Consumption Tax Trends 2012

VAT/GST AND EXCISE RATES, TRENDS AND ADMINISTRATION ISSUES

OECD

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BETTER POLICIES FOR BETTER LIVES

Please cite this publication as:
OECD (2012), *Consumption Tax Trends 2012: VAT/GST and Excise Rates, Trends and Administration Issues,* OECD Publishing.
http://dx.doi.org/10.1787/ctt-2012-en

ISBN 978-92-64-18138-0 (print)
ISBN 978-92-64-18218-9 (PDF)

Corrigenda to OECD publications may be found on line at: *www.oecd.org/publishing/corrigenda*.

Foreword

This publication is the ninth in the series Consumption Tax Trends. *It presents information relative to consumption taxes in OECD member countries, as at 1 January 2012. Tables using data from the* National Accounts *and from* Revenue Statistics *publications are updated up to and including 2009.*

This biennial publication illustrates the evolution of consumption taxes as revenue instruments. They account for 31% of total tax revenues in OECD member countries. It identifies the large number of differences that exist in respect of the consumption tax base, rates and implementation rules while highlighting the features underlying their development. It also notes recent developments in the Value Added Tax/Goods and Services Tax area, including international issues on taxation of services and intangibles. It provides an update of the OECD work on the OECD International VAT/GST Guidelines, which is being developed with the input of businesses, academics and non-OECD economies. International VAT issues are also discussed in the Global Forum on VAT launched in November 2012.

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

Acknowledgements are due to: Stephen Matthews (Head, Tax Policy and Statistics Division); Piet Battiau (Head, Consumption Taxes Unit); Maurice Nettley (Head, Tax Data, Statistics and Indicators Unit), and Michel Lahittete (statistician) CTPA; Nadim Ahmad (Head, Trade and Business Division) and Catherine La Rosa-Elkaim (Head of Annual National Accounts Unit); Statistics Directorate; Professor Walter Hellerstein (Distinguished Research Professor & Francis Shackelford Distinguished Professor in Taxation Law, University of Georgia) and Professor Rebecca Millar (Associate Professor at the Faculty of Law at the University of Sydney); Professor Michael Wolple (Professor at Atax, Australian School of Business, University of New South Wales.)

Acknowledgements

Chapter 7 on VAT and GST systems in federal countries *was prepared and written by* ***Alain Charlet*** *and* ***Luc Godbout****. This work has been made possible thanks to the financial support of the* ***Research Chair in Taxation and Public Finance of the Université de Sherbrooke*** (www.usherbrooke.ca/chaire-fiscalite/en/).

The basic mission of the Chair is to stimulate multidisciplinary research and training through the recruitment of professors and other research staff interested in economic policy and taxation. The fundamental objective of the Chair is the development of scientific measurements of the efficiency of economic policies in the field of taxation.

Recently, the Chair has been working extensively on consumption taxes issues, publishing several working papers regarding the question of the regressivity of VAT or GST, the balance to be found between social contributions, direct taxes and indirect taxes the tax mix most favourable to growth and the social VAT. All working papers can be downloaded by clicking on the following link: www.usherbrooke.ca/chaire-fiscalite/fr/publications-cffp/activites-colloques/journee-reflexion-taxes-consommation/. *An English summary of the content of a March 2011 conference given on these issues can be found at:* www.usherbrooke.ca/chaire-fiscalite/fileadmin/sites/chaire-fiscalite/documents/Taxes_a_la_consommation/63TI0061_Charlet_Godbout.pdf.

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Introduction

Consumption taxes form an important source of revenue for an increasing number of governments. They now account for almost 31% of all revenue collected by governments across the OECD. Value added taxes* (VAT) are the principal form of taxing consumption in 33 of the 34 OECD member countries (the United States continues to deploy retail sales taxes, albeit at the sub-federal level) and account for two thirds of consumption tax revenues. The remaining third is made up of specific consumption taxes such as excise duties.

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

Value added tax

Globalisation of trade has put increasing pressure on the international aspects of VAT systems. Differences between VAT systems operated by individual countries create growing difficulties for both businesses and tax administrations. In the absence of internationally agreed rules and standards for the treatment of international supplies, the capacity of governments to collect the tax would be reduced and uncertainties would hinder business activities. Double taxation and unintended non-taxation arising from the absence of coordination would also distort competition and hinder the development of international trade as well as opening up opportunities for tax avoidance (OECD, 2004).

Governments began the process of establishing guidelines for the VAT treatment of international trade in 1998 at the OECD Ottawa Conference on electronic commerce where Ministers welcomed the *Ottawa Taxation Framework Conditions*. As a result, the OECD's Committee on Fiscal Affairs (CFA) adopted the *Guidelines on Consumption Taxation of Cross-Border Services and Intangible Property in the Context of E-commerce* (2001), which were completed by the *Consumption Tax Guidance Series* (2002).

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

As a result, in February 2006 the OECD launched the *OECD International VAT/GST Guidelines* (the Guidelines), which aim at providing guidance for governments on applying VAT more generally to international trade. This work has started with analysis of application of VAT to services and intangibles since this appears to be the most pressing issue for both business and tax administrations. It was also agreed that the right to deduct

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

input tax, an essential element in VAT systems that underpins the tax's neutral character, should also be assured for cross-border trade.

Guidelines are being developed to ensure that each international supply is taxed in only one jurisdiction. In parallel, since value added taxes should be borne, in principle, by final consumers, Guidelines were developed to ensure that the burden of value added taxes themselves do not lie on taxable businesses, except where explicitly provided for in legislation (International VAT Neutrality Guidelines approved in 2011).

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

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

At the G20 Finance and Central Bank Deputies Meeting in February 2012 on Structural Reform in a Crisis Environment, it was noted that "Growth-friendly tax reforms could help strengthen the jobs content of a recovery, while also helping fiscal consolidation insofar as they are implemented in a way that raises tax revenue. These include removing tax expenditures and shifting the tax burden towards tax bases that are less harmful to employment and growth, such as immovable property, consumption and environmental taxes".

Research seems to indicate that it would be more efficient to broaden the VAT base at the standard rate by removing most exemptions and by abolishing domestic zero and reduced rates. This would, of course, have political difficulties attached but VAT reforms should not be looked at in isolation from the tax system as a whole (see Chapter 3).

Excise taxes and vehicle taxation

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

Consumption tax statistics

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

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Summary

Chapter 1 – Taxing consumption

Consumption taxes

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

Looking at the unweighted average of revenue from the five broad categories of taxes as a percentage of overall taxation in the OECD member countries, it can be seen that the proportion of consumption taxes is almost 31% (see Table 1.1). In 2009, consumption taxes broke down to one-third for taxes on specific goods and services and two-thirds for general consumption taxes (see Tables 3.2, 3.4 and 3.7).

General consumption taxes

Retail sales taxes

A retail sales tax is a consumption tax charged only once at the last point of sale for products to the final end user. The United States is the only OECD country within which a retail sales tax is employed as the principal consumption tax. However, the retail sales tax in the United States is not a federal tax. Rather, it is a tax imposed at the state level. Currently, 46 of the 50 States impose retail sales taxes. In addition, over 7 500 local tax jurisdictions impose retail sales taxes in accordance with state law requirements. To address inter-state and international taxation issues caused by the lack of harmonisation in state sales and use taxes, a number of states have entered into the Streamlined Sales and Use Tax Agreement (SSUTA available at *www.streamlinedsalestax.org*).

Value added tax

VAT is the most widespread general consumption tax in the world having been implemented by over 150 countries and in 33 of the 34 OECD member countries. The value added tax system is based on tax collection in a staged process, with successive businesses entitled to deduct input tax on purchases and account for output tax on sales in such a way that the tax finally collected by tax authorities equals the VAT paid by the final consumer to the last vendor. These characteristics ensure the neutrality of the tax, whatever the nature of the product, the structure of the distribution chain and the technical means used for its delivery. When the destination principle, which is the international norm, is applied, it allows the tax to retain its neutrality in cross-border trade. According to this principle, exports are exempt with refund of input taxes ("tax free") and imports are taxed on the same basis and at the same rates as local production.

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

In domestic trade, tax neutrality is achieved by the staged payment system: each (fully taxable) business pays VAT to its providers on its inputs and receives VAT from its customers on its outputs. Input VAT incurred by each business is offset against output VAT so that the "right" amount of tax to be remitted to tax authorities by each business is the net amount or balance of those two. As a result of the staged payment system, VAT normally "flows through the business" to tax the supplies to the final consumer. This ensures that the tax ultimately collected along a particular supply chain is proportional to the amount paid by the final consumer, whatever the nature of the supply, the structure of the distribution chain, the number of transactions or economic operators involved and the technical means used.

VAT is a consumption tax. From an economic standpoint, VAT is a tax on final consumption by households. Practically, the tax deduction mechanism ensures that the VAT paid by businesses along the value chain does not bear on them but, ultimately, on final consumers only. Therefore, only people consume while businesses rather use inputs. From a legal and practical standpoint, VAT is essentially a transaction tax, which aims at taxing the sale to the final consumer through a staged payment process across the supply chain.

VAT in cross-border trade. The overarching purpose of the VAT as a levy on final household consumption coupled with its central design feature of a staged collection process lays the foundation for the core VAT principles bearing on international trade. The application of the destination principle in VAT achieves neutrality in international trade. Under the destination principle, exports are exempt with refund of input taxes (that is, free of VAT) and imports are taxed on the same basis and at the same rates as domestic supplies. Accordingly, the total tax paid in relation to a supply is determined by the rules applicable in the jurisdiction of its consumption and therefore all revenue accrues to the jurisdiction where the supply to the final consumer occurs. The application of the destination principle is more consistent with the main VAT principles and is accepted as the international norm.

Although most of the rules currently in force are consistent with the destination principle, their features are diverse across countries. This can, in some instances, lead to double taxation or unintended non-taxation and create uncertainties for both business and tax administrations.

Implementation of the destination principle with respect to international trade in goods is relatively straightforward in theory and generally effective in practice, due in large part to the existence of border controls or fiscal frontiers.

Implementing the destination principle with respect to international trade in services and intangibles is more difficult. Their nature is such that there are no customs controls that can confirm their exportation and their consequent right to be free of VAT or impose the VAT at importation. Since it is not possible to physically follow the flow of services and intangibles across borders for tax purposes, the connection of the supply with a specific taxing jurisdiction must be done by reference to proxies. The nature of those proxies and the way they are used may vary across jurisdictions as a result of local history and legal frameworks.

Consumption taxes on specific goods and services: Excise taxes

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

Chapter 2 – Consumption tax topics

Taxing international trade

The spread of VAT has been the most important development in taxation over the last half century. It now covers more than 150 countries and is recognised as the most efficient consumption tax both in terms of revenue for governments and neutrality towards international trade. The challenges raised by globalisation have led governments to undertake common action to ensure a smooth interaction between VAT systems in the context of a global economy.

Governments began the process of establishing common guidelines for international VAT issues in 1998 at the OECD Ottawa Conference on electronic commerce, where Ministers welcomed the *Ottawa Taxation Framework Conditions*. As a result, the OECD's Committee on Fiscal Affairs (CFA) adopted the *Guidelines on Consumption Taxation of Cross-Border Services and Intangible Property in the Context of E-commerce* in 2001. Further to the development of globalisation and cross-border trade, it became clear that many of the problems surrounding the application of VAT to e-commerce actually had their roots in the wider area of services and intangibles and that the remaining differences of approaches amongst jurisdictions still had potential for double taxation and unintended non-taxation.

The OECD therefore launched the *OECD International VAT/GST Guidelines* (the Guidelines) in 2006, which aim at providing guidance for governments on applying VAT more generally to cross-border trade. It was agreed that the most pressing issue was the definition of the place of taxation for cross-border trade in services and intangibles and the conditions for the neutrality of the tax. It was also agreed that the right to deduct input tax, an essential element in VAT systems that underpins the tax's neutral character, should also be assured for cross-border trade. In January 2006, the CFA approved the two following basic rules:

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

These rules reflect the overarching purpose of a VAT to impose a broad-based tax on household consumption. According to the destination principle (see Chapter 1) the revenue of the tax should ultimately accrue to the jurisdiction where final consumption occurs.

In order to progress the work, the Guidelines are being developed in a staged process with a consultation process. The objective is to arrive at a complete set of Guidelines applying to cross-border trade in services and intangibles by 2014. Additional work is undertaken on improving the efficiency of the tax, the fight against VAT fraud and tax administration issues.

Cross-border VAT neutrality

In principle, the right to recover input VAT for businesses is exercised through the deduction mechanism in the staged payment process. In a cross-border context, the export of goods and services is in principle free of VAT under the destination principle. However, there will inevitably remain situations where businesses may incur a foreign VAT. OECD countries have often implemented special mechanisms to avoid VAT being charged to the foreign taxpayer or to allow the foreign taxpayer to recover the input VAT incurred in the country. The conditions and procedures for relief or recovery vary considerably between countries. The lack of consistency in these procedures across countries and their current complexity may lead to significant compliance and administrative burdens for businesses and tax administrations. The importance of the issue was confirmed by an OECD survey issued in 2010 "*VAT/GST Relief for Foreign Businesses: The State of Play*" (*www.oecd.org/ctp/ct*).

The CFA considered that the issue was significant enough to require remedies and undertook development of guidelines in this area. As a result, the CFA approved International VAT Neutrality Guidelines in July 2011, after a successful public consultation. These Guidelines are one of the building blocks of the OECD International VAT/GST Guidelines. The Commentary on the application of the International VAT Neutrality Guidelines in practice was approved for public consultation by the CFA in July 2012 and was published on the OECD website (*www.oecd.org/ctp/ct*) for public consultation (until 26 September 2012).

Definition of the place of taxation

According to the destination principle, the taxing rights on cross-border supplies of services and intangibles should accrue to the jurisdiction of consumption. Although VAT primarily taxes household consumption, the multi-staged nature of the tax requires that each supply within the supply chain is subject to the rules of the relevant jurisdiction, including the intermediary supplies between businesses. Thus, appropriate place of taxation rules should be applied at each stage of the supply chain.

Over the last decade, OECD countries have amended their tax legislation to implement the destination principle. However, there is a recognised need for a consistent set of approaches that maintain tax neutrality for business-to-business supplies and ensure the application of the destination principle for business-to-consumer supplies.

As part of the work on the OECD International VAT/GST Guidelines, a number of papers were issued for public consultation (*www.oecd.org/ctp/ct*). The overall work on the Guidelines should be completed by end 2014. In addition anti-abuse provisions and mutual co-operation and dispute resolution procedures should also be developed.

