.

Netherlands. A reduced VAT-rate of 6% is applied to the supply of gas and heating gas oil used for the growth of horticultural products. Apart from the excise duties on mineral oils and within the framework of the law on environmental taxes, the Netherlands has energy taxes based on a 50% energy content / 50% CO2 component. The fuel tax has existed in one form or another since 1988 and covers fossil fuels used in combustion, at a fairly low tariff. This fuel tax has been incorporated in in the energy tas as of 01-01-2004. The (regulatory) energy tax was introduced in 1996 and covers non-transport energy consumption; till 01-01-2004 the tax base was limited to 1 000 000 m^3 of natural gas and 10 000 000 kWh electricity per year. The rates of energy tax on oils are: light-heavyweight oil EUR 159.72; gasoil EUR 161.05 and LPG EUR 190.68. Furthermore, a strategic storage levy is charged on light-heavyweight oil, gasoil and LPG. The rate is € 5.30. Its purpose is the financing of the strategic oil reserves.

New Zealand. Does not refine or import leaded petrol.

Norway. Does not refine or import leaded petrol. The petrol tax rate shown consists of a tax on petrol used as propellant (varies with sulphur content: 0.000-0.0001 weight per cent NOK 4 030/ 1 000 litres; 0.001-0.005 weight per cent NOK 4 070/1 000 litres (the former is used in the table)) and a CO_2 tax of NOK 780/1 000 litres. The diesel tax rate shown consists of a tax on mineral oil used as propellant (varies with sulphur content: 0.000-0.001 weight per cent NOK 2 920/1 000 litres; 0.001-0.005 weight per cent NOK 2 970/1 000 litres (the former is used in the table)) and a CO_2 tax of NOK 520/1 000 litres. The diesel tax rate for industrial use shown consists of a CO_2 tax of NOK 520/1 000 litres. The heating gas oil tax rate includes a CO_2 tax of NOK 520/ 1 000 litres. In addition, there is a SO_2 tax of NOK 70/1 000 litres and per 0.25 weight per cent sulphur content on mineral oils with 0.05 weight per cent sulphur content and over.

Table 4.4. **Taxation of mineral oils (per 1 000 litres of product at 15° C)** *(cont.)*

Poland. Varies with sulphur content: PLN 1 180; from 0.001% to 0.005% (sulphur content) – PLN 1099/1000 l; up to 0.001% inclusive – PLN 1 048.

Portugal. Heating oil has existed in Portugal since 1st January 2003. Rates vary throughout the year, depending on international crude oil prices, within a range stipulated by law. Portugal has diesel for agriculture: rate EUR 76.04 per 1 000 L and VAT 12%. The rate for stationary motors is also EUR 76.04 per 1 000 litres and the VAT is 12%.

Slovak Republic. Lower rate on gas oil marked for fiscal purposes, used for agricultural production, railway transport, heating and stationary motors is SKK 6 800 per 1 000 litres.

Spain. For unleaded petrol of more than 97 IO, the rate is EUR 402.92 per 1 000 litres.

Sweden. Unleaded petrol and diesel are divided into environmental classes. For unleaded petrol there are two rates: SEK 4 960 and SEK 4 990. For diesel used in all kinds of motor driven vehicles there are three rates: SEK 3 645, SEK 3 888 and SEK 4 209. Nowadays only the best qualities (the lowest rates) of petrol and diesel are sold.

Switzerland. As of 1 January, 2000, leaded petrol is no longer sold. Industrial use of diesel: a rate of CHF 3 + VAT applies to diesel used for stationary motors. Public transport, agriculture and forestry can obtain diesel at a reduced rate of CHF 172 80 + VAT per 1 000 litres.

United Kingdom. For domestic purposes (or supplies under 2 300 litres) VAT rate is 5%. The UK market is composed mainly of ultra-low sulphur petrol (ULSP) and ultra low sulphur diesel (ULSD); hence rates for ULSP and ULSD are given rather than for unleaded petrol and conventional diesel.

United States. The weighted average rate of Federal and State taxes as of November 2004 was USD 0.44 per gallon on petrol (leaded and unleaded) and USD 0.51 for diesel fuel. The Federal rate on petrol (leaded and unleaded) was USD 0.184 per gallon in 2003. 1 US gallon is 3.785 litres. The Federal rate on diesel was USD 0.244 per gallon in 2003. “Gasohol” (mixtures of petrol and alcohol) was taxed at a Federal rate of USD 0.130-0.15436 per gallon in 2004 depending on content of alcohol. There is no Federal VAT.

Source: national delegates; position as at 1 January, 2005.

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. When the more environmentally friendly unleaded petrol appeared on the market it was more expensive to produce and as a consequence not commercially competitive with leaded petrol as a retail product. This handicap was soon overcome through the use of tax differentials making unleaded petrol cheaper at the pump. Nearly all OECD countries have adopted this approach, in combination with other non-fiscal measures such as making catalytic converters obligatory on new cars.

Table 4.4 (and Figures 4.2. and 4.3) give the current excise rates for mineral oil products in OECD countries and again illustrate the wide disparity, from USD 78.74 in Canada to USD

Figure 4.2. **Excise on unleaded petrol**

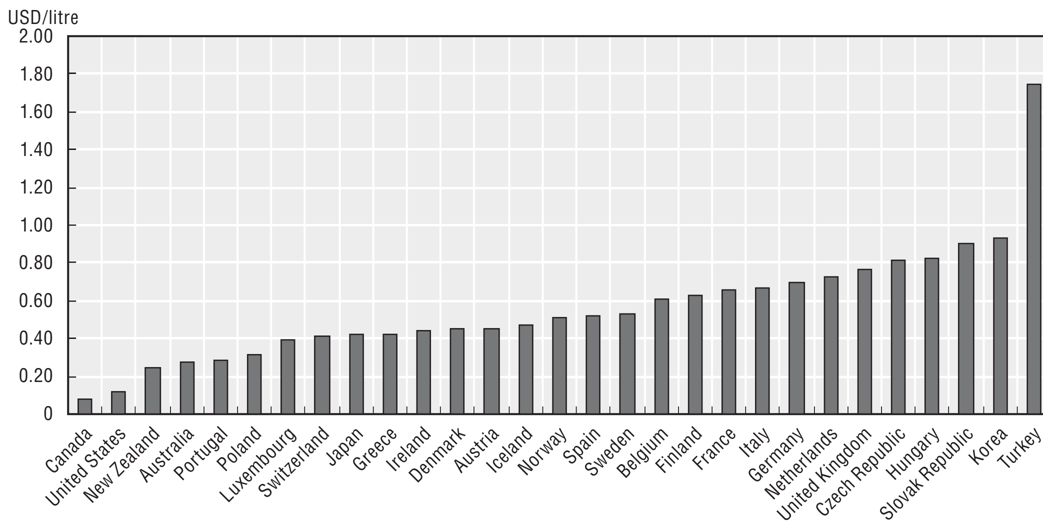


Figure 4.3. **Excise taxes on diesel**

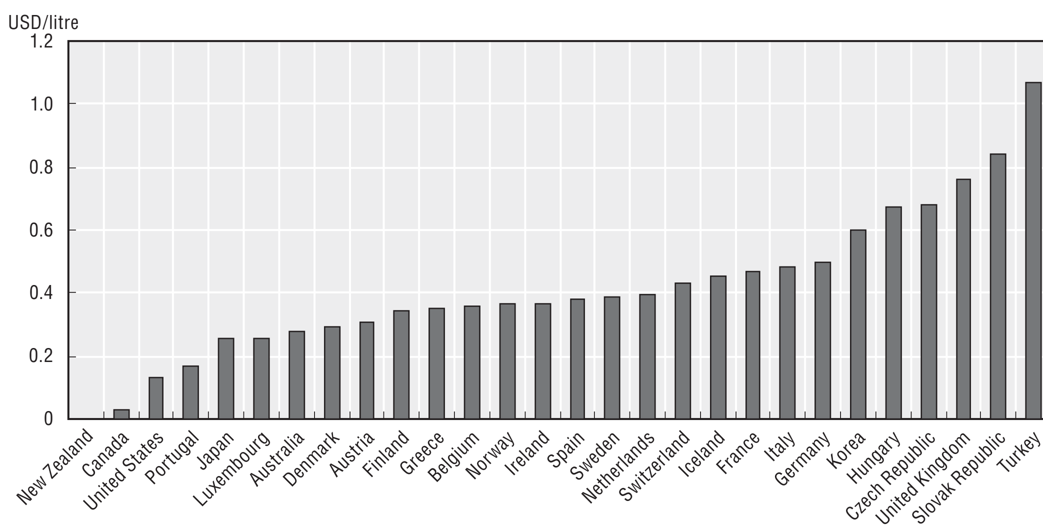


Table 4.5. **Taxation of tobacco**

	Cigarettes				Cigars[2]				Tax on rolling tobacco for cigarettes			
	Specific excise per 1 000		Excise on value	VAT	Specific excise per 1 000		Excise on value	VAT	Specific excise per 1 000 grammes		Excise on value	VAT
	National currency	USD	(% of RSP)[1]	%	National currency	USD	(% of RSP)	%	National currency	USD	(% of RSP)	%
Australia*	223.53	163.16	0.00	10.00	See note		0.00	10.00	279.41	203.95	0.00	10.00
Austria*	21.38	23.55	42.00	20.00	0.00	0.00	13.00	20.00	0.00	0.00	47.00	20.00
Belgium	19.86	22.50	45.84	21.00	0.00	0.00	5.00	21.00	0.00	0.00	37.55	21.00
Canada*	79.25	62.40	n.a.	7 or 15	14.79	11.65	See Note	7 or 15	54.00	42.52	n.a.	7 or 15
Czech Republic	480.00	32.88	23.00	19.00	440.00	30.14	5.00	19.00	600.00	41.10	7.00	19.00
Denmark*	489.20	57.83	21.22	25.00	198.00	23.40	10.00	25.00	452.50	53.49	0.00	25.00
Finland*	15.13	16.16	50.00	22.00	0.00	0.00	22.00	22.00	3.62	3.87	50.00	22.00
France	7.50	8.36	58.00	19.60	0.00	0.00	27.57	19.60	0.00	0.00	58.57	19.60
Germany	75.60	80.51	24.82	16.00	14.00	14.91	1.40	16.00	30.55	32.53	17.94	16.00
Greece	4.91	7.04	53.86	18.00	0.00	0.00	26.00	18.00	0.00	0.00	59.00	18.00
Hungary	4 200.00	33.33	18.00	25.00	0.00	0.00	25.00	25.00	0.00	0.00	32.00	25.00
Iceland	11 423.00	126.78	47.31	24.50	11 423.00	126.78	44.56	24.50	8 170.00	90.68	44.56	24.50
Ireland	133.39	132.07	18.32	21.00	196.41	194.47	0.00	21.00	165.34	163.70	0.00	21.00
Italy	0.00	0.00	58.50	20.00	0.00	0.00	23.00	20.00	0.00	0.00	56.00	20.00
Japan*	7 892.00	59.34	0.00	5.00	7 892.00	59.34	0.00	5.00	7 892.00	59.34	0.00	5.00
Korea*	48 075.00	62.11	0.00	10.00	98 100.00	126.74	0.00	10.00	34 500.00	44.57	0.00	10.00
Luxembourg	11.89	12.08	45.84	15.00	0.00	0.00	5.00	15.00	0.00	0.00	31.50	15.00
Mexico	0.00	0.00	110.00	15.00	0.00	0.00	20.90	15.00	0.00	0.00	20.90	15.00
Netherlands	67.21	73.13	20.56	19.00	0.00	0.00	5.00	19.00	28.13	30.61	14.60	19.00
New Zealand*	See note	–	0.00	12.50	See note	–	0.00	12.50	337.62	226.59	0.00	12.50
Norway	1 810.00	190.93	0.00	25.00	1 810.00	190.93	0.00	25.00	1 810.00	190.93	0.00	25.00
Poland	68.35	16.51	28.48	22.00	134.00	32.37	–	22.00	46.53	11.24	19.39	22.00
Portugal*	46.33	25.32	23.00	19.00	0.00	0.00	12.00	19.00	0.00	0.00	36.00	19.00
Slovak Republic*	910.00	52.91	20.00	19.00	1 400.00	81.40	–	19.00	1 350.00	78.49	–	19.00
Spain	4.20	5.47	54.95	16.00	0.00	0.00	12.71	16.00	0.00	0.00	38.46	16.00
Sweden	200.00	21.46	39.20	25.00	560.00	60.09	0.00	25.00	630.00	67.60	0.00	25.00
Switzerland*	89.04	50.31	75.00	7.60	2.60/12.10	1.47/6.83	0.00	7.60	1.55/9.90	0.88/5.59	0.00	7.60
Turkey*	0.06	0.08	58.00	18.00	0.06	0.08	58.00	18.00	0.06	0.08	58.00	18.00
United Kingdom	99.80	161.23	22.00	17.50	145.35	234.81	0.00	17.50	104.47	168.77	0.00	17.50
United States*	See note				See note				See note			

Table 4.5. **Taxation of tobacco** *(cont.)*

Notes:

1. **RSP.** Retail selling price.
2. **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 grammes and in Japan 1 gramme.

Australia. The taxation of cigars and cigarettes applies a per stick rate 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 279.41 per kg. Excise on snuff is imposed at a rate of AUD 2.27 per kg.

Austria. The excise duty on cigars is 13% of RSP, at least EUR 32.7 for 1 000 pieces.

Canada. An additional excise duty on cigars is applicable at the greater of CAD 65 per 1 000 and 65% computed on the sales 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. For cigarettes, these range between CAD 103 and CAD 210 per thousand. Rolling tobacco ranges from CAD 46.80 and CAD 200 per kg. Some provinces also apply a tax based on the value of the product.

Denmark. The excise tax for other smoking tobaccos is DKK 402.5/1 000 g for coarse-cut tobacco. As of 19 January, 2005, the specific excise per 1 000 cigarettes is DKK 636.6 and 13.61% of RSP.

Finland. Cigarette paper: excise 60% of RSP.

Japan. The tax consists of a national element, a prefectural element and a municipal element. The rate for cigars is JPY 7 072 for 1 000 pieces (same tax as for cigarettes).

Korea. The figures above include local government excise tax and the education tax (50% of the amount of the local government excise tax).

New Zealand. The excise rate for 1 000 cigarettes with actual tobacco content not exceeding in weight of 0.8 kg is NZD 270.09. Cigarettes exceeding 0.8 kg in actual tobacco content per 1 000 cigarettes are taxed as cigars. Excise rate for cigars is NZD 337.62 per 1 kg of tobacco content of cigars.

Portugal. Excise tax on cigarettes is reduced to EUR 6.63 and 35% for small producers in the Azores and Madeira.

Slovak Republic. 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.

Switzerland. "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.

Turkey. The figure for "Specific Excise per 1 000 cigarettes" is for cigarettes whose retail sales price is up to and including TRL 1 600 000. For cigarettes whose retail sales price is between TRL 1 600 001 and TRL 3 050 000, the Specific Excise per 1 000 is TRL 2 500 000, or USD 1.55. For cigarettes whose retail sales price is TRL 3 050 001 and over, the Specific Excise per 1 000 is TRL 4 000 000, or USD 2.48.

United States. State taxes vary widely. The weighted average of Federal and State taxes per thousand cigarettes was USD 64.00 in 2005. 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, 2005.

1 746 in Mexico for 1 000 litres. These rates do not include several taxes, which are not considered as excise such as contributions to emergency stock funds (*e.g.* in Switzerland and Austria) and specific energy taxes (*e.g.* in the Netherlands). On the other hand, they include several forms of excise such as Control Retribution Tax (Belgium, Luxembourg).

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 petrol, 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 (near zero).

Although only one country levies excise duties on alcoholic beverages and mineral oils according to the value of the products alone (Mexico), 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 compensate by choosing a high specific element and a low element according to value.

Table 4.5 shows the current excise rates for tobacco products in OECD countries. As with alcoholic beverages, the obvious price differentials contribute to cross border "bootlegging" activities.

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Chapter 5

Taxing Vehicles

Introduction

Motoring has been an important source of 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.

Taxes and charges on vehicle include:

- Taxes on sale 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.
- Periodic taxes payable in connection with the ownership or use of the vehicles, defined in most cases as Circulation Tax.
- Taxes on fuel.
- Any other taxes and charges, such as insurance taxes, road tolls, etc.

This Chapter focuses on registration taxes and circulation taxes 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 import and sale of vehicles (in the latter case by application to the full selling price or only in respect of the margin between the buying and the selling price for used cars). VAT or sales tax will also apply to general maintenance and running costs. In addition they will be levied in most cases on the final duty paid value (*e.g.* VAT on fuel is levied on the excise inclusive price).

Taxation of vehicles in member countries reflects a variety of influences beyond the obvious need to raise revenue: geographic, industrial, social, environmental, energy and transport policy considerations can all have an influence on the level and structure of taxation. In most cases taxation is used to influence customer or business behaviour. Energy and environmental considerations may lead to an adjustment of taxation according to the fuel efficiency of vehicles; town planning and transport policies may lead to 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 move transport from road to rail or from private to public transport.

As noted in Chapter 4, one of the most popular examples of using a fiscal instrument for common policy purposes is the differentiation between various types of fuel. When unleaded petrol was introduced onto the market the pump price of the product was not competitive with the less environmentally friendly leaded product (added to this was the fact that the number of cars with catalytic converters, which required unleaded petrol, was low in many countries.). The solution to the problem was a tax differentiation between leaded and unleaded petrol to make unleaded petrol retail prices significantly cheaper and thus more attractive to the consumer. The result is that leaded petrol now has virtually

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disappeared from the market in most OECD countries (partly due to the tax rate differences, partly due to regulations).

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 Value Added Taxes (VAT or GST), 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 5.1).

The other taxes on the acquisition or registration of motor vehicles may be based on a wide diversity of criteria that can span five 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, type of fuel, 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 (busses).

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. Apart from VAT/GST or sales tax, the registration tax for a standard passenger car may vary from less than USD 25 (Australia, Germany, Sweden, Switzerland, and Turkey) to more than 100% of the value of the car (Denmark). In Greece, the tax can even go up to 385% in several cases.

However, unlike many other products, the differences in the taxation of sale and registration of motor vehicles in general do not give rise to cross border shopping as motor vehicles need to be registered in the principal country of use with a unique identification number. 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.

Table 5.1. **Taxes on sale and registration of motor vehicles**[1]

	Taxes	Criteria	Rebates/Exemptions
Australia	GST: 10% Luxury Car Tax: 25% only calculated on the value of the car that exceeds AUD 57 009.	Value	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 consumption	Investment allowance of 6% is applicable to investments in noise-reduces trucks.
Belgium	VAT: 21% Entry into Service Tax : depends on engine power and vehicle age (the tax is set according to progressive scale from EUR 61.50 to EUR 4 957.00	Value Age Engine power	Exemption for disabled people and war invalids. Rebates for cars running with Liquefied Gas Petroleum or other Gas.
Canada	GST: 7% 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 CAD per unit. Vehicle excise tax levied on heavy cars (2007kg) at an increasing scale starting at CAD 30. One province has a tax levied on the purchase of fuel inefficient passenger cars and sport utility vehicle.	Value Weight Fuel efficiency Air conditioning	A subsidy of CAD 100 is provided for cars with a highway fuel efficiency rating of less than 6 litres per 100 km.
Czech Republic	VAT: 19% Registration fee: motorcycles CZK 300 or 500 (depending on cylinder capacity); Other motor vehicles CZK 800. The fee includes the registration plate. Permit fee on non-standard motor vehicle.	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 48.800) 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 between 1.280 DKK and 11.885 DKK. Rebates between 100 DKK and 1200 DKK 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 28 % of the general consumer price of the car model (including all taxes), deducted by EUR 650 in the case of petrol car or by EUR 450 in the case of diesel car. For delivery vans designed exclusively for transportation of goods (the cargo room at least 3 m3 and carrying capacity at least 525 kg) the tax base is import value (purchase value excluding taxes) and the tax rate is 35 %. The tax for motor cycles varies according the cylinder capacity, rate is 8 – 20 %, and the base is consumer price including all taxes.	Value Utilisation Cylinder capacity Type	

Table 5.1. **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 weighting more than 3.5 tons, motorcycles) or age (more than 10 years old). Additional special tax on the regional certificate tax for lorries according to their weight (from EUR 30 for less than 3.5 tons to EUR 270 for more than 11 tons or trailers and busses for public transport of passengers).	Value Engine power Weight Utilisation Age	Exemption for demonstration models weighting less than 3.5 tons, state vehicles, certain motorcycles. From 50% to 100% rebate for electrically or gas propelled cars.
Germany	VAT: 16% Registration charge: EUR 18 to 25.	Value	
Greece	VAT: 18% Private passengers' cars registration tax depending on engine capacity and anti-pollutant technology: from 5% to 385%. Commercial vehicles' registration tax depending on their weight (less or more than 3.5 tons) and their cylinder capacity: from 5% to 26%. For vehicles that don't fulfil latest EC emissions Directive rates should be increased by 30%. For the sale of cars, in the cases where VAT is not due, the taxes on sale depend on the cylinder capacity for private cars, on gross weight for trucks and on the number of seats for buses.	Value Weight Utilisation Polluting emissions Type Number of seats	Exemptions from taxes on sale: – Cars used by public authorities. – Cars specially arranged for use by disabled persons.
Hungary	VAT: 25% Registration Tax: from HUF 126 000 to HUF 2 835 000 on passenger cars according to engine cylinder capacity, engine type (diesel or petrol) and environmental category of engine. From HUF 10 000 to HUF 125 000 on motorcycles according to engine cylinder capacity.	Cylinder capacity Fuel used Environmental category	Reduced registration tax for cars with electricity and gas powered engines, hybrid engines and for oldtimers (older than 30 years).
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 tons 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 5.1. **Taxes on sale and registration of motor vehicles**[1] *(cont.)*

	Taxes	Criteria	Rebates/Exemptions
Ireland	VAT: 21% Registration tax: rates 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 350cc. Reduced rates for used motorcycles.	Value Cylinder capacity Type Age	50% relief for hybrid vehicles. 100% relief under disabled driver scheme.
Italy	VAT: 20% Registration Tax (IPT): EUR 151 flat rate in cases in VAT application or EUR 2.58 per KW in the other cases. Yearly Ownership Tax: EUR 2.58 per KW (or 1.90 per horse power) for motor vehicles. Some regions are entitled to vary the national rate.	Value New/Used	
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	
Luxemburg	VAT: 15%	Value	
Mexico	VAT: 15% Vehicle registration tax: payable on first registration of the vehicle. Graduated tax rates according to the value of the vehicle from zero to 10% of its value.	Value	
Netherlands	VAT: 19% Registration Tax: Cars: 45.2% of net value less EUR 1 540 or increased with 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 diminished with EUR 224.	Value Motor fuel Polluting emissions	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	
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, cylinder capacity and engine performance (KW) Re-registration tax: levied on vehicles previously registered in Norway.	Weight Cylinder capacity Engine performance	Electric vehicles are exempt.

Table 5.1. **Taxes on sale and registration of motor vehicles**[1] *(cont.)*

	Taxes	Criteria	Rebates/Exemptions
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. Tax amount is calculated on engine cubic capacity and car's age. Tax rate for cars up to two years old accounts for: – for passenger cars with engine cubic capacity over 2 000 cm^2 – 13.6%; – for others – 3.1%. After two years of the date of manufacture tax rate for cars is calculated according to the following formula: Su = Sn + 12 x (W – 2) where: Su – means the excise tax rate, expressed in percentages, for the sale and importation of a passenger car after 2 years from its manufacture; Sn – means the excise tax rates for personal cars, depending on engine capacity of these cars, set out respectively in item 22 of Appendix No. 1 to the regulation – in the case of sale in the country and in item 25 of Appendix No. 3 to the regulation – in the case of importation; W **–** means the age of personal car expressed in calendar years counted from the year of manufacture to the year of sale, inclusively, and in the case of importation **–** counted from the year of manufacture until the year of customs declaration submission inclusively.	Value Cylinder capacity Age	
Portugal	VAT: 19% Vehicle excise duty: varies from EUR 2 150 to EUR 17 144 according to cylinder capacity. There are other rate brackets for all-terrain vehicles and combined (passenger and freight) vehicles.	Value Cylinder capacity	
Slovak Republic	VAT: 19% *Administrative fees:* – registration fee payable by the first owner of a motor vehicle: 1000 SKK; – registration fee payable by any other owner of motor vehicle: 300 SKK; – registration fee for assigning and releasing of a licence plate number: from 500 to 5000 SKK.	Value	
Spain	VAT: 16% Vehicle registration tax: 7% for cars with engines of less than 1600 cc for gasoline cars and less than 2000 cc for diesel cars. 12% for others.	Value Cylinder capacity	
Sweden	VAT: 25% No registration tax.	Value	
Switzerland	VAT: 7.6% No registration tax (but small fees for number plates and registration papers) Acquisition tax on new vehicles (up to 1 600 kg and all passenger cars): 4% of purchase price.	Value	Electric vehicles are exempt from acquisition tax.
Turkey	VAT: 18%	Value	

Table 5.1. **Taxes on sale and registration of motor vehicles**[1] *(cont.)*

	Taxes	Criteria	Rebates/Exemptions
United Kingdom	VAT: 17.5% Vehicle first registration fee Since 1.1.2004 a flat rate fee of GBP 38.00 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.
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. For tyres whose weight exceeds 40 pounds but whose weight does not exceed 70 pounds; the tax is USD 0.15 per pound in excess of 40 pounds. For tyres whose weight exceeds 70 pounds but whose weight does not exceed 90 pounds; the tax is USD 4.50 plus USD 0.30 per pound in excess of 70 pounds. For tyres whose weight exceeds 90 pounds the tax is USD 10.50 plus USD 0.50 cents per pound in excess of 90 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.