Improving VAT efficiency

The current economic crisis has acted as a catalyst for structural reform in many OECD countries. In the tax area such reforms aim at ensuring the long-term sustainability of public finances while safeguarding the competitiveness of the economy and its longer-term growth potential. The pace and nature of reforms have varied markedly between countries but a consensus has emerged on the fact that growth-friendly tax reforms could help strengthen the jobs content of a recovery". This includes removing tax expenditures and shifting the tax burden towards tax bases that are less harmful to employment and growth, such as consumption taxes.

Against this background, the OECD organises its first Global Forum on VAT in Paris in November 2012 as a unique international platform for a truly global dialogue on VAT design and operation, for sharing policy analysis and experience, for identifying best practices and for strengthening international co-operation.

Tackling VAT fraud

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

Chapter 3 – Value added tax: Yield, rates and structure

Limited to less than 10 countries in the late 1960s, VAT is today an essential source of revenue in more than 150 countries. A number of factors have contributed to these developments *i.e.* globalisation, the systemic neutrality of the tax towards international trade and its efficiency for raising revenue. It now accounts for approximately one fifth of the tax revenues of OECD governments and worldwide.

Key features of the VAT systems

Although most VAT systems build on the same core VAT principles, many differences exist in the way they are implemented in practice. This is illustrated by the existence of a wide range of lower rates, exemptions and special arrangements that are frequently designed for non-tax policy objectives.

The rates of VAT

After a period of relative stability between 1996 and 2008, the average standard rate of VAT has started to rise again since 2008, suggesting that many countries have increased their VAT rates to consolidate their budgets.

With the exceptions of Chile and Japan, all OECD countries have one or more reduced rate generally applied to basic essentials such as medical and hospital care, food and water supplies and to activities that are considered socially desirable.

One of the reasons for the introduction of a differentiated rates structure is the promotion of tax equity or to stimulate consumption of "merit goods" (*e.g.* cultural products and education) and goods with positive externalities (*e.g.* energy-saving appliances). The reasons for these reduced rates are likely to be rooted in a country's socio-economic history, but their validity and their capacity to meet their objectives at an appropriate cost may be questionable.

Exemptions

In addition to reduced rates, there is also an extensive use of exemption across countries (see Table 3.11). Although it is a significant departure from the basic logic of VAT, all OECD countries (with the exceptions of New Zealand and Turkey) exempt a number of specific sectors considered as essential for social reasons, in particular health, education and charities. In addition most countries also use exemptions for practical reasons (*e.g.* financial and insurance services, due to the difficulties in assessing the tax base) or for historical reasons (postal services, letting of immovable property, supply of land and buildings).

Unlike reduced rates, exemptions break the staged payment system and create specific distortions. The exemption of items used as inputs into production removes the key feature of VAT, that of neutrality. Exemption may 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. 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 other hand, if it takes place within the supply chain the distortions may be significant. For example, the exemption of financial services creates significant distortions with respect to both consumer and business decisions.

Thresholds

There is no consensus amongst OECD countries on the need for, or the level of, thresholds. The main reasons for excluding "small" businesses are that the costs for the tax administration are disproportionate to the VAT revenues from their activity and, similarly, VAT compliance costs would be disproportionate for many small businesses. The level of the threshold is often the result of a trade-off between minimising compliance and administration costs and the need to avoid jeopardising VAT revenue or distorting competition.

Restrictions to the right to deduct VAT on specific inputs

According to the VAT principles, the right to deduct input taxes should be limited to the extent that those inputs are used for the taxable purposes of businesses. The right of deduction is legitimately denied where inputs are used to make onward transactions that fall outside the scope of the tax such as exempt transactions. This is also the case for input tax relating to purchases that are not wholly used for furtherance of taxable business activity, for example, when they are used for the private needs of the business owner or its employees (*i.e.* final consumption). Most OECD countries also have legislation in place that provides for input tax deduction blocking on a number of goods and services because of their nature rather than because of their use by businesses, generally with a view to ensure (input) taxation of their *deemed* final consumption *e.g.* restaurant meals, reception costs, hotel accommodation, use of cars by the employees of businesses, etc.

Chapter 4 – Measuring performance of VAT: The VAT revenue ratio

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

The main methodological difficulty for calculating the VRR lies in the assessment of the potential tax base, since no standard assessment of the potential VAT base for all OECD countries is available. In the absence of such data, the closest statistic for that base is final consumption expenditure as measured in the national accounts. Few countries have a high VRR and most have a ratio below 0.65, which confirms the impact of the wide range of exemptions and reduced rates applied in OECD countries. However, VRR figures should be interpreted with caution since they result from a combination of the policy efficiency (capacity to tax the full base at the standard rate) and compliance efficiency (the capacity of the tax administration to collect the tax due). In addition, a number of factors such as the evolution of consumption patterns, incomplete application of the destination principle and the tax treatment of government activities may have a significant influence on the VRR in some countries.

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

Chapter 5 – Selected excise duties in OECD member countries

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

While the main characteristics and objectives ascribed to excise duties are approximately the same across OECD countries, their implementation, especially in respect to tax rates, sometimes gives rise to significant differences between countries (Tables 5.1 to 5.5). For example, excise duties on wine (Table 5.2) may vary from zero to more than USD 2.5 a litre. Current excise rates for mineral oil products again illustrate the wide disparity. For example, excise taxes on premium unleaded gasoline vary from USD 0.109 in the United States to USD 1.483 in Turkey for 1 litre. A much more significant feature of excise duties on mineral oils is the fact that duty rates have been used to affect consumer behaviour to a greater degree than in other areas. Tobacco products are subject to excise taxes that most often rely on a combination of *ad valorem* and specific elements.

Chapter 6 – Taxing vehicles

Motoring has been an important source of tax revenue for a long time thanks to a wide range of taxes imposed on users of public roads. Vehicle taxation in its widest definition represents a prime example of the use of the whole spectrum of consumption taxes. These taxes include taxes on sale and registration of vehicles (Tables 6.1 and 6.3); periodic taxes payable in connection with the ownership or use of the vehicles (Table 6.2); taxes on fuel (Table 5.4) and other taxes and charges, such as insurance taxes, road tolls etc. Increasingly, these taxes are adjusted to influence consumer behaviour in favour of the environment. Table 5.3 illustrates, as an example, the wide differences in the level of taxes on sale and registration of motor vehicles. Indeed, the maximum tax for passenger cars may vary from less than 7% of the value of the car in Washington, DC, to 195% in Copenhagen.

Environment issues are increasingly taken into consideration for the design of vehicle taxation since it is increasingly considered as an efficient tool to influence customer behaviour and encourage the purchase of low polluting vehicles. In 2012, more than two thirds of OECD countries apply rate differentiation according to environmental criteria.

Tendances des impôts sur la consommation 2012 Synthèse

Le texte ci-dessous est un résumé de l'édition 2012 des *Tendances des impôts sur la consommation*. Le texte complet, les tableaux et les graphiques, sont uniquement disponibles en anglais.

Chapitre 1 – Imposer la consommation

Les impôts sur la consommation

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

Les impôts sur la consommation constituaient, en 2009, près de 31 % des recettes fiscales totales des pays de l'OCDE en moyenne non pondérée (voir tableau 1.1.). Globalement, cette recette se répartit en un tiers pour les impôts sur les biens et services déterminés et en deux tiers pour les impôts généraux sur la consommation (dont la TVA forme l'essentiel –voir tableaux 3.2, 3.4 et 3.7).

Les impôts généraux sur la consommation

Les taxes de vente

Les taxes de vente sont des impôts prélevés une seule fois au moment où les produits sont vendus au consommateur final. Les États-Unis sont le seul pays de l'OCDE ayant conservé une taxe de vente comme principal impôt sur la consommation. Toutefois, il ne s'agit pas d'un impôt fédéral, mais d'un impôt prélevé par les États et par les autorités locales. Actuellement, des taxes de vente sont prélevées dans 46 des 50 États ainsi que dans 7 500 juridictions locales, en association avec les États dont elles relèvent. Ce système pose des problèmes particuliers, surtout depuis l'avènement du commerce électronique. Afin de remédier à ces difficultés, ainsi qu'à d'autres liées au manque d'harmonisation des taxes de vente aux États-Unis, un certain nombre d'États ont adhéré à « l'Accord harmonisé sur les taxes de vente et d'usage » (*Streamlined Sales and Use Tax Agreement)*.

* Dans certaines juridictions, la TVA est appelée Taxe sur les produits et services (TPS). Toutefois, pour des raisons pratiques, seul l'acronyme TVA est utilisé dans cette publication.

La TVA

La TVA est l'impôt général sur la consommation le plus répandu dans le monde, puisqu'elle existe désormais dans plus de 150 pays et dans 33 des 34 pays membres de l'OCDE. La TVA est un impôt sur la consommation des ménages, mais collecté par les entreprises. Il s'appuie sur un système de paiement fractionné par lequel chaque entreprise peut déduire la taxe ayant grevé ses achats des taxes sur ses ventes de telle sorte que la taxe perçue par l'État correspond en réalité à la TVA imputée par le dernier vendeur au consommateur final. Ces caractéristiques assurent la neutralité de la taxe quelle que soit la nature du produit, la structure du réseau de distribution ou les moyens techniques mis en œuvre pour sa livraison. Lorsque le principe de destination s'applique, ce qui est la norme généralement acceptée, elles permettent à la taxe de conserver sa neutralité à l'égard du commerce international. Selon ce principe, les exportations sont exonérées, avec remboursement de la taxe payée en amont (« taux zéro ») et les importations sont imposées sur la même base et au même taux que la production intérieure.

La TVA est un impôt neutre. Le concept de TVA comprend un certain nombre de dimensions, notamment l'absence de discrimination entre les entreprises dans un environnement impartial et l'élimination des charges fiscales inappropriées ou disproportionnées reposant sur les entreprises.

En régime intérieur, la neutralité de l'impôt est en grande partie réalisée grâce au système de paiement fractionné : chaque entreprise (avec un droit à déduction total) paie la TVA sur ses intrants à ses fournisseurs et reçoit la TVA de ses clients sur ses ventes. La TVA payée sur les intrants est donc contrebalancée par la TVA reçue sur les ventes de manière telle que le « juste » montant d'impôt est payé par chaque entreprise aux autorités fiscales, c'est-à-dire la différence entre les deux. Il résulte de ce paiement fractionné que la TVA passe *via* les entreprises jusqu'au consommateur final. Ainsi, Le montant de l'impôt perçu par les autorités fiscales est toujours exactement proportionnel au prix payé par le consommateur final, quelle que soit la structure de production ou de distribution du produit.

La TVA est un impôt sur la consommation. D'un point de vue économique, la TVA est un impôt sur la consommation des ménages. En pratique, le mécanisme de déduction de la taxe d'amont permet aux entreprises de ne pas en supporter la charge. Dans un tel contexte, les entreprises ne « consomment » pas leurs intrants au sens économique du terme, mais elles les utilisent dans un processus de production. D'un point de vue juridique cependant, la TVA est essentiellement une taxe perçue sur chaque transaction qui vise à imposer la vente au consommateur final par un système de paiement fractionné tout au long du processus de production et de distribution.

La TVA s'applique au commerce international. L'objectif ultime de la TVA, en tant qu'impôt sur la consommation finale des ménages, associée à son mécanisme caractéristique de paiement fractionné posent les fondements des principes applicables au commerce international. L'application du principe de destination assure la neutralité de la taxe dans le commerce international. Selon ce principe, les exportations sont exonérées avec droit à déduction de la taxe d'amont (« taux zéro ») et les importations sont imposées au même taux et sur la même base que la production domestique. Dès lors le montant final de la taxe payée sur une livraison ou une prestation est déterminé par la juridiction de consommation et, dès lors, l'ensemble des recettes fiscales revient à la juridiction dans laquelle s'effectue la vente au consommateur final. Le principe de destination est donc en parfaite cohérence avec les principes de base de la TVA et il constitue d'ailleurs la norme internationale.

Bien que la plupart des règles actuellement en vigueur soient cohérentes avec le principe de destination, elles peuvent avoir des caractéristiques diverses selon les pays. Cela peut conduire, dans certains cas, à des doubles impositions et à des absences d'imposition involontaires et créer des zones d'incertitude pour les entreprises et les administrations.

L'application du principe de neutralité au commerce des biens est relativement aisée en théorie et généralement effective en pratique grâce aux contrôles douaniers aux frontières. Son application au commerce des services et des biens immatériels est plus difficile. Leur nature implique que les contrôles douaniers ne peuvent confirmer leur exportation, avec l'application du taux zéro qui y est associée, pas plus qu'ils ne peuvent assurer la taxation à l'importation. Dans la mesure où il n'est pas possible d'en suivre le déplacement physique, le lien avec la juridiction d'imposition doit se faire par référence à des critères de substitution (« proxies »). La nature de ces critères et leur mise en œuvre varie selon les traditions juridiques et historiques locales.

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

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

Chapitre 2 – Actualités des impôts sur la consommation

L'imposition des transactions internationales

La diffusion de la TVA comme moyen privilégié pour imposer la consommation (150 pays dans le monde utilisent cet impôt, considéré comme le plus efficace à la fois en termes de recettes fiscales et de neutralité internationale) s'est produite en parallèle avec la mondialisation des échanges. Dès lors, les gouvernements se sont davantage intéressés à l'interaction entre les régimes de TVA, compte tenu des risques croissants de double imposition et d'absence d'imposition involontaires.

Les premières règles internationales en matière de TVA ont été adoptées en 1998 avec les *Conditions cadres d'Ottawa sur la fiscalité*. Celles-ci prévoient notamment que *« les règles applicables en matière d'impôt sur la consommation dans le cas d'échanges transfrontières devraient aboutir à une imposition dans le pays où la consommation a lieu »*. En conséquence, le Comité des affaires fiscales de l'OCDE (CAF) a adopté en 2001 les Principes directeurs pour la définition du lieu de consommation dans le contexte du commerce électronique. Toutefois, avec le développement de la mondialisation, il est apparu que des règles plus globales étaient nécessaires, au-delà du commerce électronique.

Le CAF a adopté en 2006 un canevas pour l'élaboration de *Principes directeurs internationaux pour l'application de la TVA/TPS* (les Principes directeurs). Il a également été décidé de traiter en priorité la définition du lieu d'imposition des prestations de services transfrontières et les conditions de neutralité de la taxe. Le CAF a donc adopté les deux principes de base suivants :

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

Ces règles reflètent l'objectif ultime de la TVA comme impôt sur la consommation finale des ménages. Selon le principe de destination, la recette de l'impôt doit revenir à la juridiction dans laquelle cette consommation finale a lieu.