Nevertheless, high registration taxes may affect the functioning of the motor vehicle market. Since registration tax paid in the country of first registration is not paid back when a car is transferred from one country to another, and 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. 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 recently made a proposal to restructure car taxation systems in the European Union, which include the abolition or reduction of the car registration taxes over a transitional period of 5 to 10 years, compensated by an increase of annual circulation taxes (*i.e.* periodic taxes payable in connection with the right to drive on public roads – see next section below).

In general terms, very high registration taxes are likely to limit the number of 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 old cars polluting the atmosphere. To combat this some countries have introduced short term bonus schemes to scrap old cars and encourage the purchase of new cars.

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 5.2). Taxes on the operation of motor vehicles also include excise duties on fuel and motorway charges or other road user tolls. Table 4.4 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. 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, circulation taxes 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 are emerging arguments in favour of an increase of taxes on use of motor vehicles (circulation taxes, road or urban tolls, differentiated fuel taxes) since they focus more on the polluting element (the actual use of the vehicle) rather than on the pure ownership. These policies are nevertheless not easy to implement taking account of revenue and redistributive impact that such reforms might have.

Table 5.2. **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 driver's 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 1285 per annum).	Engine power Weight	
Belgium	Annual Road Tax: progressive rates apply from EUR 62.70 up to EUR 1604.06 depending fiscal horsepower (CV). For vehicles above 20 CV (more than 4l cylinder capacity) an additional amount of EUR 87.52 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 depending on the age of the vehicle. Compensation Tax for diesel vehicles is levied from EUR 4.32 up to EUR 2564.40. Road tax is subject to a 10% surcharge which goes to the communes. Euro-disk, consisting in a road use tax on vehicles used exclusively for road haulage and having authorised maximum weight of at least 12 tons. Euro-disks are payable as soon as the vehicle operate on the Belgian road system. Rates depend on the number of axles, as well as a vehicle's country of registration. It can be paid on a daily, weekly, monthly or annual basis. It ranges from EUR 3 per day to EUR 1250 per year.	Engine power Cylinder capacity Fuel used Number of axles for lorries	
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	
Czech Republic			
Denmark	Passenger cars annual tax: the tax is based on fuel consumption, with different rates for petrol/diesel. Rates range from DKK 460 (> 20km/l) up to DKK 16 920 (< 4.5km/l). Lorries' annual tax: the charge for private use is DKK 750 annually for cars with total permissible weight (tpw) up to 2 000 kg and DKK 4 210 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	
Finland	Annual tax for passenger cars and delivery vans 0.35 euro per day. Additional tax for diesel vehicles: passenger cars 6.7 cents per every 100 kg of max. allowed weight of the vehicle per day; delivery vans: 0.9 cent per every 100 kg of max. allowed weight of the vehicle and for lorries 0.9-3.1 cents per every 100 kg of max. allowed weight of the vehicle depending the number of axles and use of trailers.	Weight Number of axles (trucks) Use of trailer	

Table 5.2. **Taxes on use of motor vehicles**[1] *(cont.)*

	Taxes	Criteria	Rebates/Exemptions
France	Tax on business passenger cars: Up to 7 HP: EUR 1130; More than 7 HP: EUR 2440.	Engine 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 gasoline 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 per 100 cc cylinder capacity: 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 13.6 tons) to EUR 1 789 for high-pollutant category (both reached at over 16 tons).	Polluting emissions Decibel Cylinder capacity Type of engine Weight	
Greece	Annual road tax on private passenger cars and motorcycles: based on cylinder capacity from EUR 15 to EUR 483. Annual road tax on trucks based on gross weight and on busses on the number of seats.	Cylinder capacity Weight Number of seats	The main exemptions are: – Cars used by public authorities, municipalities, ambulances, etc. – Cars used by disabled persons. – Cars used by members of foreign diplomatic services. – Electrically propelled cars. Motorcycles used in order to replace old technology ones.
Hungary	Motor vehicle tax levied according to weight: HUF 1 200 per 100 kg of net weight; for lorries the tax is based on net weight plus 50% of cargo weight. Motorcycles with engines over 250 cc motor homes and caravans are subject to an amount from HUF 2000 up to HUF 5000. The exact amount is determined by the local government and must remain between the limits set by the Act on Motor Vehicle Tax.	Weight	Cars used by public institutions, churches, foundations, etc. Old timers (qualified vehicles that are at least 30 years old). Vehicles with electricity, gas and hybrid powered engines.
Iceland	A weight tax is levied on all motor vehicles, regardless of fuel source. The tax for every taxation period (6 months) is calculated as follows: ISK 6.83 for each kg up to 1 000 kg, ISK 9.21 for each kg up to 3 000 kg, and ISK 2 277 for each begun tonne after that. However, the tax shall neither be less than ISK 3 416 nor more than ISK 41 193 for each taxation period. 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 this country, except when the vehicle is aldready 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. VAT is not added to the weight tax or the disposal charge. 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 kilometers driven. Owners of diesel vehicles that weigh less than 10 tonnes do not pay a weight-distance tax.	Weight Distance	

Table 5.2. **Taxes on use of motor vehicles**[1] *(cont.)*

	Taxes	Criteria	Rebates/Exemptions
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	Electrically propelled vehicles: EUR 146 flat rate – private and EUR 80 flat rate – commercial not over 1 500 kg.
Italy	Annual tax on motor vehicles: rates depend on engine power (motorcycles, cars, busses and trailers), payload as measured in quintals (trucks having a total weight of under 12 tonnes and trailers), total weight at full payload and the number of axles (for trucks of 12 tonnes or more and tractor-trailers). In addition, surtax is imposed on non-ecological diesel-powered vehicles. The amount of the surtax is set nationally, except for a regional tax of more or less 10% which is allocated to the regions.	Engine power Weight Polluting emissions	
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 ton (*JPY 2 800); for lorries from JPY 4 400 per ton up to JPY 6 300 per ton (*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 tons capacity): JPY 25 500 (JPY 18 500). Buses: JPY 49 000 (JPY 14 500). Light vehicle tax (local) levied on motorcycles and light vehicles according to cylinder.	Cylinder capacity Weight	
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.	Type usage	
Mexico	Tax on property or use of motor vehicles is levied on the value of motor vehicles up to 10 years old from 2.6% (value < PES 368 000) up to 10.4% (value < PES 1 304 000).	Value	
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 tons or more for the use of motor ways in the Netherlands.	Type Weight Fuel used	
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.	Type	
Norway	Annual fee: NKK 2 815 for most cars; NKK 1 585 for motorbikes; NKK 1 785 for trucks and DKK 940 for caravans.		Electric vehicles exempt.
Poland	Annual (municipal) tax on motor vehicles. Based on heavy goods vehicles and buses of a maximum gross mass equal to 3.5 tonnes and over to 3.5 tonnes.	Gross mass of vehicle	Vehicles used for national defence purposes, for emergency services and other special purposes ie. road maintenance services, camping cars, funeral cars, vehicle excavator and historic vehicles.
Portugal	Municipal vehicle tax levied on cars and motorcycles. Vehicle excise duty on lorries above 2.5 tonnes used in public and private transport of merchandise.		
Slovak Republic			

Table 5.2. **Taxes on use of motor vehicles**[1] *(cont.)*

	Taxes	Criteria	Rebates/Exemptions
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.	Engine power Cylinder volume	
Sweden	Vehicle excise duty levied on weight, number of axles, vehicle type and 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. On federal level, a motorway tax of CHF 40 per year is levied on all vehicles below 3.5 tonnes. For vehicles weighting 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 weighting 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	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. Plaid twice annually by registered owner.		
United Kingdom	Vehicle Excise Duty (VED) is payable every time a vehicle is licensed. Classification for licensing purposes depends on the construction and use of the vehicle. Rates for lorries are set according to the number of axles, weight and type of vehicle. Rates for private cars are based on factors such as cylinder capacity, emission rate and fuel type. Full details of rates can be found at *www.direct.gov.uk/Motoring.*		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. Operator's license. Parking and inspection fees as well as property taxes.		

1. Excluding insurance premium tax.

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Chapter 6

VAT Treatment of Small and Medium-sized Enterprises

Importance of SMEs

There is no universal definition of Small and Medium-sized Enterprises (SMEs), although there has been a push for countries to adopt more coherent definitions to enhance comparability and evaluation of SME programmes[1]. Most countries define SMEs as non-subsidiary independent firms that employ less than a given number of employees. This criterion is sometimes combined with a turnover criterion. The most frequent upper limit is around 200-250 employees. In the European Union for example, a medium-sized business is a firm of annual sales of up to 50 million euros and 250 employees, for small firms these ceilings drop to 10 million euros and 50 employees. In Australia, the limit for medium size enterprises is of 200 employees and 19 employees for small ones while in the US definition varies from industry to industry although, in order to be eligible for federal government programmes, a "small" business cannot, in general, have more than 500 employees.

However, even taking into account these variations in definition, the OECD recognises that SMEs account for over 95% of firms and 60%-70% of employment and generate a large share of new jobs in OECD economies. Since the early 2000s, more attention has been devoted to SMEs[2] as they are recognised as a major dynamic element in all economies, driving innovation and playing a key role in sustainable economic growth and job creation. SMEs are also vital to large companies that increasingly rely on outsourcing as SMEs can be often more flexible and responsive than integrated entities to customer needs in a rapidly changing environment.

Strengths and weaknesses

SMEs have specific features that require special policy responses. As new technologies and globalisation reduce the importance of economies of scale in many activities and as the pace of change is accelerating, requiring more flexibility and responsiveness, the potential contribution of SMEs to growth is enhanced. However, in this context, many of the traditional problems facing SMEs such as lack of financing, constrained managerial capabilities and regulatory and administrative burdens, become more acute and hinder their potential for development, especially in international markets.

The OECD Istanbul Ministerial Declaration on Fostering the Growth on Innovative and Internationally Competitive SMEs of June 2004 recognised the need to improve the SME environment, including the legal and regulatory framework and access to financing. It also recommended the development of reliable evaluation processes to ensure that SME

1. OECD Ministerial Declaration on Fostering the Growth on Innovative and Internationally Competitive SMEs, Istanbul, 3-5 June 2004.
2. OECD Ministerial meeting in Bologna "Enhancing the competitiveness of SMEs in the Global Economy" and EU Council Decision of December 2000 on multiannual programme for enterprise and entrepreneurship.

programmes remain cost-effective and to strengthen factual and analytical basis for policy making. They finally reaffirmed the need for tax systems that entail low compliance costs.

Compliance burden on SMEs

SMEs represent a large number of taxpayers, but contribute a relatively small percentage of tax revenue. In most countries, large businesses, which represent 1 per cent of taxpayers, contribute more than 70 per cent of tax revenue while medium size enterprises, which represent 5 to 25 per cent of taxpayers, contribute 10 to 20 per cent of tax revenue. Small businesses, for their part represent 70 to 95 per cent of the taxpayers and contribute 10 per cent of tax revenues.

Recent researches (Shome, 1994; European Commission, 2004) show that tax compliance costs remain considerably higher for SMEs than for large businesses. In the European Union, compliance costs are estimated at 1.9 per cent of taxes paid and 0.02 per cent of sales for large businesses, the figures for SMEs are respectively 30.9 and 2.6. Even though the figures regarding SMEs should be taken with some caution, they illustrate that SMEs are disadvantaged compared to large businesses in that they bear a disproportionate administrative burden compared to the tax revenue provided. A similar survey on GST (Goods and Services Tax, similar to VAT) in Australia showed that compliance costs were considerably higher for small businesses (2 per cent of turnover) than for large businesses (0.04 per cent). A European Commission Survey also showed that there was a significant additional cost for companies that are active cross-border.