Les Principes directeurs sont développés par étapes avec un processus de consultation publique (les documents faisant l'objet de ces consultations sont disponibles sur le site de l'OCDE (*www.oecd.org/ctp/ct*). L'objectif est de présenter un ensemble complet de Principes directeurs d'ici à 2014. Des travaux complémentaires sont entrepris sur l'amélioration de l'efficacité de l'impôt, la lutte contre la fraude fiscale et les questions administratives.

La neutralité internationale de la TVA

En principe, le droit des entreprises à récupérer la taxe d'amont s'exerce par le mécanisme de déduction propre au système de paiement fractionné. Dans un contexte international, les exportations son nettoyées le la TVA (par application du « taux zéro ») en vertu du principe de destination. Toutefois, des situations subsistent inévitablement dans lesquelles les entreprises peuvent supporter une TVA étrangère. Les pays de l'OCDE ont mis en œuvre des mécanismes spécifiques pour éviter que la TVA ne soit facturée au client étranger ou pour lui permettre de la récupérer. Les conditions et les procédures existantes pour bénéficier de ces mécanismes varient considérablement d'un pays à l'autre. Leur manque de cohérence sur le plan international et leur complexité peut conduire à des charges administratives très coûteuses pour les administrations et pour les entreprises. L'importance de cette question a été confirmée par une étude de l'OCDE publiée en 2010 (en anglais seulement sous le titre *VAT/GST Relief for Foreign Businesses: The State of Play – www.oecd.org/ctp/ct*).

Le CAF a considéré que ce problème était suffisamment sérieux pour nécessiter le développement de principes directeurs appropriés. À la suite des travaux entrepris, et après une procédure de consultation publique, des Principes directeurs internationaux sur la neutralité de la TVA ont été adoptés en juillet 2011. Ces Principes directeurs forment l'un des éléments des *Principes directeurs internationaux de l'OCDE pour l'application de la TVA/TPS*. Un Commentaire pour l'application de ces Principes en pratique a été publié sur le site Internet de l'OCDE en juillet 2012 aux fins de consultation publique (jusqu'au 26 septembre 2012).

Définition du lieu d'imposition

En vertu du principe de destination, les droits d'imposition des services transfrontières de services et de biens incorporels doit revenir à la juridiction de consommation. Bien que la TVA vise essentiellement à imposer la consommation finale des ménages, le mécanisme de paiement fractionné implique que chaque prestation dans le processus de production soit soumise aux règles de la juridiction appropriée, y compris pour les transactions intermédiaires entre entreprises. Dès lors, des règles appropriées déterminant le lieu d'imposition doivent être développées à chaque étape du processus de production.

Au cours de la dernière décennie, les pays de l'OCDE ont amendé leur législation fiscale afin de mettre en œuvre le principe de destination. Toutefois, le besoin de règles internationales est reconnu pour assurer le maintien de la neutralité de la taxe pour le commerce entre entreprises (« B2B ») et assurer l'application du principe de destination au commerce entre entreprises et consommateurs finaux (« B2C »).

Dans le cadre des travaux sur le développement des Principes directeurs internationaux de l'OCDE pour l'application de la TVA/TPS plusieurs documents ont été publiés aux fins de consultation publique. Le résultat d'ensemble de ces travaux, réalisés en coopération avec les entreprises et des universitaires, devraient être achevés avant la fin de 2014. Ces travaux devraient en outre être complétés par des règles anti-abus et des dispositions concernant la coopération mutuelle et le règlement des différends.

Améliorer l'efficacité de la TVA

La crise économique a agi comme un catalyseur des réformes structurelles dans beaucoup de pays de l'OCDE. Dans le domaine fiscal, ces réformes visent à assurer la viabilité à long terme des finances publiques tout en sauvegardant la compétitivité de l'économie et son potentiel de croissance à long terme. Le rythme et la nature des réformes varie grandement selon les pays mais un consensus s'est fait jour sur l'idée que des réformes fiscales favorables à la croissance pourraient aider à augmenter la richesse en emplois du redressement économique. Cela implique la réduction des dépenses fiscales et le déplacement de la charge fiscale vers des bases d'imposition moins nuisibles à l'emploi tels que les impôts sur la consommation.

En ce qui concerne l'efficacité de la TVA la recherche suggère que celle-ci serait accrue si l'on en élargissait l'assiette au taux normal en supprimant la plupart des exonérations et en abolissant les taux réduits. Bien que les dificultés politiques d'une telle réforme soient reconnues, il faut l'envisager comme faisant partie d'une réforme fiscale plus large et non de manière isolée. La nécessité de réformes visant à améliorer l'efficacité de la TVA est désormais reconnue à la fois au niveau de l'Union européenne et de l'OCDE.

Dans ce contexte, l'OCDE organise le premier Forum mondial sur la TVA à Paris en novembre 2012. Ce Forum offrira un cadre pour partager analyses et expériences, pour identifier les meilleures pratiques concernant la conception et la mise en œuvre des politiques de TVA et pour renforcer la coopération internationale.

Lutter contre la fraude à la TVA

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

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

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

Caractéristiques clés des impôts sur la consommation

Bien que la plupart des systèmes de TVA soient basés sur les mêmes principes de base, de nombreuses différences subsistent quant à leur mise en œuvre en pratique. En témoigne le maintien d'un vaste éventail de taux réduits, d'exonérations et de dispositions spéciales qui répondent à des objectifs autres que fiscaux.

Les taux de TVA

Après une période de relative stabilité entre 1996 et 2007, le taux normal moyen de TVA a recommencé à augmenter depuis 2008, reflétant le fait que de nombreux pays on augmenté leur taux afin de rééquilibrer leurs budgets.

À l'exception du Chili et du Japon, tous les pays de l'OCDE ont un ou plusieurs taux réduits qui s'appliquent aux produits de base tels que les soins médicaux, la nourriture, l'adduction d'eau ou les activités considérées comme ayant un intérêt social particulier. L'introduction d'une structure à plusieurs taux est le plus souvent justifiée par des soucis d'équité fiscale ou par la volonté de stimuler la consommation de certains produits comme les biens et services culturels ou ceux plus respectueux de l'environnement. Les raisons qui ont poussé à leur adoption plongent souvent leurs racines dans le contexte social ou historique des pays, mais la capacité des taux réduits de TVA à remplir les objectifs qui leur sont assignés à un coût raisonnable peut être remise en question.

Les exonérations

Les pays de l'OCDE font également un usage extensif des exonérations (tableau 3.11). Bien que cette pratique s'écarte de la logique de la TVA, tous les pays de l'OCDE (à l'exception de la Nouvelle-Zélande et de la Turquie) exonèrent (sans droit à déduction de la taxe d'amont) un certain nombre d'activités considérées comme essentielles d'un point de vue social telles que la santé, l'éducation et les œuvres caritatives. D'autres exonérations sont en outre accordées pour des raisons d'ordre pratique (par exemple la difficulté d'établir une base d'imposition précise pour les services financiers) ou historique (services postaux, propriété immobilière).

À la différence des taux réduits, les exonérations brisent le système de paiement fractionné, créent des distorsions spécifiques et font disparaître la neutralité de la TVA. L'exonération peut introduire un effet de taxe rémanente dans la mesure où la taxe non déductible sur les intrants est incluse dans le prix de vente, sans que l'acheteur subséquent (si c'est une entreprise) puisse en opérer la déduction. L'importance de la distorsion dépend de la place de l'exonération dans le processus de production. Si elle intervient juste avant la vente au consommateur final, son effet est minime et sa conséquence une perte de recettes fiscales. Par contre, si elle intervient en amont du processus de production, son impact peut être significatif. Par exemple, l'exonération des services financiers cause des phénomènes de taxe rémanente, réduit la neutralité de l'impôt et crée une incitation fiscale à la concentration verticale

Les seuils

Il n'existe pas de consensus au sein de l'OCDE sur la nécessité ou le niveau des seuils d'assujettissement à la TVA. La principale motivation pour exclure les « petites » entreprises du système de TVA est la réduction des coûts pour l'administration qui peuvent être disproportionnés par rapport à la recette fiscale en cause et la nécessité perçue de réduire le coût de la discipline fiscale pour ces entreprises. Le niveau du seuil est souvent le résultat d'un équilibre entre la réduction des coûts de gestion des petites entreprises et la nécessité de conserver des recettes de TVA ainsi que d'éviter les distorsions de concurrence.

Les restrictions spécifiques au droit à déduction

Selon les principes de la TVA, le droit à déduction de la TVA sur les intrants doit être limité à ceux qui sont utilisés aux fins des activités imposables de l'entreprise. Ce droit est légitimement refusé lorsque les intrants sont utilisés dans le cadre d'activités tombant en dehors du champ d'application de la taxe (comme les opérations exonérées). C'est aussi le cas lorsque la taxe se rapporte à des achats qui ne sont pas utilisés entièrement à des fins professionnelles telles que l'usage privé des propriétaires de l'entreprise ou de ses employés et consistent donc en une consommation finale. La plupart des pays de l'OCDE ont également des règles qui limitent le droit à déduction de la TVA ayant grevé certains biens ou services en raison de leur nature propre, généralement pour assurer l'imposition d'une consommation finale supposée, comme par exemple les repas au restaurant, les frais d'hôtel ou l'usage de voitures par le personnel.

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

Compte tenu de la diversité des régimes de TVA, il est utile de s'interroger sur l'influence de ces caractéristiques sur le rendement de la TVA en termes de recettes. L'un des outils considérés comme un indicateur capable de mesurer ce rendement est le « ratio de recettes TVA » (RRT) qui désigne le rapport entre les recettes effectivement perçues et les recettes qui seraient générées par l'application du taux normal à l'ensemble de la consommation finale (tableau 4.1.).

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

La principale difficulté méthodologique pour calculer le RRT porte sur le calcul de la base d'imposition théorique à la TVA. En l'absence d'une définition standardisée de la base d'imposition à la TVA pour l'ensemble des pays de l'OCDE, les chiffres qui sont utilisés sont ceux de la consommation finale des ménages, tels qu'ils ressortent des comptes nationaux. Une majorité de pays ont un RRT en dessous de 0.65 ce qui confirme l'impact des nombreux taux réduits et exemptions appliqués dans les pays de l'OCDE. Toutefois, l'interprétation du RRT doit être faite avec prudence dans la mesure où il résulte d'une combinaison d'un ratio d'efficacité politique (la capacité d'imposer une base large au taux normal) et un ratio d'efficacité administratif (la capacité à collecter effectivement l'impôt dû). En outre, un certain nombre de facteurs peuvent influencer le ratio de manière significative, tels que le changement dans la structure de la consommation, l'application incomplète du principe de destination ou le traitement fiscal des activités des institutions publiques.

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

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

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

Chapitre 6 – Les impôts sur les véhicules

Les impôts sur l'automobile sont depuis longtemps une source importante de revenus grâce à un large éventail d'impôts appliqués aux utilisateurs du réseau routier. La fiscalité des véhicules dans son sens le plus large fournit un bon exemple d'utilisation de l'ensemble de la panoplie des impôts sur la consommation. Ces impôts comprennent les impôts sur la vente et l'immatriculation (tableaux 6.1 et 6.3) ; les impôts récurrents sur la propriété ou l'usage des véhicules (tableau 6.2) ; les impôts sur les carburants (tableau 5.4) et les autres taxes et redevances, tels les taxes sur l'assurance ou les péages routiers. De manière croissante, ces impôts sont modulés afin d'influencer le comportement du consommateur en faveur d'un meilleur respect de l'environnement. Le tableau 6.3 illustre, de manière exemplative, les très grandes différences qui existent dans les impôts sur la vente et l'immatriculation des véhicules. Ainsi, la taxe maximale pour un véhicule automobile peut-elle varier de 7 % de la valeur hors taxes du véhicule à Washington à 195 % à Copenhague.

Les questions liées à l'environnement jouent un rôle croissant dans la structure des impôts sur les véhicules dans la mesure où ils sont considérés comme un moyen efficace d'influencer le comportement du consommateur et pour encourager l'achat de véhicules moins polluants. En 2012, plus des deux tiers des pays de l'OCDE appliquaient une différenciation tarifaire en fonction de critères environnementaux.

Consumption Tax Trends 2012
VAT/GST and Excise Rates, Trends and Administration Issues

Chapter 1

Taxing consumption

This chapter describes the relative importance of consumption taxes and excise duties as a share of total taxation and the features of those taxes. It describes in more detail the functioning of value added taxes (VAT) and of resale sales taxes (in the United States) and explains how VAT applies to cross-border trade. It also provides an overview of the way VAT is implemented in the European Union, in New Zealand and in Australia in respect of cross-border supplies of services and intangibles. It finally describes recent trends in the area of excise duties and how such taxes are increasingly used to influence the decisions of firms and individuals.

Introduction

Consumption taxes have long accounted for more than one third of the total taxes collected in OECD countries. The two main components are value added taxes (and resale sales taxes in the United States) and Excise duties. VAT has become the main broad based consumption tax both in terms of revenue and geographical coverage since the mid-80's. It is now implemented in over 150 countries including all OECD member countries (except the United States) due to its recognised revenue raising capacity and its neutrality towards the production structure and cross-border trade. Contrary to VAT, that was first introduced about 60 years ago, excise duties have existed as long as civilisation. They are levied on a limited range of products and are assessed by reference to multiple characteristics such as weight, volume, strength or quantity of the product, combined in some cases with *ad valorem* taxes.

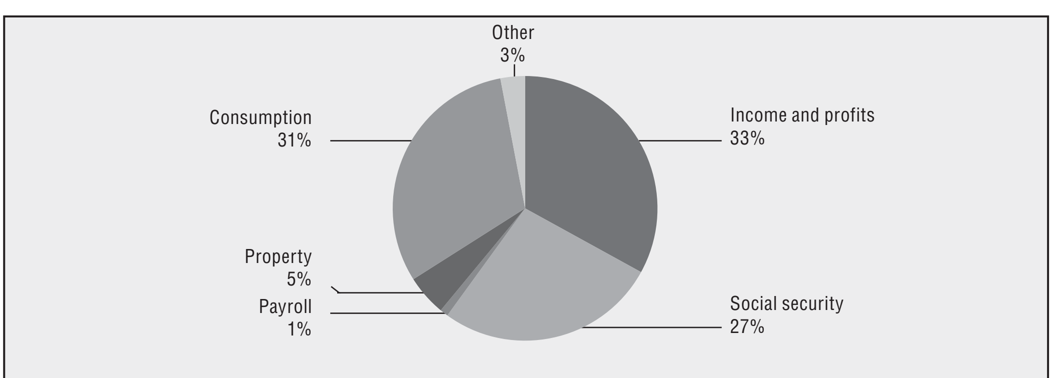
Consumption taxes

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

In the statistical nomenclature of the OECD, consumption taxes (identified as Category 5100 "*Taxes on production, sale, transfer, leasing and delivery of goods and rendering of services*") fall mainly into two sub-categories:

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

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



StatLink http://dx.doi.org/10.1787/888932718516

Looking at the unweighted average of revenue from the five broad categories of taxes as a percentage of overall taxation in the OECD member countries, it can be seen that the proportion of consumption taxes is 30.6% (see Table 1.1.). In 2009, consumption taxes broke down to one-third for taxes on specific goods and services and two-thirds for general consumption taxes (see Tables 3.2, 3.4 and 3.7 in Chapter 3).