Specific measures in the VAT area

SMEs can benefit from a wide range of measures and schemes aimed at alleviating their compliance burden. The most widespread measure is probably the implementation of a registration (or collection) threshold under which small – and sometimes medium-sized- enterprises are exempted from any VAT obligations, including registration (in most cases), collection, filing of returns, accounting and invoicing. As explained in Chapter 3, there is considerable variation in the level of VAT thresholds across OECD countries (including between member States of the European Union, where there is a common VAT legal framework) ranging from zero (Italy, Korea, Mexico, Spain, Sweden Turkey) to over USD 75 000 (France, Japan, the Slovak Republic and UK).

The outcome of the abovementioned surveys (a relatively small proportion of large firms typically accounting for a very large proportion of VAT revenue while SMEs bearing, proportionally, a much higher compliance burden) stresses the importance of high thresholds, which also save on scarce tax administration resources at little cost to the revenue. This is in marked contrast to single stage taxes, such as the retail sales tax, where a threshold implies that the full amount of ta – not just that on the value-added – is lost on the exempt sales made by those under the threshold.

Nevertheless, many countries do not employ a high threshold. In addition to the revenue implications, there are concerns that a high threshold favours small traders unfairly (by exempting them from the tax) and introduces distortions of competition. The differential treatment of those above and below the threshold also raises additional issues. For example, firms selling to other firms would wish to register for VAT in order to benefit from deduction of input tax. Hence, it is normal practice to allow firms below the threshold to register voluntarily for VAT since exemptions that occur early in the transaction chain

introduce 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 (see Chapter 3). In contrast, firms characterised by a high ratio of sales to private consumers are likely to find it advantageous to be exempt from VAT.

The favouring of small over large traders implicit in the use of a threshold may have equity and efficiency implications. In general, thresholds can be a stimulus to underestimate turnover for businesses close to the "border" of the threshold. As a consequence, more policing of threshold may be required by the tax authorities. On the other hand, high thresholds do provide some compensation to the proportionally higher legal, compliance and administrative burdens that bear on SMEs.

The trade-off between revenue and collection costs is a key issue, but the broader economic impact of a higher threshold on SMEs' development (and therefore on economic growth and employment) should also be taken into account.

As well as exemption thresholds, countries have developed a range of instruments aimed directly or indirectly at alleviating compliance burden on SMEs. Several countries operate flat-rate schemes that allow small firms to apply a simple flat-rate percentage (calculated by industry sector) to their turnover instead of recording and accounting for VAT on each individual sale and purchase. These schemes can be open to all sectors or limited to a few. Many small businesses also benefit from cash accounting schemes allowing them to account and pay VAT only when they are paid by their customers. In addition, retailers (including larger ones) are often exempted from invoicing requirements. Rather than completing returns each month, SMEs may be allowed to fill in annual or quarterly returns.

The introduction of reduced VAT rates in specific areas, *e.g.* the EUs "labour intensive services", is another mechanism aimed at reducing the VAT burden on SMEs. In the EU, member States are allowed to apply reduced rates to services such as small repair services, renovation of private dwellings, window cleaning and private household cleaning, domestic care services and hairdressing. This is scheduled to end in 2010 and its continuation will depend on the outcome of the assessment of the impact of those reduced rates in terms of job creation, economic growth and the internal market. This approach is nevertheless questioned by some as this may run counter to the need to reduce the number of VAT rates and to harmonise the VAT rules within the EU.

Technology has also played a role in easing compliance burden for SMEs. The use of the Internet has facilitated access to advice and information and allowed electronic filing of returns and payment.

This increased focus on reducing compliance costs, in particular for SMEs, is a very recent development in many countries. Simplification of VAT systems and the introduction of more efficient thresholds could also contribute to lowering the compliance costs. A survey of measures in place in OECD countries to alleviate VAT burdens on SMEs would be useful in order to provide a wider picture and to illustrate successful practices.

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ANNEX 1

Exchange Rates

A1.1. **Table of exchange rates PPP**

2004

Australia	AUD	1.370
Austria	EUR	0.908
Belgium	EUR	0.883
Canada	CAD	1.270
Czech Rep.	CZR	14.600
Denmark	DKK	8.460
Finland	EUR	0.936
France	EUR	0.897
Germany	EUR	0.939
Greece	EUR	0.697
Hungary	HUF	126.000
Iceland	ISK	90.100
Ireland	EUR	1.010
Italy	EUR	0.839
Japan	JPY	133.000
Korea	KRW	774.000
Luxembourg	EUR	0.984
Mexico	MXN	7.290
Netherlands	EUR	0.919
New Zealand	NZD	1.490
Norway	NOK	9.480
Poland	PLN	4.140
Portugal	EUR	1.830
Slovak Republic	SKK	17.200
Spain	EUR	0.768
Sweden	SEK	9.320
Switzerland	CHF	1.770
Turkey	TRL	0.780
United Kingdom	GBP	0.619
United States	USD	1.000

Note: Unlike previous editions of Consumption Tax Trends, which made use of financial exchange rates, this edition uses the "Purchase Power Parity" rates (PPP). PPPs are the rates of currency conversion that eliminate the differences in price levels between countries. They show the number of specified 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. 2004 PPPs for all countries are OECD estimates. For further detail on PPPs, please see *www.oecd.org/std/ppp*

ANNEX 2

Extracts from the International VAT/GST Guidelines

This extract contains an illustrative outline of the Guidelines and portions of Guidelines Chapters I and III, which were approved by the Working Party on Consumption Taxes in 2005. These and future chapters will be completed over the next few years. In addition, this extract includes the first three papers of the Consumption Tax Guidance Series, which were also presented in the 2004 edition of Consumption Tax Trends.

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Preface to the international VAT/GST guidelines

The spread of Value Added Tax (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 about 136 countries; and in these countries (including OECD member countries) it typically accounts for one-fifth of total tax revenue. The recognised capacity of VAT to raise revenue in a neutral and transparent manner drew all OECD member countries (except the United States) to adopt this broad based consumption tax. Its neutrality of principle towards international trade also made it the preferred alternative to customs duties in the context of trade liberalisation.

At the same time as VAT was spreading across the world, international trade in goods and services was expanding rapidly as part of globalisation developments, spurred on by deregulation, privatisation and the communications technology revolution. As a result, the interaction between value added tax systems operated by individual countries has come under greater scrutiny as potential for double taxation and unintentional non-taxation has increased.

When international trade was characterised largely by trade in goods, collection of taxes was generally undertaken by customs authorities, and when services were primarily traded within domestic markets, there was little need for global attention to be paid to the interaction between national consumption tax rules. That situation has changed dramatically in recent years and the absence of internationally agreed approaches, which can be traced back to that lack of need, is now leading to significant difficulties for both business and governments, particularly for the international trade in services and intangibles, and increasingly for the trade in goods.

Even though the question remains difficult – and sometimes controversial – for interstate trade within federations or within economically integrated areas, the destination principle (*i.e.* taxation in the jurisdiction of consumption by zero rating of exports and taxation of imports) is the international norm. The issues therefore arise primarily from the practical difficulty of determining, for each transaction (*i.e.* the sale of a good, a right or a service), the jurisdiction where consumption is deemed to take place and therefore where it should be taxed. In addition, it should be borne in mind that value added tax systems are designed to tax final consumption and as such, in most cases it is only consumers who should actually bear the tax burden. Indeed, the tax is levied, ultimately, on consumption and not on intermediate transactions between firms as tax charged on these purchases is, in principle, fully deductible. This feature gives the tax its main characteristic of neutrality in the value chain and towards international trade.

Nevertheless, although most countries have adopted similar principles for the operation of their value added tax system, there remain many differences in the way it is implemented, including between OECD member countries. These differences result not only from the continued existence of exemptions and special arrangements to meet

specific policy objectives, but also from differences of approaches in the definition of the jurisdiction of consumption and therefore of taxation. In addition, there are a number of variations in the application of value added taxes, and other consumption taxes, including different interpretation 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 mixed supplies.

Since the late 1990s, work led by the OECD's Committee on Fiscal Affairs (CFA) in cooperation with business, revealed that the current international consumption taxes environment, especially with respect to trade in services and intangibles, is creating obstacles to business activity, hindering economic growth and distorting competition. The CFA recognised that these problems, particularly those of double taxation and unintentional non-taxation, were sufficiently significant to require remedies. This situation creates increasing issues for both businesses and tax administrations themselves since local rules cannot be viewed in isolation but must be addressed internationally.

Businesses are increasingly confronted by distortions of competition that sometimes favour imports over local production or prevent them outsourcing activities as a means of improving their competitiveness. Multi-national businesses are confronted with laws and administrative requirements that may be contradictory from country to country. This generates undue burdens and uncertainties, in particular when they specialise or group certain functions in one particular jurisdiction, such as shared service centres, centralised sales and procurement functions, call centres, data processing and information technology support. Businesses can incur double taxation when two different jurisdictions both tax the same supply, the first one because it is the jurisdiction where the supplier is established and the second one because it is the jurisdiction where the recipient is established. In the case of leasing of goods, for example, a third jurisdiction, *i.e.* the jurisdiction where the goods are located, may also claim the tax. Uncertainties also arise in situations where, for example, the headquarters of a company established in one country provides supplies to customers in another country where it has a branch (force of attraction). Even if some countries implemented refund schemes of tax incurred by foreign business or registration procedures to achieve the same effect, which are intended in part to address some of the consequences of these different approaches, such schemes are, when they exist, often burdensome, especially for SMEs.

Tax administrations are often confronted with unintentional non-taxation that mirror the double taxation situations referred to above. Consumption taxes are normally predicated on the basis that businesses are responsible for the proper collection and remittance of the revenue. Complex, unclear or inconsistent rules across jurisdictions are difficult to manage for tax administrations and create uncertainties and high administrative burdens for business, which can lead to reduced compliance levels. In addition, such an environment may also favour tax fraud and evasion.

The OECD has long held a lead position in dealing with the international aspects of direct taxes. The Organisation has developed internationally recognised instruments such as the *Model Tax Convention on Income and on Capital* and the *Transfer Pricing Guidelines for Multinational Enterprises and Tax Administrations*. Until now, no such instrument was available in the field of consumption taxes. Only the *Ottawa Framework Conditions* (1998), the *Guidelines on Consumption Taxation of Cross-Border Services and Intangible Property in the Context of E-commerce* (2001) and *Consumption Tax Guidance Series* (2003) have been published. The

Committee on Fiscal Affairs therefore began work on a set of framework principles on the application of consumption taxes to the trade in international services and intangibles. These principles form the first part of the OECD VAT/GST Guidelines. These principles will be developed in order that countries (both OECD and non-OECD) can implement them in legislation. The table of contents will evolve in the light of experience and will be amended and completed over time.

Extract from Chapter I. Basic principles[1]

I.A. Introduction

There are many differences in the way value added taxes are implemented around the world and across OECD countries. Nevertheless, there are some common core features that can be described as follows:

- Value added taxes are taxes on consumption, paid, ultimately, by final consumers.
- 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 firms.
- 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. Each business in the supply chain takes part in the process of controlling and collecting the tax, remitting the proportion of tax corresponding to its margin *i.e.* on the difference between the VAT paid out to suppliers and the VAT charged to customers. In general, 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 characteristic, 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).

Value added taxes are also neutral towards international trade according to international norms since they are destination based (even if the rule might be different for transactions made within federations or economically integrated areas). This means that exports are zero rated and imports are taxed on the same basis and with the same rate as local production. Most of the rules currently in place aim therefore at taxing consumption of goods and services within the jurisdiction where consumption takes place. Practical means implemented to this end are nevertheless diverse across countries, which can, in some instances, lead to double or involuntary non-taxation, and uncertainties for both business and tax administrations.

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. To this end, their implementation also aims at keeping it neutral towards

1. Germany expressed its reservation on these principles. Luxembourg expressed its reservation on the first principle referred in paragraph 14 ("*For consumption tax purposes internationally traded services and intangibles should be taxed according to the rules of the jurisdiction of consumption*").

international trade. However, in most sales tax systems, businesses do incur irrecoverable sales tax and, if they subsequently export goods, there will be an element of sales tax embedded in the price.

I.B. Application to international transactions

For the international trade in goods there is a commonly held principle that exports should be exempted and imports should be taxed. This is relatively simple to apply, although even here, complexities of globalisation mean that problems can arise. However, for the international trade in services and intangibles there are no such commonly held principles. Thus, the variations by governments in the application of consumption taxes to this increasing trade have led to obstacles to business activity and distortions of competition significant enough to justify the design of common principles. There is also a shared view, both by governments and business, that the neutrality principle described above should be kept as an objective in the design and implementation of VAT/GST Guidelines. The following principles aim mainly at ensuring that transactions are taxed only once and in a single, clearly defined jurisdiction in order to avoid uncertainties, double taxation or involuntary non-taxation.