Table 1.1. **Consumption taxes (5100) as percentage of total taxation**

	1965	1975	1985	1990	1995	2000	2005	2007	2008	2009	Difference 2000-2009
Australia	30.0	25.8	28.6	23.4	23.1	26.2	25.5	24.4	25.0	26.6	0.4
Austria[1]	36.6	33.9	31.0	29.9	27.2	26.9	27.0	26.0	25.5	26.5	–0.5
Belgium	34.1	26.1	24.0	25.0	23.8	23.4	23.5	23.5	23.0	23.6	0.1
Canada	34.7	26.0	26.1	24.4	23.9	22.8	23.8	22.4	21.7	22.2	–0.6
Chile	..	..	..	60.4	59.8	60.6	48.7	41.6	48.1	52.6	–8.0
Czech Republic	..	..	..	..	29.6	29.3	29.1	27.8	29.8	31.5	2.2
Denmark[1]	39.0	32.3	33.3	31.5	30.7	30.4	30.3	31.5	30.8	30.1	–0.3
Estonia	..	..	..	..	34.4	37.4	40.9	40.3	35.9	39.8	2.3
Finland	41.9	31.6	33.4	32.1	29.9	28.3	30.5	29.3	29.2	30.4	2.2
France[1]	37.5	32.4	28.7	27.5	26.7	25.1	24.8	24.2	23.9	24.4	–0.7
Germany[2]	31.1	25.4	24.6	25.8	26.9	27.1	27.8	28.2	28.0	28.7	1.6
Greece[1]	44.1	42.2	40.0	42.5	39.4	31.9	31.7	33.3	33.2	32.4	0.4
Hungary	..	..	..	..	40.3	39.9	38.9	36.9	36.4	38.7	–1.2
Iceland	61.7	62.2	59.5	49.2	45.7	39.5	37.8	36.1	33.9	33.3	–6.3
Ireland	49.1	44.4	42.6	40.6	38.8	36.0	35.8	34.5	35.0	34.0	–2.0
Israel[3]	..	..	..	..	34.2	30.9	33.0	32.6	34.6	36.5	5.6
Italy	37.0	28.3	23.6	25.3	25.0	25.0	23.8	22.8	22.0	21.7	–3.3
Japan	25.0	15.1	12.1	12.0	13.8	17.0	17.2	15.9	15.9	16.9	–0.1
Korea	..	60.0	58.5	43.0	38.6	36.7	33.3	30.3	30.6	30.9	–5.8
Luxembourg	23.5	20.6	24.1	24.6	26.7	26.8	28.7	27.0	27.5	27.1	0.2
Mexico	..	..	64.5	54.8	52.7	52.1	55.7	52.0	58.3	49.1	–3.0
Netherlands	27.1	22.5	23.4	24.0	24.6	26.3	28.8	28.0	27.3	27.3	0.9
New Zealand	26.2	22.8	22.0	31.6	31.3	32.4	30.0	29.4	31.5	34.0	1.6
Norway	39.9	36.6	36.4	34.1	36.7	29.4	26.1	26.8	24.4	26.4	–3.0
Poland	..	..	..	..	34.6	34.6	36.2	36.3	36.7	35.5	0.9
Portugal	44.0	40.1	42.3	43.4	42.4	38.7	42.2	39.8	38.9	36.7	–2.0
Slovak Republic	..	..	..	..	33.4	34.1	37.3	35.7	33.4	33.6	–0.4
Slovenia	..	..	..	..	37.9	35.8	33.1	33.3	34.1	35.6	–0.2
Spain[1]	40.6	24.0	27.6	26.5	26.1	27.1	25.7	23.7	23.3	21.4	–5.7
Sweden	29.5	22.7	25.5	24.0	27.7	24.0	25.3	25.7	26.7	27.8	3.8
Switzerland	31.9	20.6	20.2	19.7	20.4	21.1	21.2	19.9	19.6	19.0	–2.1
Turkey	53.5	40.9	35.7	27.5	37.1	40.6	47.4	45.6	43.5	43.6	3.1
United Kingdom	31.1	23.7	29.7	29.4	33.5	30.5	29.1	28.0	27.6	27.5	–3.0
United States	19.9	17.1	16.3	14.9	15.5	13.8	14.7	13.9	14.4	15.4	1.6
Unweighted average											
OECD-Total	**36.2**	**31.1**	**32.1**	**31.4**	**32.1**	**31.2**	**31.3**	**30.2**	**30.3**	**30.6**	**–0.6**

1. The total tax revenue has been reduced by the amount of any capital transfer that represents uncollected taxes. The capital transfer has been allocated between tax headings in proportion to the reported tax revenue, except for Austria where it has been.
2. From 1991 the figures relate to the united Germany.
3. Israel: The statistical data for Israel are supplied by and under the responsibility of the relevant Israeli authorities. The use of such data by the OECD is without prejudice to the status of the Golan Heights, East Jerusalem and Israeli settlements.

Nomenclature: The tables are based on a common nomenclature for all OECD countries. Heading 5110 (General taxes on goods and services) is used for Tables 3.1 and 3.2. It includes VAT, sales taxes and other general taxes on goods and services. Heading 5120.

Averages: All member counties are taken into account for the calculation of the unweighted averages, including countries that had not implemented the relevant taxes for the year considered. They are counted with a value of zero in the numerator and 1 in t.

Source: OECD, *Revenue Statistics 1965-2010*.

StatLink http://dx.doi.org/10.1787/888932718611

General consumption taxes

Retail sales taxes

A retail sales tax is a consumption tax charged only once at the last point of sale for products to the final end user. In principle, only consumers are charged the tax; resellers are exempt if they do not act as final end users of the products. To implement this principle, business purchasers are normally required to provide the seller with a "resale certificate", which states that the seller is purchasing an item to resell it. The tax is charged on each item sold to purchasers who do not provide such a certificate. The retail sales tax covers not only retailers, but all businesses dealing with purchasers who do not provide a resale or other exemption certificate signifying that no tax is due (*e.g.*, a public body or a charity).

The basis for taxation is the sales price. Unlike multi-stage cumulative taxes, this system allows the tax burden to be calculated exactly and it does not in principle discriminate between different forms of production or distribution channels. In practice, however, the failure of the retail sales tax to reach many services and the limitation of the resale exemption to products that are resold in the same form that they are purchased leads to substantial taxation of business inputs, at least in the United States.

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

State or sub-national retail sales and use taxes in place in the United States are not without their own problems, especially in the context of interstate and international trade. Supreme Court rulings prohibit states from requiring vendors to collect tax with respect to cross-border sales when they are not physically present in the purchaser's state. States have therefore been unable effectively to collect use taxes with respect to cross-border sales from remote sellers, and this problem has become increasingly significant with the advent of the Internet and online sales. To address this problem, as well as others caused by the lack of harmonisation in state sales and use taxes, a number of states have entered into the Streamlined Sales and Use Tax Agreement (SSUTA available at *www.streamlinedsalestax.org*).This agreement aims at establishing a uniform set of definitions of potentially taxable items that states can choose to tax or not (*e.g.* digital products). The Streamlined member states have also developed a Streamlined Sales Tax Registration System (SSTRS) that enables taxpayers to register voluntarily in order to participate in SSUTA. Voluntary registration requires sellers to collect sales and use taxes in all states into which they make sales, regardless of their physical presence there, and it permits sellers to benefit from increased legal certainty as regards their tax liability. Vendor collection of use taxes due on cross-border sales could become mandatory if the US

Congress approves proposed legislation authorising states to require such collection if they have adopted SSUTA or similar measures to ease compliance burdens for vendors.

Value added taxes

VAT is the most widespread general consumption tax. The spread of this tax has been the most important development in taxation over the last half-century. Limited to less than ten countries in the late 1960s, it has now been implemented by over 150 countries (see Annex 2) where it often accounts for one-fifth of total tax revenue. 21 of the 34 OECD member countries are members of the European Union and share a common legal framework for VAT. The recognised capacity of VAT to raise revenue in a neutral and transparent manner has drawn all OECD member countries (except the United States) to adopt this broad-based consumption tax. Its neutrality towards cross-border trade has also made it the preferred alternative to customs duties in the context of trade liberalisation.

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

- It is a tax on final consumption by households.
- It is levied on a broad base (as opposed to *e.g.* excise duties that cover specific products).
- It is collected by businesses but, they should not bear the burden of the tax itself since VAT is a tax on final or household consumption.
- VAT is based on tax collection in a staged process, with successive taxpayers entitled to deduct input tax on purchases and account for output tax on sales. As the final consumer is unable to recover the tax, the amount of tax actually collected through the staged collection process should be equal to the amount of VAT charged by the last vendor in the supply chain.

Indirect tax

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

The staged collection process

The value added tax system is based on tax collection in a staged process (upon the "value added" at each stage of production). 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 other words, businesses are entitled to deduct input tax on purchases and must account for output tax on sales, remitting the difference to the tax authorities. This mechanism reflects the central design feature of the VAT as a tax collected from businesses through a staged payment process coupled with the fundamental principle that the burden of the tax does not rest on businesses. This requires a mechanism for relieving businesses of the burden of the VAT they pay when they acquire goods, services, or intangibles.

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

- The ***invoice credit method*** ("transaction based method") under which each trader charges VAT at the specified rate on each sale and passes to the purchaser an invoice showing the amount of tax thus charged. The purchaser is in turn able to credit such payment of input tax against the output tax charged on his sales, remitting the balance to the tax authorities and receiving refunds when there are excess credits. This method is based on invoices that could, in principle, be cross-checked to pick up any overstatement of credit entitlement. By linking the tax credit on the purchaser's inputs to the tax paid by the purchaser, the invoice credit method is designed to discourage fraud.
- The ***subtraction method*** ("entity based method") under which tax is levied directly on an accounts-based measure of value added calculated for each firm by subtracting VAT calculated on allowable purchases from VAT on taxable turnover. This method is less suited to deal with differential rates structures. Of the OECD countries employing VAT, only Japan uses the subtraction method.

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

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

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

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

Neutrality

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

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

This ensures that the tax ultimately collected along a particular supply chain is proportional to the amount paid by the final consumer, whatever the nature of the supply, the structure of the supply chain, the number of transactions or economic operators involved and the technical means used.

Consumption tax

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

From a legal and practical standpoint, VAT is essentially a transaction tax. In "real life" things can be consumed in many ways. Some can be consumed fully and immediately (like a taxi ride); some can be bought and fully consumed later (like a sandwich); some can be consumed over a longer period of time (like a desk or a subscription to an on-line database). However, VAT does not actually tax such material consumption. Rather, it aims at taxing the sale to the final consumer through a staged payment process across the supply chain.

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

VAT in cross-border trade

Destination principle versus origin principle: The overarching purpose of the VAT as a levy on final consumption coupled with its central design feature of a staged collection process lays the foundation for the core VAT principles bearing on international trade. The fundamental issue of economic policy is whether the levy should be imposed by the jurisdiction of origin or destination. Under the destination principle, the tax is ultimately levied on the final consumption that occurs within the taxing jurisdiction. Under the origin principle, the tax is levied in the various jurisdictions where the value is added.

The application of the destination principle in VAT achieves neutrality in international trade. Under the destination principle, exports are exempt with refund of input taxes (that is, free of VAT[2]) and imports are taxed on the same basis and at the same rates as domestic supplies. Accordingly, the total tax paid in relation to a supply is determined by the rules applicable in the jurisdiction of its consumption and therefore all revenue accrues to the jurisdiction where the supply to the final consumer occurs.

By contrast, under the origin principle each jurisdiction would levy the VAT on the value created within its own borders.[3] Under an origin-based regime, exporting jurisdictions would tax exports on the same basis and at the same rate as domestic supplies while importing jurisdictions would give a credit against their own VAT for the hypothetical tax that would have been paid at the importing jurisdiction's own rate. Tax paid on a supply would then reflect the pattern of its origins and the aggregate revenue would be distributed in that pattern. This would run counter to the core features of a VAT: as a tax on consumption, the revenue should accrue to the jurisdiction where the final consumption takes place. Under the origin principle these revenues are shared amongst jurisdictions where value is added. Moreover, by imposing tax at the various rates applicable in the countries where value is added, the origin principle could influence the economic or geographical structure of the value chain and undermine neutrality in international trade.

For these reasons, there is widespread consensus that the destination principle with revenue accruing to the country of import where final consumption occurs is preferable to the origin principle from both a theoretical and practical standpoint. In fact, the destination principle is the international norm and is sanctioned by World Trade Organisation rules.[4]

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

The application of the destination principle, although it is more consistent with the main VAT principles and is accepted as the international norm, is not without its own difficulties. First, as already noted, the usual way of implementing this principle for VAT involves exemption of exports, which means that goods and services circulate free of tax in cross-border trade. The possibilities of fraud are evident. Second, although most of the rules currently in force are generally intended to tax supplies of goods and services within the jurisdiction where consumption takes place in application of the destination principle, practical means of implementing this intention are diverse across countries. This can, in some instances, lead to double taxation or unintended non-taxation and create uncertainties for both business and tax administrations. This issue has become increasingly important as globalisation has allowed greater development of cross-border trade and economic integration.

Cross-border trade in goods. Implementation of the destination principle with respect to international trade in goods is relatively straightforward in theory and generally effective in practice, due in large part to the existence of border controls or fiscal frontiers. The exported goods are free of VAT in the seller's jurisdiction (and are freed of any residual VAT via successive businesses' deductions of input tax), whilst imports are subject to the same VAT as equivalent domestic goods in the purchaser's jurisdiction. The VAT on imports is generally collected at the same time as customs duties, although in some countries collection is postponed until declared on the importer's next VAT return. Deduction of the VAT incurred at importation, in the same way as input tax deduction on a domestic supply, ensures neutrality and limits distortions in relation to international trade.

Within the European Union, which abolished internal customs barriers and tax frontiers in 1993, the system of intra-Community delivery (free of VAT in the member state of origin) and intra-Community acquisition (taxed in the member state of destination) allows the application of the destination principle within the Union.