The development of e-commerce in the late 1990s led governments to adopt several principles in the field of consumption taxes.[1] Although they were designed in the context of e-commerce taxation, they remain valid for the more global interaction of consumption tax systems and broadly reflect the philosophy of the existing tax rules in most countries. In addition, the Ottawa Framework Conditions specify that the taxation principles that guide governments in relation to conventional commerce should not be different than those applicable to electronic commerce. These principles can be summarized as follows:

- ***Neutrality:*** Taxation should seek to be neutral and equitable between forms of commerce. Business decisions should be motivated by economic rather than tax considerations. Taxpayers in similar situations carrying out similar transactions should be subject to similar levels of taxation.
- ***Neutrality:*** Taxation should seek to be neutral and equitable between forms of commerce. Business decisions should be motivated by economic rather than tax considerations. Taxpayers in similar situations carrying out similar transactions should be subject to similar levels of taxation.
- ***Efficiency:*** Compliance costs for taxpayers and administrative costs for the tax authorities should be minimized as far as possible.
- ***Certainty and simplicity:*** The tax rules should be clear and simple to understand so that taxpayers can anticipate the tax consequences of a transaction, including knowing when, where and how the tax is to be accounted.
- ***Effectiveness and fairness:*** Taxation should produce the right amount of tax at the right time. The potential for tax evasion and avoidance should be minimized while keeping counter-acting measures proportionate to risks involved.
- ***Flexibility:*** The systems for taxation should be flexible and dynamic to ensure that they keep pace with technological and commercial developments.

1. The Ottawa Framework Conditions were endorsed by Ministers in October 1998.

Rules for the consumption taxation of cross-border trade should result in taxation in the jurisdiction where consumption takes place and international consensus should be sought on circumstances under which supplies are held to be consumed in a jurisdiction.

As regards value added taxes, an additional principle can be established from the general functioning of those taxes: except where explicitly designed, i.e. when several operations are explicitly exempted (input taxed) like financial services, or excluded from the application of the value added taxes, like operations not effected for consideration, the tax burden should not lie on taxable business but on the final consumer.

I.B.1. Services and intangibles

The above mentioned general principles can be adapted to the cross-border trade in services and intangibles as follows, for both business to business and business to consumer transactions:

- **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.**

In this context, the words "except where explicitly provided" mean that countries may legitimately place a value added tax burden on business. Indeed, this is frequently the case as the following examples illustrate:

- Where transactions made by the taxpayer are exempt because the tax base of the outputs is difficult to assess (*i.e.*, many financial services) or for policy reasons (health care, education, culture).
- Tax legislation may also impose value added tax on businesses to secure effective taxation of final consumption. This will be the case when the taxpayer makes transactions that fall outside the scope of the tax (*e.g.*, transactions without consideration) or the input tax relates to purchases that are not wholly used for furtherance of taxable business activity.
- Countries also provide legislation that disallows input tax recovery where explicit administrative obligations are not met (*e.g.*, insufficient evidence to support input tax deduction).

For the purposes of these principles however, any such imposition of value added tax on business should be clear and explicit within the legislative framework for the tax.

As with many other taxes, value added taxes impose compliance costs on business. It is not the intention of these principles to suggest that compliance costs should not be borne by business, but rather that, business should not incur irrecoverable value added tax (other than within the sort of exceptions exemplified above).

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Extract from Chapter III. Taxation of services in specific sectors

III.C. Electronic commerce

III.C.1. Guidelines on the definition of the place of consumption

Introduction

In 1998, OECD Ministers welcomed a number of Taxation Framework Conditions relating to the consumption taxation of electronic commerce in a cross-border trade environment, including:

1. In order to prevent double taxation, or unintentional non-taxation, rules for the consumption taxation of cross-border trade should result in taxation in the jurisdiction where consumption takes place.
2. For the purpose of consumption taxes, the supply of digitised products should not be treated as a supply of goods.
3. Where businesses acquire services and intangible property from a non-resident vendor, consideration should be given to the use of reverse charge, self-assessment or other equivalent mechanism.

The Guidelines below are intended to achieve the practical application of the Taxation Framework Conditions in order to prevent double taxation or unintentional non-taxation, particularly in the context of international cross-border electronic commerce. member countries are encouraged to review existing national legislation to determine its compatibility with these Guidelines and to consider any legislative changes necessary to align such legislation with the objectives of the Guidelines. At the same time, member countries should consider any control and enforcement measures necessary for their implementation.

Business-to-business transactions

The place of consumption for cross-border supplies of services and intangible property that are capable of delivery from a remote location made to a non-resident business recipient[1] should be the jurisdiction in which the recipient has located its business presence.[2]

In certain circumstances, countries may, however, use a different criterion to determine the actual place of consumption, where the application of the approach in paragraph 3 would lead to a distortion of competition or avoidance of tax.[3]

Business-to-private consumer transactions

The place of consumption for cross-border supplies of services and intangible property that are capable of delivery from a remote location made to a non-resident private recipient[4] should be the jurisdiction in which the recipient has their usual residence.[5]

1. This will normally include a “taxable person” or an entity who is registered or is obliged to register and account for tax. This may also include another entity that is identified for tax purposes.
2. The “business presence” is, in principle, the establishment (for example, headquarters, registered office, or a branch of the business) of the recipient to which the supply is made.
3. Such an approach should normally be applied only in the context of a reverse charge or self-assessment mechanism.
4. In other words, a “non-taxable person” or an entity not registered and ***not*** obliged to register and account for tax.
5. It is recognised that implementing this Guideline will not always result in taxation in the actual place of consumption. Under a “pure” place of consumption test, intangible services are consumed in the place where the customer actually uses the services. However, the mobility of communications is such that to apply a pure place of consumption test would lead to a significant compliance burden for vendors.

Application[1]

In the context of value-added or other general consumption tax systems, these Guidelines are intended to define the place of consumption (and so the place of taxation) for the international cross-border supply of services and intangible property by non-resident vendors/suppliers that are not otherwise registered and are not required to register in the destination jurisdiction under existing mechanisms.[2, 3]

These Guidelines apply to the cross-border supply of services and intangible property, particularly in the context of international cross-border electronic commerce, that are capable of delivery from a remote location.

The Guidelines do *not*, therefore, apply to services which are not capable of direct delivery from a remote location (for example, hotel accommodation, transportation or vehicle rental). Nor are they applicable in circumstances where the place of consumption may be readily ascertained, as is the case where a service is performed in the physical presence of both the service provider and the customer (for example, hairdressing), or when the place of consumption can more appropriately be determined by reference to a particular criterion (for example, services related to particular immovable property or goods). Finally, it is recognised that specific types of services, for example, some telecommunications services, may require more specific approaches to determine their place of consumption.[4]

III.C.2. Recommended approaches to the practical application of the guidelines on the definition of the place of consumption

Introduction

Three tax collection mechanisms are typically used in consumption tax systems: registration, reverse charge/self-assessment, and collection of tax by customs authorities on importation of tangible goods. Under a registration system, the vendor of goods and services registers with the tax authority and, depending on the design of the tax, either is liable to pay the tax due on the transaction to the tax authority, or collects the tax payable by the customer and remits it to the tax authority. Under the reverse charge/self-assessment system, the customer pays the tax directly to the tax authority. The third approach, collection of the tax on the importation of tangible goods by customs authorities, is common to virtually all national consumption tax systems where national borders exist for customs purposes.

Since registration and self-assessment/reverse charge mechanisms are currently in use in the majority of consumption tax systems, they represent a logical starting point in

1. In accordance with the Ottawa Taxation Framework Conditions, specific measures adopted in relation to the place of taxation by a group of countries that is bound by a common legal framework for their consumption tax systems may, of course, apply to transactions between those countries.
2. While these Guidelines are not intended to apply to sub-national value-added and general consumption taxes, attention should be given to the issues presented, in the international context, relating to these taxes.
3. The objective is to ensure certainty and simplicity for businesses and tax administrations, as well as neutrality via equivalent tax implications for the same products in the same market (*i.e.* avoiding competitive distortions through unintentional non-taxation).
4. When such specific approaches are used, the Working Party recognises the need for further work and for international co-ordination of such arrangements to avoid double or unintentional non-taxation.

determining which approaches are most appropriate to apply in the context of electronic commerce transactions involving cross-border supplies of services and intangible property.

While emerging technology promises to assist in developing innovative approaches to tax collection, and the global nature of electronic commerce suggests that collaborative approaches between revenue authorities will become increasingly important, member countries agree that in the short term, the two traditional approaches to tax collection remain the most promising. However, member countries agree that their application varies depending on the type of transaction.

Business-to-business transactions

In the context of cross-border business-to-business (B2B) transactions (of the type referred to in the Guidelines), it is recommended that in cases where the supplying business is not registered and is not required to be registered for consumption tax in the country of the recipient business, a self-assessment or reverse charge mechanism should be applied where this type of mechanism is consistent with the overall design of the national consumption tax system.

In the context of B2B cross-border transactions in services and intangible property the self-assessment/reverse charge mechanism has a number of key advantages. Firstly, it can be made effective since the tax authority in the country of consumption can verify and enforce compliance. Secondly, given that it applies to the customer, the compliance burden on the vendor or provider of the service or intangible product is minimal. Finally, it reduces the revenue risks associated with the collection of tax by non-resident vendors whether or not that vendor's customers are entitled to deduct the tax or recover it through input tax credits.

Member countries may also wish to consider dispensing with the requirement to self-assess or reverse charge the tax in circumstances where the customer would be entitled to fully recover it through deduction or input tax credit.

Business-to-consumer transactions

Effective tax collection in respect of business-to-consumer (B2C) cross-border transactions of services and intangible property presents particular challenges. member countries recognise that no single option, of those examined as part of the international debate, is without significant difficulties. In the medium term, technology-based options offer much potential to support new methods of tax collection. member countries are expressly committed to further detailed examination of this potential to agree on how it can best be supported and developed.

In the interim, where countries consider it necessary, for example because of the potential for distortion of competition or significant present or future revenue loss, a registration system (where consistent with the overall design of the national consumption tax system) should be considered to ensure the collection of tax on B2C transactions.

Where countries feel it appropriate to put into effect a registration system in respect of non-resident vendors of services and intangible property not currently registered and not required to be registered for that country's tax, it is recommended that a number of considerations be taken into account. Firstly, consistent with the effective and efficient collection of tax, countries should ensure that the potential compliance burden is minimised. For example, countries may wish to consider registration regimes that include

simplified registration requirements for non-resident suppliers (including electronic registration and declaration procedures), possibly combined with limitations on the recovery of input tax in order to reduce risks to the tax authority. Secondly, countries should seek to apply registration thresholds in a non-discriminatory manner. Finally, member countries should consider appropriate control and enforcement measures to ensure compliance, and recognise, in this context, the need for enhanced international administrative co-operation.

Annex III.C.A. Consumption tax guidance series document 1. Commentary on place of consumption for business-to-business supplies (business presence)

Caveat

Consumption Tax Guidance is a means of developing greater awareness of both policy and administrative issues. On policy issues the Guidance contains recommendations to member governments that are aimed at removing conflicts, distortions and disincentives to international trade. The section on administrative issues has been developed as a result of sharing experiences between member countries. The OECD's Committee on Fiscal Affairs has approved the contents and countries are encouraged to apply the guidance wherever possible. Nothing contained herein binds member countries, although where there is clear consensus amongst the member countries, administrations should consider the guidance in the light of their existing taxation systems and their legislative approaches.

1. A key principle at the basis of the Ottawa Taxation Framework Conditions for consumption taxes is that the rules for the consumption taxation of cross-border electronic commerce should result in taxation in the jurisdiction where consumption takes place.

2. *The Guideline on the Definition of the Place of Consumption for the Taxation of Cross Border Services and Intangible Property in the Context of E-commerce* (the Guideline on the Definition of the Place of Consumption) provides two guidelines for business to business e-commerce transactions for determining the place of consumption for cross-border supplies of services and intangible property made to non-resident business recipients. These two guidelines are referred to in this guidance paper as a "main criterion" and an "override criterion".

3. The main criterion states that the place of consumption for cross-border supplies of services and intangible property that are capable of delivery from a remote location made to a non-resident business recipient should be the jurisdiction in which the recipient has located its business presence.[1]

4. As the main criterion can be considered to be a "proxy" for a pure consumption test (*i.e.* one that approximates where actual consumption occurs), in certain circumstances, countries may use a different criterion to determine the actual place of consumption where the application of the main criterion would lead to a distortion of competition or

1. Paragraph 3 of the Guideline on the Definition of the Place of Consumption.

avoidance of tax,[1] *e.g.* resulting from the routing of services through establishments in non-tax or low-tax jurisdictions. This is referred to as the "override criterion".

5. The Guideline on the Definition of the Place of Consumption clarifies the application of the Guidelines as follows:[2]

a) In the context of value-added or other general consumption tax systems, the Guidelines are intended to define the place of consumption (and so the place of taxation) for the international cross-border supply of services and intangible property.

b) The Guidelines apply to the cross-border supply of services and intangible property, particularly in the context of international cross-border electronic commerce that are capable of delivery from a remote location.

c) The Guidelines do not apply to services which are not capable of direct delivery from a remote location (for example, hotel accommodation, transportation or vehicle rental). Nor are they applicable in circumstances where the place of consumption may be readily ascertained, as is the case where a service is performed in the physical presence of both the service provider and the customer (for example, hairdressing), or when the place of consumption can more appropriately be determined by reference to a particular criterion (for example, services related to particular immovable property or goods). Finally, it is recognised that specific types of services, for example, some telecommunications services, may require more specific approaches to determine their place of consumption.

6. The focus of this guidance is to provide commentary building on, but not changing, the Guidelines in the Guideline on the Definition of the Place of Consumption, particularly in instances where the customer has multiple locations.

Application of the main criterion

7. The Guideline on the Definition of the Place of Consumption notes in footnote 2 that the business presence is in principle the establishment of the recipient to which the supply is made.

8. Both business and government members of the Consumption Tax TAG have underlined the importance of contracts in determining the business presence to which the supply is made. By looking at contracts, taxing authorities, suppliers and customers would be able to evidence transactions and justify the treatment given to supplies. Looking at normal commercial practices would appear to be a reasonable approach, as generally, VAT/GST administrations rely on normal commercial practices which are evidenced in the contracts (*e.g.* invoicing, terms of payment, use of intellectual property rights).

Application of the override criterion

9. As noted in the Guideline on the Definition of the Place of Consumption, in certain circumstances, countries may use a different criterion to determine the actual place of consumption, where the application of the approach under the main criterion would lead to distortion of competition or avoidance of tax. In work leading up to the Guideline on the Definition of the Place of Consumption the application of a pure consumption test was examined and it was concluded that this would be burdensome for both business and

1. Paragraph 4 of the Guideline on the Definition of the Place of Consumption.
2. Paragraph 6, 7 and 8 of the Guideline on the Definition of the Place of Consumption.

revenue administrations. However, in cases where competitive distortions or tax avoidance may arise applying the pure consumption test is the only real alternative. Such application may be made, for example, where one or more consuming entities are not entitled to recover the input tax on a transaction that is routed through an associated business presence in a no or low-tax jurisdiction, thus avoiding a significant amount of tax.

10. Where a country invokes the override criterion, it may choose to require a business presence in its jurisdiction to account for tax only to the extent of consumption taking place in that jurisdiction.

11. Where a country invokes the override criterion the host country of the business presence that is considered to have received the supply under the main criterion, may choose to provide a partial credit of its tax which it collected under the main criterion. This credit would be equivalent to that portion of the host country's tax that is attributable to the consumption that is being taxed by the country invoking the override rule. Tax administrations involved in the application of the override criterion should strive to avoid unintentional non-taxation or double taxation.

12. To illustrate, consider a business situated in country A that has contracted for a supply worth $1 000 with 30% of the supply being consumed in country B. The rate of tax is 10% in country A and 20% in country B. In this case country A would require the business to reverse charge on the full value of the supply ($1 000 × 10% or $100). If country B invokes the override criterion, it would collect $60 ($1 000 × 30% × 20%). Country A may subsequently provide a credit of $30, which is equivalent to that portion of country A's tax collected under the main criterion which is attributable to the consumption being taxed by country B ($1 000 × 30% × 10%). The net result is that country A and B each tax the value of the consumption that is occurring in their jurisdictions – $70 in country A and $60 in country B.

Conclusion

13. The Guidelines on the Definition of the Place of Consumption do not apply to services which are not capable of direct delivery from a remote location or where the place of consumption may be readily ascertained.

14. Where the main criterion is applied, the place of consumption of cross-border electronically delivered services and intangible property is the jurisdiction in which the recipient's business presence is located. Normal commercial practices as evidenced in the terms of the contract (*e.g.* invoicing, terms of payment, use of intellectual property) should normally provide sufficient indicative evidence to assist both business and revenue administrations in determining the jurisdiction of consumption.

15. Countries may use a pure consumption test to determine the place of consumption where the application of the approach under the main criterion would lead to distortion of competition or avoidance of tax. Where a country invokes this approach, it may choose to require a business presence in its jurisdiction to account for tax only to the extent that consumption takes place in that jurisdiction. Where a country invokes this test the host country of the business presence that is considered to have received the supply under the main criterion, may choose to provide a partial credit of its tax which it collected under the main criterion. This credit would be equivalent to that portion of the host country's tax that is attributable to the consumption that is being taxed by the country invoking the override rule.

Annex III.C.B. Consumption tax guidance series document 2. Simplified registration guidance

Caveat

Consumption Tax Guidance is a means of developing greater awareness of both policy and administrative issues. On policy issues the Guidance contains recommendations to member governments that are aimed at removing conflicts, distortions and disincentives to international trade. The section on administrative issues has been developed as a result of sharing experiences between member countries. The OECD's Committee on Fiscal Affairs has approved the contents and countries are encouraged to apply the guidance wherever possible. Nothing contained herein binds member countries, although where there is clear consensus amongst the member countries, administrations should consider the guidance in the light of their existing taxation systems and their legislative approaches.

Introduction

1. Digitally delivered forms of trading provide increased opportunities for vendors in that time and distance are no longer considered barriers. A vendor can make multiple supplies simultaneously in different countries, without developing a physical establishment or presence in any jurisdiction other than his own. As a result, vendors may increasingly find themselves with consumption tax responsibilities in countries in which they have no physical presence and books and records are not maintained.

2. The *Recommended Approaches to the Practical Application of the Guidelines on the Definition of the Place of Consumption* acknowledge that effective tax collection in respect of e-commerce B2C cross border transactions presents particular challenges and that no single option is without difficulties. In the interim they suggest that a simplified registration system be used for the collection of tax on supplies made by non-resident vendors of services and intangible property on B2C transactions where consistent with the overall design of the national consumption tax system.

3. This guidance explores registration and declaration procedures and record-keeping requirements only in the context of simplified registration systems for e-commerce B2C cross border transactions.

Registration procedures

4. Simple registration procedures can be an important incentive to non-resident vendors to begin to engage with the tax authority of a jurisdiction where they may have no link other than the provision of on-line supplies to private customers within the particular jurisdiction.

5. From a vendor's point of view, the simplest way to engage with tax authorities from a remote location is most likely by electronic procedures. A consistent approach to this by tax administrations would further ease the compliance burdens and would have the merit of familiarity for the vendor.

Electronic access to registration application

6. Registration applications could be made accessible on the home page of the tax administration's Web site, preferably available in the languages of the jurisdiction's major trading partners.

Standardisation of registration application

7. The electronic registration application displayed on the Web site could have a standardised layout. The information requested would also be standardised and limited to necessary details such as:

- Name of business (legal and/or trading name).
- Name of contact person responsible for dealing with tax administrations.
- Postal and/or registered address of the business and its contact person.
- Telephone number of contact person.
- Electronic address of contact person.
- Web sites URL of business.
- National tax identification number, if any.

Electronic confirmation of registration

8. The tax administration might undertake to transmit to the vendor confirmation of receipt of the application by electronic means. This would include notifying the vendor of its registration identification number.

Declaration procedures

Electronic filing of declarations

9. Many tax authorities have introduced or are introducing options to submit tax returns electronically. For non-resident vendors required to collect and remit tax to authorities in jurisdictions outside their own, providing the option to file electronically will be essential to facilitating compliance.

Simplified return

10. At the same time, the returns that such vendors will be required to submit should be simple, with minimum data required. Tax authorities could consider a simplified return for non-resident business, which would be less detailed than returns required for local businesses which are entitled to input tax credits.

Standardisation of filing requirements

11. The lack of international consistency in filing requirements, such as reporting periods, forms a drawback for e-commerce vendors. As requirements differ widely between countries, having to file tax returns in a number of countries is a complex process that may impact negatively on the growth of cross-border e-commerce.

12. It is suggested that the information required under international filing requirements, strike a balance between the business need for simplicity and the need for tax administrations to verify whether tax obligations have been correctly fulfilled. Guidance might also be given on the date and frequency for filing tax returns.

Record keeping

13. Tax authorities must be able to review data as a means of assurance that consumption tax has been charged and accounted for in a correct way. In a traditional environment this document is usually paper based. The administrative processes of e-commerce businesses are becoming more and more automated. In the process from ordering, invoicing, and payment the role of paper documents is increasingly being replaced by documents in an electronic format. Non-resident e-commerce vendors, that do not have a physical presence within a jurisdiction, are most unlikely to maintain books and records within the particular jurisdiction.

Electronic records

14. Requirements relating to the use of electronic documents differ widely, as countries may:

- Prohibit the use of electronic documents.
- Require the storage of paper copies of documents.
- Require the use of different formats for official VAT/GST invoices.
- Set specific language requirements.
- Prescribe a specific sequence of invoicing numbers in the country of registration.

15. Where businesses are not allowed to maintain electronic records in accordance with the legislative framework of a jurisdiction, this may be considered to be a barrier. Jurisdictions should be encouraged to review the legal basis for the storage of records and where necessary develop a legal basis to allow for the use of electronic record keeping systems.

Record keeping requirements

16. Businesses that are operating cross-border may be confronted with a multitude of different record keeping requirements in various countries. The formulation of consistent record keeping requirements that might be promulgated and applied internationally is an important instrument to promote voluntary compliance of e-commerce vendors. The development of consistent guidance for the use of electronic records may allow for cost savings by business as well as tax administrations.

17. Standards for the retention of records could be based on what is generally accepted in commercial practice. Revenue authorities' objectives could where possible take into account the existing administrative processes used by businesses.

Summary of conclusions

18. The *Recommended Approaches to the Practical Application of the Guidelines on the Definition of the Place of Consumption* suggest that where a jurisdiction considered it necessary to address consumption tax collection for e-commerce B2C supplies of services and intangible property that consideration be given to implementing a simplified registration system. **These conclusions are made in the context of simplified registration systems for e-commerce B2C cross-border transactions.**

Registration procedures for simplified registration systems

- *Tax administrations are encouraged to provide access to registration applications on their respective Web sites.*

- *Tax administrations are encouraged to develop standardised registration applications requiring minimum details.*
- *Tax administrations are encouraged to confirm the receipt of a registration application and provide the registrant's identification number by electronic means.*

Declaration procedures for non-residents registered under a simplified registration system

- *Tax administrations are encouraged to make available an electronic return template on their respective Web sites.*
- *Tax administrations are encouraged to develop a simplified tax return.*
- *Governments are encouraged to standardise filing requirements.*

Record keeping for non-residents registered under a simplified registration system

- *Tax administrations are encouraged to review the legal basis for the storage of records and where necessary to develop a legal basis to allow for the use of electronic record keeping systems.*
- *Tax administrations are encouraged to base the standards for the retention of records on what is generally accepted commercial practice.*

Annex III.C.C. Consumption tax guidance series document 3. Verification of customer status and jurisdiction

Caveat

Consumption Tax Guidance is a means of developing greater awareness of both policy and administrative issues. On policy issues the Guidance contains recommendations to member governments that are aimed at removing conflicts, distortions and disincentives to international trade. The section on administrative issues has been developed as a result of sharing experiences between member countries. The OECD's Committee on Fiscal Affairs has approved the contents and countries are encouraged to apply the guidance wherever possible. Nothing contained herein binds member countries, although where there is clear consensus amongst the member countries, administrations should consider the guidance in the light of their existing taxation systems and their legislative approaches.

1. A key principle of the Ottawa Taxation Framework Conditions is that the rules for the consumption taxation of cross border electronic commerce should result in taxation in the jurisdiction where consumption takes place.