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

Cross-border trade in services and intangibles.[5] Implementing the destination principle with respect to international trade in services and intangibles is more difficult than with respect to international trade in goods. The nature of services and intangibles is such that there are no customs controls that can confirm their exportation and their consequent right to be free of VAT or impose the VAT at importation.

Since it is not possible to physically follow the flow of services and intangibles across borders for tax purposes, the connection of the supply with a specific taxing jurisdiction must be done by reference to proxies. The nature of those proxies and the way they are used may vary across jurisdictions as a result from local history and legal frameworks.

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

The supply of services between businesses (B2B services) is in principle taxed at the customer's place of establishment. However, if those services are provided to a fixed establishment of the customer in another place, the place of taxation for those services shall be the place where that fixed establishment is located. This rule associates two different approaches: a proxy (customer location) and actual provision (service "provided to"). This rule applies to both intra-EU supplies (between different member states) and supplies to and from non-EU countries. Services supplied to final consumers (B2C services) are in principle taxed where the supplier is located.

However, several exceptions have been introduced for both B2B and B2C services according to their nature. For example, services connected to immovable property are taxed where the immovable property is located; services relating to cultural, artistic, sporting, scientific, educational, entertainment and similar activities are taxed at the place where those services are physically carried out. Specific exceptions also apply to B2C supplies only, such as electronically supplied services provided by non-EU suppliers: these are taxed at the place where the customer resides or has a permanent address. Television broadcasting and telecommunications services supplied by non-EU suppliers are taxable at the place where the private customer effectively uses and enjoys the service. From 1 January 2015 onwards, B2C telecommunications, broadcasting and electronically supplied services provided by suppliers established in the EU will be taxed at the place where the customer resides or has a permanent address (in practice, during a transition period ending in 2019 the supplier's member state will progressively allocate the tax revenue to the customer's member state *i.e.* 70% in 2015-2016; 85% in 2017-2018 and 100% on 1 January 2019). As a result, EU and non-EU suppliers will then be placed on an equal footing as regards the place of taxation for such services and, hence, the VAT rates applicable.

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

In the Australian GST approach, supplies are taxable in Australia when they are "*connected with Australia*". According to that proxy, supplies of services performed in Australia, provided through an Australian enterprise, or consisting of rights to receive supplies in Australia are considered to be potentially taxable in Australia. To prevent GST applying to services not consumed in Australia, the Australian GST law includes broad, proxy-based zero-ratings ("GST-free") similar to those used in New Zealand. Australia's most significant variation from the New Zealand GST is its extensive application to non-residents, who may be required to remit GST for services performed in Australia, irrespective of whether their customer is a registered business or a final consumer. Similarly, services supplied from Australia to a non-resident cannot be zero-rated if the services are delivered to another person (whether a business or a consumer) in Australia. Further to a report issued in 2009 by the Australian Board of Taxation, the government agreed to make amendments to the Australian GST cross-border rules. Some changes have already been effected (*e.g.* improvements to the rules on international transport services) and a Treasury discussion paper was released spelling out ways in which the more significant changes might be effected. The changes were originally planned to take effect from 1 July 2012 but in the 2012 Budget the government announced two modifications to the proposals and indicated that the measures will have effect when they are eventually enacted. The principal effect of the changes will be to limit the circumstances in which non-residents will have to register for GST in Australia when they make supplies of services and intangibles to residents who are registered for GST.

At first sight, the approach of the EU VAT Directive and those of the tax laws in New Zealand and Australia seem different. The VAT Directive apparently provides "universal" rules for the allocation of the tax base between the member states and with the rest of the world, based on the nature of the supplies (*i.e.* determining sub-categories of services and applying a proxy for each sub-category) and the status of the customer (business or final consumer). In contrast, under the tax laws in Australia and New Zealand, the place of taxation for supplies of services is determined using a two-step process, in which the same proxies are applied to all supplies, with a limited number of exceptions. In the first step, supplies of services are connected with the taxing jurisdiction while in the second step, additional proxies are applied to ensure no tax is applied to supplies that are not for consumption or use in the relevant jurisdiction. However, in practice, these approaches are not that dissimilar. One of the main objectives of the EU VAT Directive is to provide a legislative framework for avoiding conflicts on the jurisdiction where cross-border supplies are taxed, both within the EU and with third countries. It is up to each member state to transpose the Directive into its national law in order to obtain the appropriate tax result. The practical implementation of the Directive into national law is often made through using place of taxation proxies that are quite close in nature to those employed in Australia and New Zealand (place were the supplier and/or the customer are established; place where the goods or land are located; physical performance).

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

Reverse charge. In a context of business-to-business supplies, making exports free of VAT and taxing imports introduce a breach in the staged collection process. In most countries where an invoice credit method is used, tax on services and intangibles provided from abroad are in principle collected by the so-called *reverse charge mechanism*. Normally, businesses supplying services and intangibles in a country where they are not established would have to register for VAT purposes and account for tax in that country. To avoid such administrative burdens on foreign providers, the reverse charge mechanism allows or sometimes requires the business customer to account for the tax on supplies received from foreign traders. Generally, when the recipient uses the input for VAT taxable outputs, the amount of tax is deductible so that this does not lead to any actual payment to the tax authorities. However, the reverse charge mechanism is not applied in all jurisdictions and, where it is implemented, the rules may differ across countries. The reverse charge mechanism also implies a difference of treatment for sales to domestic and foreign customers and has a cash-flow impact as, when applied, it avoids the customer having to pay the VAT to the supplier before being able to deduct it in its tax return. It is generally accepted that the reverse charge mechanism is not appropriate for business-to-consumer supplies.

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

However, there are inevitably a number of cases where supplies to foreign businesses will not be free of tax. These businesses then incur VAT in a jurisdiction where they cannot recover this input VAT by way of deduction through the same procedures as domestic businesses. Many countries ensure, at least in theory, that foreign businesses in such cases are not discriminated against compared to domestic businesses and they have developed approaches to ensure that foreign businesses do not incur irrecoverable VAT which would not be incurred by domestic businesses. These approaches include direct refunds or specific tax reliefs, but there is no standard approach for applying this principle in practice; these depend on the legal and administrative traditions of each country.

It is also true that tax administrations legitimately impose specific compliance requirements on foreign businesses. Indeed, dealing with foreign businesses with no "legal" presence in a country inevitably brings an element of risk, and many countries implement measures to protect against fraud or avoidance. In practice, the compliance burden involved with such specific rules may constitute a form of unjustified discrimination against foreign businesses, when these requirements are disproportionate or inappropriate.

In some cases, the application of VAT relief procedures may be made more complex by their possible interaction with direct tax rules. For example, when a country uses the local registration approach for providing VAT relief to foreign businesses, this registration for VAT purposes may lead the local tax administration to consider that the foreign business has a "permanent establishment" in the country (in the meaning of the OECD Model Convention on Income and Capital), which may trigger direct tax consequences.

In addition, some countries require that the application of measures to ensure that foreign business do not incur irrecoverable VAT, such as the granting of refunds, be conditional upon similar relief being granted by the jurisdiction of the foreign business claimant. Such so-called reciprocity requirements may generally take two forms: the requirement for a formal bilateral agreement between jurisdictions, or the unilateral decision by a country to recognise jurisdictions as having (or not having) appropriate features in their legislation. Such reciprocity requirements may lead to situations where international VAT neutrality is not achieved. This would be the case in particular where other jurisdictions' mechanisms are not considered meeting the reciprocity requirements because they apply a different mechanism to provide VAT relief to foreign businesses although they achieve a substantially equivalent treatment.

The OECD undertook a survey in 2007 of more than 300 businesses in 33 countries (OECD, 2010 a). The outcomes showed that the issue was serious enough to deserve remedies. As a result OECD International VAT Neutrality Guidelines were adopted in July 2011 accompanied by a draft Commentary released for public consultation in June 2012 (see Chapter 2).

Consumption taxes on specific goods and services

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

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

- They are levied on a limited range of products.

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

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

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

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

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

Such a trend can be regarded as a change in tax policy of governments. Governments have long been conscious that the tax system has an influence on the decisions of firms and individuals. They know the impact of the tax system on employment, business formation and expansion, and consumption patterns and thus have generally tried to raise revenues without distorting consumption patterns or inhibiting investment decisions. Many of the same ideas can be used in the field of environmentally related taxation; however, a goal of environmentally related taxation is to skew consumption and production patterns and reduce the size of the tax base, which is quite different from the goals of most types of taxation (OECD, 2010b). Wider work has been undertaken by the OECD on the impact of taxation on the environment and a full report was issued in 2010 (OECD, 2010b). Further, a guide for policymakers on environmental taxation was issued in 2011 (OECD, 2011)

Notes

1. For ease of reading, all value added taxes will be referred to as VAT in this chapter.
2. "*Free of VAT*" may be termed zero-rated, exempt with credit, or some other local terminology depending on the jurisdiction. Whatever the description used, the effect should be the same – no VAT is added by the supplier but the supplier is entitled to input tax credits, to the extent that the jurisdiction allows, in respect of such supplies.
3. This should be distinguished from the term used in the EU for a proposed system (that was never implemented) in which the VAT would have been collected by the member state of origin and the revenue later channelled to the member state of destination for transactions within the EU.

4. Footnote 1 of the Agreement on Subsidies and Countervailing Measures provides that "… the exemption of an exported product from duties or taxes borne by the like product when destined for domestic consumption, or the remission of such duties or taxes in amounts not in excess of those which have accrued, shall not be deemed to be a subsidy."
5. Some OECD countries have categories other than goods and services. These cover products such as intellectual property rights and other intangibles. For ease of reference these are referred to as "intangibles".

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Consumption Tax Trends 2012
VAT/GST and Excise Rates, Trends and Administration Issues

Chapter 2

Consumption tax topics

This chapter explains how globalisation has increased the need for international co-operation between governments to ensure a consistent operation of VAT in the context of international trade. It describes the development of the OECD International VAT/GST Guidelines against this background, looking at the current status of work and what remains to be done. It then considers how the efficiency of the domestic VAT systems could be improved, notably by broadening the tax base at standard rate and by tackling VAT fraud. It finally sketches the long term trends in excise duties.

Introduction

The spread of value added tax (VAT,[1] – also called goods and services tax – GST) has been the most important development in taxation over the last half century. It now covers more than 150 countries and is recognised as the most efficient consumption tax both in terms of revenue for governments and neutrality towards international trade. The challenges raised by globalisation have led governments to undertake common action to ensure a smooth interaction between VAT systems in the context of a global economy.

Value added taxes

Spread of VAT

The spread of VAT has been the most important development in taxation over the last half century. Limited to less than ten countries in the late 60s, it has now been implemented by more than 150 countries (Annex 2). VAT now raises approximately 20 per cent of the world's tax revenue and affects about 4 billion people (Keen and Lockwood, 2007). The recognised capacity of VAT to raise revenue in a neutral and transparent manner has drawn all OECD member countries to adopt this broad-based consumption tax, except the United States which continues to employ retail sales taxes at the state level (and below) rather than apply a federal consumption tax (see Chapter 1). Its neutrality principle towards international trade has also made it the preferred alternative to customs duties in the context of trade liberalisation.

VAT has become a major source of revenue for the OECD member countries that have implemented it. Over the last twenty-five years, the share of VAT as a percentage of total taxation has almost doubled passing from 11.2% on average in 1985 to 19.2% in 2009, this share remaining stable since 2000. These taxes are globally the third important source of revenue for governments, behind social security contributions (27%) and personal income taxes (25%) but far above corporate income tax (8%); specific consumption taxes (11%) and property taxes (5%) (see Chapter 3). These ratios vary considerably between countries, but in 27 of the 33 OECD countries with VAT, the tax accounts for more than 15 per cent of total taxation. Following its adoption by a growing number of countries, a shift occurred within the category of taxes on consumption so that while the share of VAT rose, the revenue from consumption taxes on specific goods and services (mainly excise taxes) fell from 16% to 11% over the same period.

Developments in cross-border trade taxation

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

While VAT continued to spread across the world, also the international trade in goods and services expanded rapidly in the context of an increasingly globalised economy. This has led to a greater interaction between VAT systems and to a growing risk of double and unintended non-taxation if the application of VAT in an international context would remain uncoordinated.

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

Since the late 90s, tax authorities have recognised that VAT rules require greater international coherence in order to support global trade. Business and tax authorities also recognised that a co-operative approach was required to solve common problems.

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

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

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

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

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

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

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

The International VAT/GST Guidelines – What has been done?

The Guidelines are developed by the CFA in co-operation with a number of non-OECD economies and the business community, with the support of a number of academics. There is no international framework (outside the European Union) that imposes legally binding VAT rules on countries, and this is probably not necessary, nor desirable. Indeed, it is not for the OECD to draft detailed consumption taxes legislation. Rather, the aim of the Guidelines is to provide a consistent set of principles for the VAT treatment of the most common types of international transactions. These would provide guidance to help countries develop practical legislation to ensure a smooth interaction between national VAT systems, with a view to minimising the potential for double taxation and unintended non-taxation and provide more certainty for business and tax authorities.

In order to progress the work, the Guidelines are being developed in a staged process. As each stage is completed the CFA publishes them for public consultation. When the process of consultation is completed, all comments are carefully considered and the documents are reviewed as appropriate. Work then continues on the basis of the progress achieved. Each document that constitutes part of the future Guidelines should be regarded as a building block and should not be considered in isolation. Each building block is reviewed over time in the light of the subsequent elements in order to form a coherent whole. The objective is to arrive at a complete set of Guidelines applying to cross-border trade in services and intangibles by 2014 (taxation rules for cross-border trade in goods may follow as necessary).

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

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

These rules reflect the overarching purpose of a VAT to impose a broad-based tax on household consumption. According to the destination principle (see Chapter 1) the revenue of the tax should ultimately accrue to the jurisdiction where final consumption occurs. A necessary corollary to the fundamental proposition that VAT is a tax on final or household consumption is that the burden of the VAT should not rest on businesses. This corollary follows as a matter of elementary logic from the proposition that the VAT is a tax on household consumption, because businesses are not households and, at least as a matter of principle, are incapable of final or household consumption. In practice, if a business acquires goods or services that are used in whole or in part for the private consumption of the business owners, VAT regimes must determine whether, or the extent to which, the purchase should be treated as acquired for business purposes or for private consumption. These principles form the basis for the development of the Guidelines (OECD, 2010).

Cross-border VAT/GST neutrality. In principle, the right to recover input VAT for businesses is exercised through the deduction mechanism in the staged payment process (see Chapter 1). Under this mechanism, the tax paid on inputs is deducted from the tax due on outputs and the balance between the two is paid to or reimbursed by tax authorities. In a cross-border context, that exports of goods and services are in principle free of VAT under the destination principle, which ensures that businesses' customers do not bear input VAT in countries where they are not in a position to exert a right to deduction (mainly because they are not established or registered there for VAT purposes). This principle is confirmed as the preferred method to ensure neutrality in an international context by the Guidelines on place of taxation as described below. However, there will inevitably remain situations where taxpayers may incur a foreign VAT. These situations may vary from one country to another according to local legislation. In such cases, countries have often implemented special mechanisms to avoid VAT being charged to the foreign taxpayer or to allow the foreign taxpayer to recover the input VAT incurred in the country. This follows from the general principles of VAT, which imply that the burden of VAT should not lie on taxable businesses but on the final consumer.

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

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

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

The CFA considered that the issue was significant enough to require remedies and undertook development of guidelines in this area. As a result, the CFA approved International VAT Neutrality Guidelines in July 2011, after a successful public consultation. These Guidelines are one of the building blocks of the OECD International VAT/GST Guidelines. These guidelines are as follows:

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

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

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

  Guideline 2 reproduces one of the Ottawa Taxation Framework Conditions, welcomed by Ministers in October 1998. It confirms that the tax should be neutral in order to ensure that it is ultimately collected along a particular supply chain and is proportional to the amount paid by the final consumer, whatever the nature of the supply, the structure of the distribution chain, the number of transactions or economic operators involved and the technical means used.

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

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

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

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

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

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

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

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

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

The Commentary on the application of the International VAT Neutrality Guidelines in practice was approved for public consultation by the CFA in July 2012 and was published on the OECD website (*www.oecd.org/ctp/ct*) for public consultation until 26 September 2012. Once finalised, the Commentary will be included in the OECD International VAT/GST Guidelines.

Definition of the place of taxation. According to the destination principle approved by the CFA, the taxing rights on cross-border supplies of services and intangibles should accrue to the jurisdiction of consumption. Although VAT primarily taxes household consumption (see Chapter 1), the multi-staged nature of the tax requires that each supply (or transaction) within the supply chain is subject to the rules of the relevant jurisdiction, including the intermediary supplies between businesses. Thus, appropriate place of taxation rules should be developed for the supply of services and intangibles at each stage of the supply chain.

Until fairly recently, most services were consumed (by households) or used (by businesses) where they were performed. Consequently, there was not so much cross-border trade of services consumed outside the supplier's jurisdiction. Therefore, the general rule in many jurisdictions led to taxation where the supplier was located. In the context of the development of the Internet and economic globalisation, the application of VAT to services became more problematic. The difficulty was exacerbated by a number of factors: the enormous growth in cross-border trade in services; the emergence of multinational corporations that supply services in a large number of jurisdictions through complex structures and the diversity of new and complex supply chain processes (involving shared service centres, global procurement arrangements, etc).

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

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

The main problem for the design of a common standard lies in the difficulty to determine precisely, for each supply, the location where it is used or consumed. According to the logic of VAT, business-to-business supplies should be taxed where they are used by the business customer in order to make onwards supplies. However, it would often be difficult to identify clearly the place where the customer actually uses the service. By their nature many intangible supplies can be used at different locations, especially by multinational enterprises, so it is necessary to use proxies.

Ideally, the number of proxies should be as limited as possible to minimise the risks for differing interpretations and overlap between competing place of taxation rules and therefore ensuring that cross-border supplies are not subject to VAT in more than one jurisdiction. Once a jurisdiction has clearly the taxing rights over a supply, it is up to this jurisdiction to decide whether or not any tax is due.

For business-to-business supplies, the Guidelines have determined a "main rule" for allocating the taxing rights to the appropriate jurisdiction applicable in most situations. However, it is also recognised that there will be situations where such a "main rule" will not work or where it would not achieve a logical result. In those cases, specific rules and proxies will be needed, but these should be limited as far as possible.

As part of this work, a first paper was issued in January 2008 for public consultation. This paper sets out some of the basic approaches to applying value added taxes to cross-border supplies of services and intangibles in a business-to-business context. It provides a number of business scenarios and suggests how the "jurisdiction of consumption" might be determined, *i.e.*:

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

All the comments received during the consultation procedure supported the proposed "main rule" There was also agreement on the principle that each transaction should be treated independently.

The work continued with the publication of a second consultation document in June 2008, describing how the principles described above could apply to more complex situations. As a result, the CFA released in February 2010 a set of three guidelines for public consultation, implementing the draft principles set out above:

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

  Guideline 1 confirms the destination principle adopted by the CFA in 2006. Guideline 1 implies that the cross-border supply of service or intangible will be free of VAT (*i.e.* exempt with right to deduct input tax) for the supplier in its own jurisdiction and that any VAT due on the transaction will be charged in the customer's jurisdiction.

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

  Guideline 2 confirms the use of proxies for determining the place of taxation. It is indeed long established that taxing internationally traded services and intangibles at the place where they are actually used would be impracticable. More specifically, Guideline 2 provides that the customer location is the most appropriate proxy to determine where the service or intangible is used. This proxy is referred to in these Guidelines as the "*Main Rule*".

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

  To avoid unnecessary burdens on suppliers, it is recommended that the customer be liable to account for any tax due. This can be achieved through the reverse-charge mechanism where that is consistent with the overall design of the national consumption tax system. Accordingly, the supplier should not be required to be identified for VAT or account for tax in the customer's jurisdiction.

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

  Guideline 3 provides the main element that should assist the supplier, the customer and tax administrations in identifying the nature of the supply, the identity of the parties and their rights and obligations with respect to that supply. The term "business agreement" has been adopted because it is a general concept, rather than a term with a technical meaning, and it is not specific to any particular jurisdiction. It is not restricted to a contract and is, therefore, potentially very wide in its application.

The public consultation confirmed a wide acceptance of the proposed guidelines under a number of assumptions (all supplies are business-to-business; are legitimate; have economic substance and no tax avoidance or artificial tax minimisation was taking place). Further, all supplies were deemed to be between separate legal entities with single locations only.

Work continued on the application of the principles to supplies of services and intangibles to Multiple Location Entities (*i.e.* single legal entities that have establishments in more than one jurisdiction). A number of options are being examined in co-operation with businesses and draft guidelines will be published for public consultation (on *www.oecd.org/ctp/ct*) by early 2013.

Guidelines on determining the place of taxation – Specific rules

It is recognised that there are a number of circumstances where the application of the main rule as described above may create difficulties, notably where the status and location of the customer may be difficult to ascertain. Such identification may also involve disproportionate compliance or administrative burdens. There are also circumstances where the simple application of the main rule as described above may give an inappropriate tax result. Specific place of taxation rules may be required to address this situation. However, it is recognised that their application should remain as limited as possible. Work on determining situations where such specific place of taxation rules may be appropriate and how such rules may be designed on relevant proxies is on-going and draft guidelines will be issued for public consultation (on *www.oecd.org/ctp/ct*) by early 2013.

The International VAT/GST Guidelines – What remains to be achieved?

Work on the Guidelines will be completed by end 2014. In addition to the guidelines on neutrality and on place of taxation in a business-to-business context, as described above, the following building blocks will be developed:

- guidelines for applying the destination principle on cross-border supplies of services and intangibles to final consumers;
- anti-abuse provisions; and
- mutual co-operation and dispute resolution procedures.

Once completed, the Guidelines will cover the most important areas for which international guidance is needed and will form a core set of rules for the VAT treatment of the most common types of international transactions.

Improving VAT efficiency

The current economic crisis has acted as a catalyst for structural reform in many OECD countries. In the tax area such reforms aim at ensuring the long-term sustainability of public finances while safeguarding the competitiveness of the economy and its longer-term growth potential. The pace and nature of reforms have varied markedly between countries and throughout the different phases of the crisis but a consensus has emerged on the fact that "growth-friendly tax reforms could help strengthen the jobs content of a recovery, while also helping fiscal consolidation insofar as they are implemented in a way that raises tax revenue. These include removing tax expenditures and shifting the tax burden towards tax bases that are less harmful to employment and growth, such as immovable property, consumption and environmental taxes" (OECD, 2012). This recommendation is supported by recent research on how tax structures could best be designed to support economic growth (OECD, 2010b).

As regards the efficiency of the VAT system itself, research suggests that it may be more efficient to broaden the VAT base at standard rate by removing most exemptions and by abolishing the domestic zero and reduced rates. This analysis is notably shared by the European Commission (European Commission, 2011a). However, it is also recognised that reform to reduce or even eliminate the use of reduced VAT rates and exemptions may be politically difficult and that such reform should not be looked at in isolation from the tax system as a whole. According to the *OECD Tax Policy Studies* (OECD, 2010b) "an effective redistribution policy is not implemented through each tax in isolation but should be implemented by considering the entire tax system as well as the benefit system". VAT base broadening may therefore have to be accompanied by other reforms that offset the distributional impact of VAT reforms such as targeted tax expenditures and personal income tax relief (see Chapter 3).

The need for a reform to improve the design and operation of VAT systems is increasingly recognised at the political level. At the European level, Ministers of Finance endorsed in May 2012 (European Council 2012) the objective of an EU VAT system "which should be simpler, more efficient and neutral, robust and fraud-proof". This statement followed from a public consultation made by the European Commission in the second half of 2011 (European Commission, 2011b). These conclusions are in line with the conclusions reached by senior tax policy officials from 25 OECD countries, the European Commission and 5 non-member economies at a high-level policy conference held in Lucerne in 2009 (Lucerne Communiqué, OECD, 2009). These conclusions were are as follows:

- Governments will continue to rely on VAT as a major source of revenue in particular as a tool to address public debt imbalances.
- VAT systems should be modernised and their economic efficiency improves to keep pace with economic and technological changes while taking into account the political difficulties attached to such reforms.
- The VAT systems should be simplified and rules applicable to cross-border trade should be more harmonised, without putting the fight against VAT fraud at risk.
- The VAT base subject to the standard rate should be broadened and exemptions removed as far as possible.
- Tax administrations should ensure that they provide business with certainty and clarity in the way that the tax is applied and that the compliance costs can be minimised.
- The work being undertaken by the OECD on the application of VAT to cross-border trade should be completed in order to minimise risks for double taxation and unintended non taxation; should be minimised.
- Exchange of information and mutual co-operation between countries should be strongly encouraged to combat VAT fraud.

The Lucerne conference recognised the increasingly important role played by the OECD as it has a unique capacity to work with member countries to secure effective VAT systems in a global environment and to develop a dialogue with non-OECD economies and businesses to improve the design and operation of consumption tax systems. Against this background, the OECD organises its first Global Forum on VAT in Paris in November 2012 as a unique international platform for a truly global dialogue on VAT design and operation, for sharing policy analysis and experience, for identifying best practices and for strengthening international co-operation.

Tackling VAT fraud

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

In addition to "traditional" VAT fraud and avoidance (under-declaration, export fraud, import fraud, carousel fraud with goods), new types of VAT fraud develop using new technologies and entering new markets. For instance, the development of new markets for CO_2 emission allowances has created opportunities for organised VAT fraud. Using the weaknesses in the market registration procedures and the zero-rating of cross-border supplies followed by taxed transactions in domestic markets, fraudulent traders have caused billions of Euros of tax losses in some countries. For example Trader B registers in Member State 1 and buys commodities from Trader A in Member State 2. According to EU rules, the supply from A to B is zero-rated and B acquires the commodity without paying VAT in Member State 2 (the VAT on acquisition is due and deductible by Trader B in that country under the reverse charge mechanism). Then Trader B resells the commodity to Customer C in Member State 2 invoicing the VAT to this customer since it is a domestic supply. Trader B then disappears with the VAT so collected. Since this VAT is deductible by the customer (who may ignore the fraud), this VAT is lost for Member State B.

Europol estimated that in some countries, up to 90% of the whole CO_2 allowances market volume was fraudulent (Europol, 2010). The countries concerned have changed the VAT treatment of such supplies and tightened their registration procedures to put an end to such criminal activities. In March 2010 the Council of the European Union adopted a Directive allowing member states to implement, on an optional and temporary basis, a reverse charge mechanism for supplies of greenhouse gas emission allowances (Directive 2010/23/EU of 16 March 2010). In 2011, a joint statement from the European energy regulators, clearing houses, energy trading firms, electricity transmission system operators, gas transmission system operators, the electricity and gas industries and energy brokers warned tax authorities about the very serious "danger of VAT fraud for the functioning of Europe's gas and electricity markets".

Meanwhile, there are some indications that new types of acquisition fraud may develop in the telecommunication market (Voice over the Internet Protocol; VoIP). In addition, recent research showed that a large number of accounting software products contained hidden tools (zappers) for manipulation of VAT receipts (Ainsworth, 2010).

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

The OECD has also worked over the last ten years on improving the legal framework for exchange of information for both direct and indirect tax purposes. In 2000, Article 26 of the Model Tax Convention on Income and Capital was expanded to include "taxes of any kind" into the exchange of information provisions of bilateral tax treaties. The Convention on Mutual Administrative Assistance in Tax Matters also provides for exchange of information and administrative assistance in the VAT area. It provides for all possible forms of administrative co-operation between states in the assessment and collection of taxes, in particular with a view to combating tax avoidance and evasion. This co-operation ranges from exchange of information, including automatic exchanges, to the recovery of foreign tax claims. This Convention was developed jointly by the Council of Europe and the

OECD and opened for signature by the member states of both organisations on 25 January 1988. It was opened to all countries in 2011.

Other tools for exchange of information in tax matters (including VAT) also exist at regional level such as *e.g.* the Nordic Mutual Assistance Convention on Mutual Administrative Assistance in Tax Matters.

Key administrative issues

Developments in information technology have enabled governments across the OECD countries to improve services to taxpayers and performance of tax administrations. Given the regular contact businesses have with tax authorities it is not surprising that many countries have introduced 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. Work in this area is developed by the OECD Forum on Tax Administration, which publishes Tax Guidance Series and reports (available at *www.oecd.org/tax*) in areas such as effective compliance risk management techniques, trends in the delivery of taxpayer services and comparative data on revenue administration.

Excise taxes

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

Combined effects of global warming and economic crises have led governments to look more closely at the excise taxes applied to fossil fuels. In September 2009, G20 Leaders agreed to rationalise and phase out, over the medium term, inefficient fossil-fuel subsidies. Indeed, reforming or eliminating support for the consumption or production of fossil fuels can contribute to achieving economic and fiscal objectives, while also helping tackle environmental problems like climate change. Excise duties on fossil fuels, amongst other elements are examined in a recent OECD report (OECD, 2011).