2. The Guidelines on the Definition of the Place of Consumption for the Consumption Taxation of Cross Border Services and Intangible Property in the Context of E-Commerce provide that the place of consumption, and therefore the place of taxation, for cross border supplies of services and intangible property that are capable of delivery from a remote location, should be the jurisdiction:

i) In which the recipient has located its business presence for business-to-business transactions[1] (B2B); and

ii) In which the recipient has his or her usual place of residence for business-to-consumer transactions (B2C).

3. The recommended collection mechanism for B2B transactions, where the supplying business is not registered and is not required to be registered for consumption tax in the country of the recipient business, is the reverse charge (or self-assessment) mechanism. This means that a supplier would not be required to charge and collect consumption tax on supplies it made to businesses outside its jurisdiction. For B2C transactions the reverse charge/self assessment mechanism was not considered appropriate and in the interim it is acknowledged that where countries consider it necessary, a registration system is currently the only practical means to ensure the collection of tax on B2C transactions. Such a system would require the vendor to collect tax on cross border transactions.

4. The ascertainment of a customer's status (business or private) and jurisdiction is central to the vendor making the right tax decision. The right tax decision depends on whether the customer is established in the same taxing jurisdiction or abroad and whether that customer is a business or a private customer.

5. This guidance paper provides practical guidance on mechanisms that may be used to establish the status (business or private) and jurisdiction of the customer in the context of electronic commerce.

Context

6. The guidance proposed in this paper represents the minimum requirements primarily applicable to low value transactions where the vendor does not have an established relationship with the customer. It does not apply to high value B2B transactions where the vendor and the customer have an established relationship. In these cases the supplier is normally aware of the customer's status and jurisdiction and no additional verification process of the customer's declaration should be necessary. Ultimately the administrative guidance established will need to reflect the realities of the law and practice within a particular jurisdiction.

7. The mechanisms highlighted in this guidance should be considered as a basis for governments to provide clear, realistic and consistent guidance for business on the nature and type of verification that is required to determine the status and jurisdiction of a customer with the expectation that they would follow such guidance in good faith. Revenue authorities should consider the nature, type, scale and quantum of revenue applicable to each transaction when developing guidance, to ensure that the administrative response is weighed against the costs of compliance for business and the revenue at risk.

8. The guidance is designed to be used in cases where taxpayers are attempting to comply with their legal obligations. Nothing in the guidance is designed to limit a country's response to deliberate fraud or evasion.

1. In certain circumstances, countries may use a different criterion to determine the actual place of consumption where the application of the main criterion would lead to a distortion of competition or avoidance of tax. For further information see CTG 003 Commentary on Place of Consumption for Business-to-Business Supplies (Business Presence).

Conclusion

As the ascertainment of a customer's status (business or private) and jurisdiction is central to the vendor making the right tax decision, revenue authorities should provide guidance to business on the nature and type of verification that is required to determine the status and jurisdiction of a customer. In developing this guidance revenue authorities should consider the nature, type, scale and quantum of revenue applicable to each transaction, to ensure that the administrative response is weighed against the costs of compliance for business and the revenue at risk.

Establishing and verifying the status and jurisdiction of a business customer

9. For low value transactions, where the vendor does not have an established relationship with the customer, the customer's declaration is an essential part of the tax decision process. However, because the reverse charge/self assessment tax collection mechanism[1] allows business customers to receive the services without being charged tax by the vendor, private customers may have a financial incentive to declare that they are businesses. As a result, customer declarations, when used as the only means of determining the tax jurisdiction, would not be fully reliable.

10. Therefore, in addition to the customer declaration, consideration has been given to three possible methods of verifying the customer declaration

A. Verification of registration numbers.

B. Other indicia.

C. Digital certificates.

A) Verification of registration numbers[2]

Online verification

11. Today, at least in some jurisdictions, verifying the status of the customer is a relevant consideration for a vendor in making a taxing decision. For example, within the European Union (EU) the status of the customer in cross border transactions is a significant factor. Supplies to taxable persons who are registered for VAT purposes are subject to a reverse charge/self assessment mechanism, whereas supplies to persons who are not registered for VAT purposes are taxed according to the particular rules that apply to that transaction.

12. In those jurisdictions where the VAT registration status of the customer is significant there appear to be mechanisms to support the decision making process of the vendor. In the case of the EU, the VAT Information Exchange System (VIES) fulfils this role by an online verification system. Other jurisdictions may have similar systems whereby it is possible to check the VAT registration number for validity, albeit not in an automated fashion or in real time.

1. The reverse charge/self assessment tax collection mechanism is the recommended approach for the collection of tax on B2B supplies.
2. It should be borne in mind that not all jurisdictions use VAT registration numbers and what follows in this section is, therefore, applicable only to those transactions to countries utilising registration numbers.

13. At present, in intra-EU supplies, the customer, if VAT registered, will supply their VAT number to the vendor during the transaction. The customer is making a self-declaration about their status. Where it becomes necessary for the vendor to check the VAT number provided, they can do this by reference to the VIES. The VAT number supplied by the customer can also be used to compare business name and address information contained on the VIES database with name and address information provided by the customer to the vendor.[1]

14. For such an approach to have global application, jurisdictions outside the EU would also need to have a VAT/GST registration database, which is not always the case. Further, the relevant parts of the VAT registration databases of all jurisdictions would need to be publicly available, at least to the extent required to verify individual numbers. This would allow a vendor from any jurisdiction to validate the VAT registration status of a customer from any jurisdiction.

15. As online customers may expect everything to be approved at the time of the transaction, if the VIES or a comparable system is going to be a mandatory part of any transaction there will be very compelling arguments to make online registration data available in a format or interface that allows automated integration with vendors' systems.

16. Because this online method of determining the status of the customer will not always be available a validity computation on declared registration numbers could be used as an alternative.

Computation system

17. This alternative method for online verification of registration numbers would be a validity computation on declared registration numbers, which would only yield a certain answer if the numbers were genuine. This may be an extension of the check digit technique, which is already used for some registration number systems. The diversity of registration numbers, some of which may include alphabetical characters and not all of which will be in the roman character set, means that this process may be quite complex and would therefore not be a short-term solution. In addition, this system may not take into account possible changes in a taxpayer's situation, for example when a taxpayer ceases to be registered in a jurisdiction. The requirement for frequent changes in VAT/registration numbers should also be avoided if this approach is to have merit. Any computation system will need to guard against reverse engineering.

18. Finally, whatever the registration number verification used (online or computation) some private customers may use existing genuine VAT numbers belonging to others to obtain tax-free supplies. Thus, other mechanisms such as indicia and digital certificates should be considered to verify customer's declarations about their status.

1. The information may be provided during the transaction or it may be provided as part of some earlier customer registration process and stored in the customer database of the vendor. The vendor may obtain immediate confirmation of the VAT numbers validity of their trading partners through the VIES Web site (accessible by the general public via the Internet) (*http://europa.eu.int/vies*). Nevertheless, traders, making an enquiry as to whether a specific VAT number is correctly associated with a specified trader name and/or address, should go through their national Central Liaison Office which will give one of the following replies: Yes, valid VAT number/No, invalid VAT number/Yes, the VAT number is associated with a given name/address/No, the VAT number is not associated with a given name/address (N.B.: For security and data protection reasons, the national administrations will not supply the name and address in relation to a valid number.)

B) Indicia

Payment system data

19. A possible method of verifying the status of a customer could be via the payment mechanism. For example, if the customer paid by credit card would it be possible to use card information to determine the status of the customer?

20. Based on the available evidence, it is unlikely that credit card information would in the short term be of assistance in determining the status of a customer. Only minimal information about cardholders is passed to vendors (for privacy protection) and the status of the cardholder is not computable from the card number in the current credit card system.

21. It should be noted that there are commercial reasons to reduce credit card fraud by improving the ability to identify authorised users of the credit card payment facilities. In time these developments may assist in the improved identification of the jurisdiction of a customer.

22. Payment mechanisms such as bank transfer (more used for large-scale transactions than credit cards) and payment arrangements in the contracts may be used as complementary verification methods.

Nature of the supply

23. The nature of the supply may provide an indication of the customer's status. For example, supplies of digitised music or films, with no entitlement to the embedded intellectual property rights, might be indicative that the customer was not VAT registered. Even if the customer is VAT registered it is likely that the supply would be for personal use and not a business input. Using this same indicative approach, business accounting software is much more likely to be a B2B rather than a B2C sale.

24. Even if the nature of the supply can offer reasonable presumptions there are limitations to this method of verifying the status of the customer. For example, it could be difficult to distinguish between anti-virus software sold to a private customer and the same software sold to a small business for business purposes.

C) Digital certificates

25. The use of digital certificates may help determine the tax status of a customer. Some jurisdictions have issued digital certificates for business-to-government (B2G) transactions and some companies are issuing digital certificates to their customers. Tax authorities should normally be able to recognize the authenticity of digital certificates where they are interoperable (such as being based on the x.509 standard) and are issued in a high integrity manner.

26. The integrity of such certificates includes consideration about who issued the certificate, how the information contained on the certificate was validated and whether there is scope to include particular information about VAT registration status and jurisdiction. If these matters could be addressed this approach offers the best possibilities, because it could be conducted in real-time and with greater reliability than other methods.

Mismatch of customer self declaration with other indicia

27. In cases where the customer's self declaration is not in agreement with other indicia used to verify the declaration, revenue authorities should consider providing additional domestic guidance as to how to tax these transactions. Where the vendor cannot regard the customer as a business customer, because, for example, the customer cannot provide a valid VAT number or digital certificate, this might lead to the presumption that it is a private customer and VAT should be charged accordingly.

Conclusions

For low-value transactions, where a vendor and customer do not have an established trading relationship, some of the criteria above may be used to verify the declaration of the customer.

The jurisdiction of the business customer should be ascertained in the same way, and at the same time as its status. For example, online verification of the VAT number may allow verification of the jurisdiction of the customer (in or outside the jurisdiction of the vendor) and their VAT registration status at the same moment, where the VAT registration number contains a country code, or some similar device.

Revenue authorities should consider providing additional domestic guidance as to how to tax a transaction, where the self-declaration of the customer is not in agreement with other indicia used.

Where the vendor cannot regard the customer as a business customer, because, for example, the customer cannot provide a valid VAT number or digital certificate, this might lead to the presumption that it is a private customer and VAT should be charged accordingly.

Establishing the jurisdiction of a private customer

28. In order to make the right tax decision for a supply to a private customer, a vendor must determine the jurisdiction of the customer. Verification of the private customer jurisdiction cannot be grounded in a single and simple mechanism such as an identification number. This means that revenue authorities should be encouraged to provide more certainty through clear public guidance.

Declaration of the customer

29. It is clear that customer self-declaration, when used as the only means of determining the jurisdiction would have limited reliability. The obvious limitation is that the customer can change their declaration to achieve the outcome that they desire if it is not possible to independently confirm the information provided. In some jurisdictions a false declaration by a customer may be an offence under the laws of the country. If this is the case it is recommended that business provide appropriate warnings to customers to this effect. Nevertheless, information provided by the customer (jurisdiction and detailed address) may be regarded as an important element to determine jurisdiction in association with a range of other criteria consistent with business practice and the importance of the transaction.

Payment information

30. A possible method of determining the status or jurisdiction of a customer could be via the payment mechanism. For example, if the customer paid by credit card would it be possible to use card information to identify the customer's jurisdiction?

31. Based on current evidence it is unlikely that credit card information will always be of assistance in determining the jurisdiction of a customer in the short term. Nevertheless, the development of new security technologies and payment systems should be kept under review. Other payments methods – *e.g.*, by bank transfer – may supply useful confirmatory data.

32. Where confirmation of the billing address is requested as part of the commercial processing of an on-line transaction, it would however be reasonable to expect a very high level of correlation with the customers declared taxing jurisdiction.

Tracking/Geolocation software

33. Geolocation technologies use various information sources to determine the location of an Internet user based on the user's Internet Protocol (IP) address. In recent court cases Internet experts have claimed that technologies achieved 85% accuracy.

34. To determine jurisdiction from an IP number, the destination IP number is compared to a database of geographically known IP numbers. Varying degrees of accuracy (up to 96%) are claimed for such systems, which are increasingly being used by Internet businesses for targeting advertising and for some fraud control purposes. IP number tracing is readily available in many common computer operating systems and in inexpensive software for most common computer platforms.

35. The advantage of technology-based verification is that it is likely to be easily and relatively cheaply incorporated into online transactions.

36. Clarification or agreement between the relevant revenue authority and the business sector as to what rules should be applied in the scenario where an instance of a customer's self declaration of jurisdiction does not match the jurisdiction indicated by a verification technology or system is desirable. The solution should seek to strike an appropriate balance between the genuine concerns of business regarding lost sales, their need for tax certainty and the need for protection of the consumption tax revenue base by governments.