Notes

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

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Consumption Tax Trends 2012
VAT/GST and Excise Rates, Trends and Administration Issues

Chapter 3

Value added taxes yield, rates and structure

This chapter describes the key factors that have contributed to the fast development of Value Added Taxes (VAT) as the main general consumption tax in most OECD countries and beyond. It provides statistics on the importance of, and trends in, general consumption taxes and describes the key features of VAT regimes in OECD countries i.e. *rates, thresholds, restrictions to the right of deduction and exemptions and analyses their impact on the efficiency of the system. It finally provides data on the application of VAT to importation of goods by private individuals.*

Introduction

It is probably unprecedented in the long history of taxes that a specific tax mechanism such as value added tax has spread around the world in less than a half century. Limited to less than 10 countries in the late 1960s, value added tax (VAT or, in several countries, goods and services tax – GST),[1] is today an essential source of revenue in more than 150 countries (see Annex 2).

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

Additional elements have also played a role in the implementation of VAT in different parts of the world. In the European Union, VAT is directly associated with the development of its internal market. Indeed, VAT avoids the trade distortions associated with cascading indirect taxes that it has replaced and enables the creation of a common market in which member states cannot use taxes on production and consumption to protect their domestic industries and investment (Ebrill, Keen, Bodin, Summers, 2001). For emerging economies, VAT is a more efficient revenue raising tax that supports greater integration in the global market place because it removes taxes on exports through the application of the destination principle (see Chapter 2). In many developing countries, adoption of VAT has been given additional impetus as revenues from customs duties have come under pressure following greater trade liberalisation.

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

Importance of, and trends in, general consumption taxes

Tables 3.1 and 3.2 present respectively revenues from general consumption taxes as a percentage of Gross Domestic Product (GDP) and as a percentage of total taxation. These taxes include VAT, sales taxes and other general taxes on goods and services (see Chapter 2). These ratios vary considerably between countries, from the United States and Japan where general consumption taxes account for less than 3 per cent of GDP and less than 10 per cent of total taxation, to Denmark and Hungary where they account for more than 10 per cent of GDP and Chile and Israel, where they form 30 per cent or more of total tax. Nevertheless, in the vast majority of countries (27 of 34) general consumption taxes account for more than 15 per cent of total taxation, with an OECD unweighted average of 20.0 per cent.

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

	1965	1975	1985	1990	1995	2000	2005	2006	2007	2008	2009	Difference 2000-2009
Australia	1.5	1.7	2.2	2.3	2.5	3.6	4.0	3.9	3.8	3.5	3.7	0.1
Austria[2]	6.3	7.3	8.6	8.2	7.7	8.1	7.9	7.6	7.7	7.8	8.1	0.0
Belgium	6.6	6.4	7.0	6.9	6.7	7.3	7.2	7.4	7.1	7.0	7.0	–0.3
Canada	4.6	4.0	4.3	5.1	5.0	5.1	5.0	4.8	4.6	4.3	4.3	–0.8
Chile	..	..	..	6.6	7.7	8.1	8.1	7.4	7.9	8.9	7.8	–0.3
Czech Republic	..	..	..	..	6.3	6.5	7.2	6.6	6.6	7.1	7.1	0.7
Denmark[2]	3.0	6.6	9.3	9.5	9.4	9.5	10.0	10.3	10.4	10.1	10.1	0.6
Estonia	..	..	..	..	9.6	8.5	8.7	9.1	8.9	7.9	9.1	0.6
Finland	5.6	5.7	7.3	8.4	7.9	8.2	8.7	8.7	8.4	8.4	8.6	0.4
France[2]	7.9	8.3	8.5	7.9	7.5	7.6	7.6	7.6	7.5	7.4	7.1	–0.5
Germany	5.2	5.0	5.7	5.8	6.5	6.9	6.3	6.4	7.0	7.1	7.5	0.6
Greece[2]	1.8	3.6	4.4	6.9	6.6	7.4	7.1	7.5	7.6	7.6	6.7	–0.7
Hungary	..	..	..	..	8.0	10.2	10.5	9.8	10.5	10.3	11.2	0.9
Iceland	4.4	8.6	9.3	10.0	9.9	10.6	11.1	11.3	10.5	9.1	8.0	–2.6
Ireland	1.4	4.2	7.1	6.8	6.9	6.9	7.5	7.6	7.5	7.1	6.4	–0.5
Israel[4]	..	..	..	..	11.1	9.8	9.9	9.5	9.8	9.6	9.4	–0.4
Italy	3.3	3.6	4.9	5.6	5.5	6.5	6.0	6.3	6.2	6.0	5.7	–0.8
Japan	0.0	0.0	0.0	1.3	1.5	2.5	2.6	2.6	2.5	2.5	2.6	0.1
Korea	..	1.8	3.3	3.6	3.5	3.8	4.2	4.2	4.2	4.3	4.4	0.6
Luxembourg	3.4	4.0	5.0	4.9	5.2	5.6	6.2	5.8	5.7	5.9	6.4	0.8
Mexico	..	..	2.5	3.3	2.6	3.1	3.5	3.7	3.6	3.8	3.4	0.3
Netherlands	4.1	5.8	6.9	7.1	6.5	6.9	7.5	7.4	7.5	7.2	7.0	0.1
New Zealand	1.8	2.6	3.2	8.4	8.3	8.2	8.7	8.8	8.2	8.5	8.7	0.4
Norway	6.4	8.0	7.8	7.7	8.7	8.4	7.9	8.0	8.3	7.4	8.0	–0.4
Poland	..	..	..	..	6.2	6.9	7.6	8.0	8.2	7.9	7.3	0.4
Portugal	0.0	2.2	3.2	5.4	7.1	7.7	8.5	8.6	8.5	8.4	7.1	–0.6
Slovak Republic	..	..	..	..	..	7.0	7.9	7.5	6.7	6.9	6.7	–0.3
Slovenia	..	..	..	..	11.6	8.8	8.6	8.5	8.4	8.5	8.4	–0.4
Spain[2]	3.3	2.8	4.1	5.2	5.1	6.0	6.2	6.3	6.0	5.2	4.0	–2.0
Sweden	3.4	4.9	6.6	7.8	9.2	8.7	9.0	9.1	9.2	9.4	9.8	1.1
Switzerland	1.9	2.1	2.7	3.0	3.3	3.9	3.9	3.9	3.7	3.7	3.7	–0.3
Turkey	0.0	0.0	2.7	3.0	5.2	5.8	5.3	5.5	5.1	4.9	4.9	–0.9
United Kingdom	1.8	3.1	5.9	6.0	6.5	6.6	6.7	6.6	6.6	6.4	5.7	–0.9
United States	1.2	1.8	2.0	2.2	2.2	2.2	2.2	2.2	2.2	2.1	2.0	–0.2
Unweighted average[3]:												
OECD Total	**3.3**	**4.2**	**5.2**	**5.9**	**6.6**	**6.9**	**7.0**	**7.0**	**7.0**	**6.8**	**6.7**	**–0.2**

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

Source: OECD, *Revenue Statistics 1965-2010.*

StatLink http://dx.doi.org/10.1787/888932718630

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

	1965	1975	1985	1990	1995	2000	2005	2006	2007	2008	2009	Difference 2000-2009
Australia	7.4	6.7	7.9	8.0	8.7	12.0	13.4	13.2	13.0	12.9	14.3	2.3
Austria[2]	18.7	19.8	21.0	20.8	18.6	18.8	18.8	18.4	18.3	18.2	19.0	0.1
Belgium	21.1	16.3	15.8	16.5	15.4	16.3	16.2	16.7	16.4	16.0	16.3	–0.1
Canada	17.8	12.5	13.2	14.1	14.0	14.2	14.9	14.3	13.9	13.3	13.4	–0.7
Chile	..	..	..	37.4	40.6	41.8	37.8	32.0	32.9	39.4	42.5	0.6
Czech Republic	..	..	..	..	16.7	18.3	19.2	17.9	17.6	19.6	20.6	2.3
Denmark[2]	10.1	17.3	20.2	20.5	19.3	19.3	19.7	20.7	21.2	21.0	21.1	1.8
Estonia					26.5	27.3	28.3	29.6	28.2	24.9	25.3	–2.0
Finland	18.5	15.6	18.3	19.3	17.4	17.4	19.8	19.9	19.5	19.5	20.2	2.8
France[2]	23.3	23.4	20.0	18.8	17.4	17.1	17.2	17.0	17.1	16.9	16.8	–0.3
Germany	16.5	14.6	15.8	16.6	17.4	18.4	18.0	17.9	19.5	19.5	20.1	1.7
Greece[2]	10.3	18.3	17.2	26.5	23.0	21.8	22.2	23.9	23.7	24.2	22.2	0.4
Hungary	..	..	..	..	19.4	26.1	28.1	26.3	26.0	25.6	28.0	1.9
Iceland	16.7	28.6	33.0	32.3	31.7	28.5	27.3	27.2	25.9	24.7	23.7	–4.9
Ireland	5.7	14.7	20.6	20.6	21.2	22.1	24.6	24.1	24.1	24.3	23.0	0.9
Israel[4]	..	..	..	..	29.9	26.6	27.7	26.4	27.1	28.5	29.9	3.3
Italy	12.9	14.3	14.5	14.7	13.8	15.4	14.6	14.8	14.3	13.8	13.1	–2.3
Japan	0.0	0.0	0.0	4.4	5.4	9.1	9.5	9.2	8.8	8.9	9.6	0.5
Korea	..	12.7	21.1	19.7	18.9	17.0	17.4	16.7	15.8	16.1	17.3	0.3
Luxembourg	12.4	12.1	12.8	13.9	14.0	14.3	16.4	16.1	16.1	16.7	17.0	2.7
Mexico	..	..	15.9	20.8	16.9	18.7	19.1	20.2	20.4	18.0	19.7	1.0
Netherlands	12.4	14.4	16.2	16.5	15.6	17.4	19.6	18.9	19.4	18.5	18.3	0.9
New Zealand	7.7	9.0	10.4	22.4	22.8	24.9	23.8	24.4	23.5	25.4	27.6	2.7
Norway	21.5	20.5	18.2	18.8	21.2	19.8	18.2	18.2	19.1	17.2	18.7	–1.1
Poland	..	..	..	..	17.1	21.2	22.9	23.5	23.5	23.0	22.9	1.8
Portugal	0.0	11.2	12.6	19.6	22.5	24.8	27.1	26.9	26.1	25.8	23.2	–1.6
Slovak Republic	..	..	..	..	..	20.4	25.0	25.3	22.9	23.5	23.1	2.7
Slovenia	..	..	..	..	29.5	23.7	22.2	22.2	22.4	22.9	22.5	–1.2
Spain[2]	22.2	15.3	14.7	16.0	15.9	17.5	17.4	17.2	16.2	15.5	13.0	–4.5
Sweden	10.4	12.0	14.0	14.9	19.4	17.0	18.5	18.8	19.3	20.3	21.0	4.0
Switzerland	10.6	8.7	10.7	11.6	12.0	13.1	13.4	13.3	12.9	12.8	12.3	–0.7
Turkey	0.0	0.0	23.3	20.1	31.1	24.2	21.8	22.2	21.3	20.3	20.0	–4.2
United Kingdom	5.9	8.9	15.9	16.9	19.0	18.1	18.7	18.1	18.2	17.8	16.6	–1.5
United States	4.8	7.0	7.9	8.0	8.0	7.6	8.1	7.9	7.8	8.0	8.4	0.9
Unweighted average[3]:												
OECD Total	**11.9**	**13.4**	**15.8**	**18.1**	**19.4**	**19.7**	**20.2**	**20.0**	**19.8**	**19.8**	**20.0**	**0.3**

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

Source: OECD, *Revenue Statistics 1965-2010*.

StatLink http://dx.doi.org/10.1787/888932718649

The revenue from general consumption taxes stabilised after 2000 as a percentage of both GDP and total taxation. This followed a period of many years of increasing importance. Between 2000 and 2009 the Czech Republic, Denmark, Estonia, Germany, Hungary, Korea, Luxembourg, and Sweden were the countries where general consumption taxes have increased the most as a percentage of GDP (by at least 0.5 percentage points), while in Canada, France, Greece, Iceland, Israel, Italy, Portugal, Spain and Turkey and the United Kingdom the percentage fell by at least 0.5 percentage points.

Over the longer term, OECD member countries have relied increasingly on general consumption taxes. Since 1965, the share of these taxes as a percentage of GDP in OECD countries has more than doubled, from 3.3% to 6.7%. They presently produce 20% of total tax revenue compared with only 11.9% in 1965.

This is especially true for VAT, which is the largest source of general consumption taxes accounting for 6.4% of GDP and 19.2% of total tax revenues (see Tables 3.5 and 3.6). VAT is now operated in 33 of the 34 OECD countries, the United States being the only country not to have adopted a VAT. In 1977, fourteen of the current OECD member countries had a VAT. Greece, Iceland, Spain, Portugal, Turkey, Mexico, Japan and New Zealand introduced VAT in the 1980s while Switzerland followed shortly afterwards. The Eastern European economies introduced VAT in the late 1980s and early 1990s, some of them adopting the EU model with their future EU membership in mind. The tendency for VAT rates to rise over the long term (see Table 3.8) also contributed to the growing share of general consumption taxes in the tax mix.

Tables 3.3 and 3.4 show that revenue from taxes on specific goods and services, the bulk of which are excise taxes, fell as a percentage of GDP (from 5.8% in 1965 to 3.4% in 2009) and as a percentage of total taxation (from 24.3% in 1965 to 10.6% in 2009) over the last forty five years. This decline has coincided with the rise of VAT (excise taxes are discussed in greater detail in Chapter 5).

As a result, the mix of consumption taxes has fundamentally changed (see Figure 3.1). The share of all taxes on consumption (general consumption taxes plus specific consumption taxes) hardly changed between 1980 and 2009. However, general consumption taxes, especially VAT, now dominate in the mix, presently producing 20.0 per cent of total tax revenue compared with less than 12 per cent in the mid-60s. This increased importance of general consumption taxes was balanced by the reduction of the share of specific consumption taxes, such as excise and customs duties (Figure 3.1). Between 1965 and 2009 the share of specific taxes on consumption (mostly on tobacco, alcoholic drinks and fuels, including some newly introduced environment-related taxes) was more than halved. Only Mexico and Turkey still collect a relatively large part of their revenues by way of taxes on specific goods and services (respectively 29.4 % and 23.6 %).