Nature of the supply

37. Another possible source of evidence to ascertain the jurisdiction of the customer can be based on the features of the supply. A combination of features including language, content and currency may assist in providing indications of the intended destination of a supply.

Digital certificates

38. From a technical point of view, digital certificates offer the best possibilities in the long term, but the use of digital certificates is even less widespread among private customers than among businesses. Consequently, this should only be considered as a long-term solution.

Conclusions

Taking into account the prevailing technologies, the recommended approach at this time is to obtain a customer declaration with the full address of usual place of residence substantiated by other indicia or verification tools, according to the nature, type, scale and quantum of the transaction.

Information provided by the customer (jurisdiction and detailed address) may be regarded as an important element to determine jurisdiction in association with a range of other criteria. Other criteria that may be used by a vendor to substantiate the declaration of the customer include payment information, tracking/geolocation software, nature of the supply, and digital certificates.

Revenue authorities should consider providing additional domestic guidance as to how to tax a transaction where a customer's self declaration of jurisdiction does not match the jurisdiction indicated by other indicia.

Periodic review

39. The technology that supports e-commerce can change very quickly. Any method used to determine the status and jurisdiction of a customer may rapidly be superseded by developments. Therefore it is suggested that this issue be kept under periodic review.

40. One development that should be monitored is the Universal User Profile whereby a user's passwords and other identity information are stored with a service provider to facilitate easy access to a range of Web sites and services. Microsoft.NET Passport, AOL's Magic Carpet and the Liberty Alliance are examples of these developments. "Verified by Visa" and "MasterCard's SPA" initiatives also provide merchants with tools to verify customer identity. These effectively replace the real world signature with a password. While it is unclear whether these solutions could provide jurisdictional information, further monitoring of Universal User Profile solutions, should be undertaken.

41. By following the suggestions contained in this paper, revenue authorities and businesses will establish a framework in which there is an explicit, but not onerous, process to obtain information from the customer for the vendor to make a reasonable tax decision, consistent with any other data used obtained for commercial or other purposes.

42. The actual details of how the information is obtained, by question and answer, provision of digital certificate or other means is a variable element which sits inside the framework and which can be adjusted to keep pace with technology.

43. In considering changes to the information it is suggested that revenue authorities always seek to move closer to a 100% accurate answer to the questions of status and jurisdiction and that they use means which are, wherever possible, in common commercial practice or which are otherwise not onerous for businesses to adopt.

Summary of conclusions – Recommended approaches

44. It should be noted that these conclusions refer to low-value transactions where the vendor does not have an established relationship with the customer. The guidance should be seen as minimum requirements in the absence of better information or solutions available to the vendor.

Recommended approaches to overall verification issues

- Revenue authorities should provide guidance to business on the nature and type of verification that is required to determine the status and jurisdiction of a customer.
- Revenue authorities should consider the nature, type, scale and quantum of revenue applicable to each transaction when developing guidance, to ensure that the administrative response is weighed against the costs of compliance for business and the revenue at risk.

Recommended approaches to establishing and verifying the status and jurisdiction of the business customer

- Where a vendor and customer do not have an established trading relationship, a customer declaration, supported by criteria such as on-line verification of registration numbers, computation systems, payment system data, nature of the supply, and digital certificates may be used to confirm that the customer is registered for consumption tax in their country of origin.
- The jurisdiction of the business customer should be ascertained in the same way, at the same time as its status. When the customer is proved to be an entity with a valid foreign VAT number, this should be accepted as verification of jurisdiction.
- It is suggested that revenue authorities consider providing additional domestic guidance as to how to tax a transaction where a customer's self-declaration of jurisdiction does not match the jurisdiction indicated by other indicia.
- Where the vendor cannot regard the customer as a business customer, for reasons such as the customer not providing a valid VAT number or digital certificate, or absence of other supporting indicia, this might lead to the presumption that it is a private customer.

Recommended approaches to establishing the jurisdiction of a private customer

- Information provided by the customer (jurisdiction and detailed address) may be regarded as an important element to determine jurisdiction in association with a range of other criteria.
- Other criteria that may be used by a vendor to substantiate the declaration of the customer include payment information, tracking/geolocation software, nature of the supply, and digital certificates.
- It is suggested that revenue authorities consider providing additional domestic guidance as to how to tax a transaction where a customer's self-declaration of jurisdiction does not match the jurisdiction indicated by other indicia.

Periodic review

- Revenue authorities are encouraged to continue to monitor technology and business developments that may assist in the determination of customer jurisdiction.

ANNEX 3

Environmentally Related Taxes

The following tables show the revenues from environmentally related taxes as a percentage of GDP and of total tax revenue for all OECD countries (Tables 1 and 2).

Environmentally-related taxes are defined as any compulsory, unrequited payment to general government (benefits provided by government to taxpayers are not normally in proportion to their payments) levied on tax bases deemed to be of particular environmental relevance.

Updated tables on environmentally related taxes may be consulted free of charge on the OECD/European Energy Agency database at the following address: *www.oecd.org/env/policies/database*.

Additional information on environmentally related taxes can be found in "*OECD Environmental Data Compendium 2004*" (available on OECD Bookshop *www.oecd.org/bookshop*.

A3.1. **Trends in revenues from environmentally related taxes 1995-2003 in percentage of GDP**

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Australia	2.58	2.66	2.59	2.86	2.50	2.42	2.05	1.93	1.89	n.a.
Austria	1.93	2.08	2.33	2.39	2.30	2.32	2.28	2.43	2.64	2.68
Belgium	1.85	2.32	2.48	2.49	2.43	2.41	2.28	2.30	2.25	2.23
Canada	1.71	1.68	1.70	1.68	1.65	1.46	1.38	1.35	1.33	1.29
Czech Republic	3.25	3.36	3.04	2.90	2.89	3.03	2.64	2.76	2.83	2.83
Denmark	4.05	4.36	4.56	4.65	4.95	5.19	4.85	4.71	4.91	4.96
Finland	2.69	2.93	3.20	3.27	3.40	3.49	3.18	3.04	3.10	3.26
France	2.47	2.50	2.50	2.38	2.53	2.55	2.36	2.24	2.28	2.13
Germany	2.47	2.41	2.29	2.19	2.16	2.29	2.34	2.53	2.52	2.64
Greece	3.96	4.71	5.07	4.74	3.56	3.11	3.04	2.72	2.49	2.39
Hungary	2.33	2.91	2.85	2.91	3.34	3.21	2.88	2.72	2.65	2.63
Iceland	2.75	2.90	3.06	3.14	3.15	3.30	3.08	2.50	2.43	2.62
Ireland	3.26	3.06	3.07	2.98	2.96	2.95	2.88	2.34	2.35	2.37
Italy	3.58	3.65	3.53	3.51	3.30	3.34	3.01	2.93	2.74	2.86
Japan	1.62	1.71	1.70	1.66	1.68	1.72	1.71	1.73	1.75	1.68
Korea	2.08	2.26	2.58	2.80	2.83	2.92	2.76	3.02	2.68	1.82
Luxembourg	3.58	3.31	3.31	3.13	2.99	2.95	2.86	2.88	2.91	3.00
Mexico	2.26	1.55	1.34	1.64	2.22	2.57	1.72	2.16	2.44	1.95
Netherlands	3.41	3.34	3.63	3.63	3.53	3.76	3.73	3.65	3.48	3.46
New Zealand	1.66	1.68	1.69	1.71	1.83	1.66	1.61	1.57	1.65	1.87
Norway	3.47	3.54	3.79	3.67	3.51	3.26	2.92	2.94	3.01	2.98
Poland	1.78	1.52	1.65	1.63	1.65	1.94	1.85	1.85	1.90	1.94
Portugal	3.76	3.68	3.66	3.45	3.65	3.58	2.88	3.13	3.31	3.28
Slovak Republic	3.06	2.41	2.28	2.18	1.96	1.99	2.23	2.01	2.40	N.A.
Spain	2.31	2.16	2.15	2.15	2.23	2.27	2.10	1.98	1.99	1.97
Sweden	3.08	2.92	3.28	3.12	3.13	2.88	2.80	2.84	2.91	2.95
Switzerland	2.02	2.02	2.05	1.96	2.08	2.14	2.11	2.16	2.13	2.13
Turkey	1.49	1.62	2.42	2.59	2.42	3.38	3.18	3.57	4.41	5.16
United Kingdom	2.89	2.93	2.95	2.96	3.19	3.21	3.08	2.85	2.75	2.68
United States	1.17	1.12	1.02	1.03	1.02	1.03	0.98	0.95	0.91	0.88

Data refer to revenues from environmentally related taxes for pollution control.
Source: OECD/European Environment Agency Database.

A3.2. **Trends in revenues from environmentally related taxes 1995-2003 in percentage of total tax revenue**

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Australia	9.00	9.06	8.59	9.57	8.16	7.87	6.42	6.34	6.03	N.A.
Austria	4.46	5.01	5.36	5.38	5.20	5.27	5.35	5.47	6.04	6.25
Belgium	3.99	5.18	5.50	5.45	5.30	5.32	5.00	5.01	4.88	4.91
Canada	4.68	4.69	4.57	4.42	4.32	4.06	3.75	3.80	3.78	3.72
Czech Republic	7.60	8.38	7.75	7.50	7.58	7.79	7.35	7.64	7.63	7.52
Denmark	7.96	8.83	9.15	9.34	9.99	10.08	9.78	9.41	10.06	10.27
Finland	5.76	6.52	6.77	7.07	7.36	7.42	6.67	6.66	6.80	7.32
France	5.65	5.68	5.55	5.26	5.62	5.58	5.29	5.06	5.25	4.91
Germany	6.43	6.30	6.13	5.93	5.85	6.07	6.29	7.00	7.11	7.44
Greece	12.66	12.65	12.82	11.71	10.01	8.40	7.95	7.45	6.71	6.72
Hungary	6.60	6.86	7.01	7.45	8.61	8.22	7.39	6.98	6.83	6.82
Iceland	8.98	9.30	9.44	9.56	9.10	8.87	7.81	6.54	6.31	6.59
Ireland	9.14	9.24	9.34	9.24	9.34	9.51	8.96	7.81	8.19	7.99
Italy	8.66	8.86	8.25	7.96	7.78	7.72	6.97	6.81	6.45	6.65
Japan	6.13	6.04	6.12	5.94	6.26	6.52	6.30	6.39	6.81	6.58
Korea	10.23	11.01	12.05	12.31	12.34	12.40	11.72	12.54	10.99	7.17
Luxembourg	8.00	7.90	7.69	7.56	7.52	7.35	7.12	7.10	7.03	7.27
Mexico	13.11	9.35	8.07	9.37	13.45	14.79	9.32	11.53	13.49	10.25
Netherlands	7.62	7.95	8.74	8.65	8.83	9.12	9.05	9.18	8.87	8.93
New Zealand	4.53	4.46	4.67	4.70	5.14	4.88	4.71	4.63	4.69	5.26
Norway	8.40	8.52	9.13	8.66	8.08	8.07	6.75	6.76	6.87	6.86
Poland	4.12	3.83	4.20	4.20	4.38	5.54	5.71	5.80	5.48	5.67
Portugal	11.52	11.15	11.50	10.47	10.90	10.53	7.92	8.76	9.07	8.85
Slovak Republic					5.28	5.79	6.22	6.37	6.23	N.A.
Spain	6.59	6.58	6.61	6.40	6.56	6.48	6.16	5.90	5.71	5.65
Sweden	6.28	6.14	6.59	6.10	6.07	5.50	5.21	5.49	5.83	5.84
Switzerland	6.13	6.03	6.06	5.85	6.01	7.21	6.92	7.19	7.09	7.24
Turkey	6.68	7.16	9.51	9.30	8.53	10.82	9.85	10.15	14.23	15.76
United Kingdom	8.39	8.33	8.43	8.39	8.57	8.88	8.25	8.02	7.74	7.57
United States	4.17	4.07	3.65	3.63	3.61	3.56	3.29	3.28	3.47	3.46

Data refer to revenues from environmentally related taxes for pollution control.
Source: OECD/European Environment Agency Database.

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Consumption Tax Trends

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This publication presents information about VAT/GST and excise duty rates in OECD member countries. It provides information about indirect tax topics such as international aspects of VAT development and application of VAT to small and medium-size enterprises. It also describes a range of taxation provisions in OECD member countries, such as the taxation of motor vehicles, tobacco and alcoholic beverages. Finally, it presents the structure and excerpts of the *International VAT/GST Guidelines.*

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