The general tax mix has also evolved significantly over the same period (see Table 3.7). The relative fall in the share of consumption taxes in total taxation between 1965 and 1975 was balanced by the growing share of taxes on income. This increase mainly resulted from the expanding share of social security contributions (by 9 percentage points between 1965 and 2009). Personal plus corporate income taxes show no consistent trend over the period as a whole, with the share of personal income tax rising and then falling. In contrast, the share of property taxes fell significantly between 1965 and 2009, from 8% to 5% of aggregate tax revenues. As a result general consumption taxes, especially VAT, have become the third largest source of tax revenue for OECD countries as a whole, ahead of corporate income taxes, payroll and property taxes.

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

	1965	1975	1985	1990	1995	2000	2005	2006	2007	2008	2009	Difference 2000-2009
Australia	4.8	5.0	5.9	4.4	4.2	4.3	3.6	3.5	3.3	3.3	3.2	–1.1
Austria[2]	6.1	5.1	4.1	3.6	3.5	3.5	3.4	3.3	3.2	3.2	3.2	–0.3
Belgium	4.0	3.9	3.6	3.6	3.7	3.2	3.3	3.2	3.1	3.1	3.2	0.0
Canada	4.3	4.3	4.2	3.7	3.5	3.1	3.0	2.9	2.8	2.7	2.8	–0.3
Chile	..	..	..	4.0	3.6	3.6	2.4	2.1	2.1	1.9	1.9	–1.8
Czech Republic	..	..	..	..	4.9	3.9	3.7	3.7	3.8	3.7	3.8	–0.1
Denmark[2]	8.7	5.8	6.0	5.1	5.6	5.5	5.4	5.3	5.0	4.7	4.3	–1.1
Estonia	..	..	..	..	2.9	3.1	3.9	3.6	3.8	3.5	5.2	2.1
Finland	7.1	5.8	6.0	5.6	5.7	5.1	4.7	4.6	4.2	4.2	4.3	–0.8
France[2]	4.9	3.2	3.7	3.7	4.0	3.6	3.3	3.2	3.1	3.0	3.2	–0.4
Germany	4.6	3.7	3.2	3.2	3.5	3.3	3.4	3.3	3.1	3.1	3.2	–0.1
Greece[2]	6.0	4.6	5.3	4.1	4.7	3.4	3.0	2.9	3.0	2.8	3.0	–0.4
Hungary	..	..	..	..	8.6	5.4	4.0	4.2	4.4	4.3	4.3	–1.2
Iceland	11.8	10.1	7.5	5.2	4.4	4.1	4.3	4.4	4.2	3.4	3.3	–0.8
Ireland	10.8	8.5	7.6	6.6	5.7	4.3	3.4	3.3	3.2	3.1	3.1	–1.3
Israel[4]	..	..	..	..	1.6	1.6	1.9	2.0	2.0	2.1	2.1	0.5
Italy	6.2	3.5	3.1	4.0	4.5	4.1	3.8	3.8	3.7	3.5	3.8	–0.3
Japan	4.5	3.1	3.3	2.2	2.2	2.1	2.1	2.1	2.0	2.0	2.0	–0.2
Korea	..	6.8	5.9	4.7	4.1	4.4	3.8	3.7	3.8	3.9	3.5	–1.0
Luxembourg	3.1	2.6	4.4	3.8	4.7	4.9	4.6	4.2	3.9	3.8	3.8	–1.1
Mexico	..	..	7.5	5.4	5.4	5.6	6.6	6.4	5.6	8.4	5.1	–0.5
Netherlands	4.8	3.3	3.1	3.2	3.7	3.5	3.6	3.6	3.3	3.4	3.4	–0.1
New Zealand	4.5	4.0	3.6	3.4	3.1	2.5	2.3	2.2	2.1	2.0	2.0	–0.5
Norway	5.5	6.3	7.7	6.3	6.3	4.1	3.4	3.3	3.4	3.1	3.3	–0.8
Poland	..	..	..	..	6.3	4.4	4.4	4.2	4.4	4.7	4.0	–0.4
Portugal	7.0	5.7	7.5	6.6	5.7	4.3	4.7	4.8	4.5	4.3	4.1	–0.2
Slovak Republic	..	..	..	..	..	4.7	3.9	3.1	3.8	2.9	3.0	–1.6
Slovenia	..	..	..	..	3.3	4.5	4.2	4.1	4.1	4.1	4.9	0.4
Spain[2]	2.7	1.6	3.5	3.4	3.3	3.3	3.0	2.8	2.8	2.6	2.5	–0.7
Sweden	6.4	4.4	5.5	4.8	3.9	3.6	3.3	3.1	3.0	3.0	3.2	–0.4
Switzerland	3.7	2.8	2.4	2.1	2.3	2.4	2.3	2.1	2.0	2.0	2.0	–0.4
Turkey	5.6	4.9	1.4	1.1	1.0	4.0	6.2	6.0	5.8	5.6	5.8	1.9
United Kingdom	7.7	5.2	5.1	4.5	4.9	4.5	3.7	3.6	3.5	3.5	3.7	–0.8
United States	3.7	2.6	2.1	1.9	2.1	1.8	1.8	1.8	1.7	1.7	1.7	–0.2
Unweighted average[3]:												
OECD Total	**5.8**	**4.7**	**4.7**	**4.1**	**4.2**	**3.8**	**3.7**	**3.5**	**3.5**	**3.4**	**3.4**	**–0.4**

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

Source: OECD, *Revenue Statistics 1965-2010.*

StatLink http://dx.doi.org/10.1787/888932718668

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

	1965	1975	1985	1990	1995	2000	2005	2006	2007	2008	2009	Difference 2000 - 2009
Australia	22.7	19.1	20.7	15.3	14.5	14.1	12.0	11.8	11.3	12.1	12.2	–1.9
Austria[2]	18.0	14.0	9.9	9.0	8.5	8.1	8.1	7.9	7.6	7.4	7.5	–0.6
Belgium	13.0	9.8	8.2	8.5	8.5	7.1	7.3	7.3	7.1	7.0	7.3	0.2
Canada	16.8	13.6	13.0	10.3	9.9	8.6	8.9	8.6	8.5	8.5	8.8	0.2
Chile	..	..	..	23.0	19.2	18.8	10.9	9.0	8.7	8.7	10.1	–8.7
Czech Republic	..	..	..	..	13.0	11.0	9.9	10.1	10.2	10.2	10.9	–0.1
Denmark[2]	28.9	15.0	13.0	11.0	11.4	11.1	10.6	10.6	10.3	9.8	9.0	–2.1
Estonia						10.1	12.6	11.7	12.1	11.0	14.5	4.4
Finland	23.4	16.0	15.2	12.9	12.5	10.9	10.8	10.5	9.8	9.7	10.2	–0.7
France[2]	14.3	9.0	8.7	8.7	9.2	8.0	7.5	7.2	7.1	7.0	7.6	–0.5
Germany	14.6	10.8	8.7	9.2	9.5	8.8	9.8	9.3	8.7	8.5	8.6	–0.1
Greece	33.8	23.9	20.9	15.6	16.4	10.0	9.4	9.4	9.5	8.8	10.0	0.0
Hungary	..	..	..	..	20.9	13.8	10.8	11.3	10.9	10.8	10.7	–3.1
Iceland	45.0	33.6	26.5	16.9	14.0	11.0	10.6	10.5	10.2	9.1	9.6	–1.4
Ireland	43.4	29.7	22.0	20.1	17.5	13.9	11.1	10.3	10.3	10.7	11.0	–2.9
Israel[4]	..	..	..	..	4.4	4.3	5.3	5.5	5.4	6.1	6.6	2.3
Italy	24.1	14.0	9.1	10.6	11.1	9.6	9.2	9.0	8.5	8.2	8.7	–0.9
Japan	25.0	15.1	12.1	7.5	8.3	8.0	7.7	7.4	7.1	6.9	7.3	–0.6
Korea	..	47.3	37.4	25.7	21.9	19.7	15.9	14.8	14.5	14.5	13.7	–6.0
Luxembourg	11.1	8.0	11.1	10.8	12.6	12.5	12.3	11.6	11.0	10.8	10.0	–2.5
Mexico	..	..	48.6	34.0	35.8	33.4	36.6	35.1	31.6	40.3	29.4	–4.0
Netherlands	14.7	8.1	7.2	7.5	9.0	8.9	9.3	9.2	8.6	8.7	9.0	0.1
New Zealand	18.5	13.8	11.7	9.2	8.6	7.5	6.2	6.1	5.9	6.1	6.4	–1.1
Norway	18.4	16.1	18.1	15.3	15.5	9.6	7.9	7.6	7.7	7.2	7.8	–1.9
Poland	..	..	..	..	17.5	13.5	13.3	12.4	12.8	13.8	12.6	–0.9
Portugal	44.0	28.9	29.7	23.8	17.6	13.9	15.0	15.1	13.7	13.1	13.5	–0.4
Slovak Republic	..	..	..	..	..	13.7	12.3	10.6	12.8	10.0	10.5	–3.2
Slovenia	..	..	..	..	8.4	12.1	10.8	10.7	10.9	11.2	13.1	1.0
Spain[2]	18.4	8.7	12.8	10.5	10.3	9.6	8.3	7.8	7.5	7.8	8.3	–1.3
Sweden	19.2	10.7	11.6	9.2	8.3	7.0	6.8	6.5	6.4	6.4	6.8	–0.1
Switzerland	21.3	11.9	9.5	8.2	8.4	8.0	7.8	7.2	7.0	6.8	6.7	–1.3
Turkey	53.5	40.9	12.4	7.3	6.0	16.4	25.5	24.6	24.3	23.2	23.6	7.2
United Kingdom	25.2	14.8	13.8	12.6	14.5	12.4	10.5	9.8	9.8	9.8	10.9	–1.5
United States	15.1	10.0	8.4	7.0	7.5	6.3	6.6	6.3	6.1	6.3	7.0	0.7
Unweighted average[3]:												
OECD Total	**24.3**	**17.7**	**16.2**	**13.3**	**12.8**	**11.5**	**11.1**	**10.7**	**10.4**	**10.5**	**10.6**	**–0.9**

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Source: OECD, *Revenue Statistics 1965-2010*.

StatLink http://dx.doi.org/10.1787/888932718687

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

	1965	1975	1985	1990	1995	2000	2005	2006	2007	2008	2009	Difference 2000-2009
Australia	0.0	0.0	0.0	0.0	0.0	3.4	3.9	3.8	3.7	3.4	3.6	0.3
Austria[2]	0.0	7.3	8.6	8.2	7.7	8.1	7.9	7.6	7.7	7.8	8.1	0.0
Belgium	0.0	6.4	7.0	6.9	6.7	7.3	7.1	7.3	7.1	7.0	6.9	–0.3
Canada	0.0	0.0	0.0	0.0	3.0	3.3	3.3	3.2	3.0	2.7	2.7	–0.6
Chile	..	..	..	6.6	7.7	8.1	8.1	7.4	7.9	8.9	7.8	–0.3
Czech Republic	..	..	..	..	6.3	6.5	7.2	6.6	6.6	7.1	7.1	0.7
Denmark[2]	..	6.6	9.3	8.5	9.4	9.5	10.0	10.3	10.4	10.1	10.1	0.6
Estonia					9.6	8.4	8.7	9.1	8.9	7.9	9.1	0.6
Finland	5.6	5.7	7.3	8.4	7.9	8.2	8.7	8.7	8.4	8.4	8.6	0.4
France[2]	6.8	8.2	8.4	7.7	7.3	7.4	7.4	7.3	7.2	7.1	6.8	–0.6
Germany	0.0	5.0	5.7	5.8	6.5	6.9	6.3	6.4	7.0	7.1	7.5	0.6
Greece[2]	0.0	0.0	0.0	6.4	6.4	7.2	6.9	7.0	7.3	7.2	6.3	–0.9
Hungary	..	..	..	..	7.4	8.8	8.4	7.6	8.1	7.8	8.6	–0.3
Iceland	0.0	0.0	0.0	8.8	9.3	10.6	11.1	11.3	10.5	9.1	8.0	–2.6
Ireland	0.0	4.2	7.1	6.8	6.9	6.9	7.5	7.6	7.5	7.1	6.4	–0.5
Israel[4]	..	..	..	..	8.6	7.8	8.0	7.8	7.9	7.9	7.7	–0.1
Italy	0.0	3.5	4.9	5.6	5.5	6.5	6.0	6.3	6.2	6.0	5.7	–0.8
Japan	0.0	0.0	0.0	1.3	1.5	2.5	2.6	2.6	2.5	2.5	2.6	0.1
Korea	..	0.0	3.3	3.6	3.5	3.8	4.2	4.2	4.2	4.3	4.4	0.6
Luxembourg	0.0	4.0	4.4	4.2	4.5	5.2	6.0	5.7	5.6	5.8	6.3	1.1
Mexico	..	..	2.5	3.3	2.6	3.1	3.5	3.7	3.6	3.8	3.4	0.3
Netherlands	0.0	5.8	6.9	7.1	6.5	6.9	7.5	7.4	7.5	7.2	7.0	0.1
New Zealand	0.0	0.0	0.0	8.4	8.3	8.2	8.7	8.8	8.2	8.5	8.7	0.4
Norway	0.0	8.0	7.8	7.7	8.7	8.4	7.9	8.0	8.3	7.4	8.0	–0.4
Poland	..	..	..	..	6.2	6.9	7.6	8.0	8.2	7.9	7.3	0.4
Portugal	..	0.0	0.0	5.4	7.1	7.7	8.5	8.6	8.5	8.4	7.1	–0.6
Slovak Republic	..	..	..	..	..	7.0	7.9	7.5	6.7	6.9	6.7	–0.3
Slovenia	..	..	..	..	0.0	8.7	8.6	8.5	8.4	8.5	8.4	–0.3
Spain[2]	0.0	0.0	0.0	5.1	5.1	6.0	6.2	6.3	6.0	5.2	4.0	–2.0
Sweden	0.0	4.9	6.6	7.8	9.2	8.7	9.0	9.0	9.0	9.3	9.7	1.0
Switzerland	0.0	0.0	0.0	0.0	2.4	3.9	3.9	3.9	3.7	3.7	3.7	–0.3
Turkey	..	..	2.6	2.7	4.1	5.8	5.3	5.5	5.1	4.9	4.9	–0.9
United Kingdom	0.0	3.1	5.9	6.0	6.5	6.6	6.7	6.6	6.6	6.4	5.7	–0.9
United States	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Unweighted average[3]:												
OECD Total	**0.6**	**2.7**	**3.8**	**5.3**	**5.7**	**6.6**	**6.8**	**6.7**	**6.7**	**6.6**	**6.4**	**–0.2**

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

Source: OECD, *Revenue Statistics 1965-2010.*

StatLink http://dx.doi.org/10.1787/888932718706

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

	1965	1975	1985	1990	1995	2000	2005	2006	2007	2008	2009	Difference 2000-2009
Australia	0.0	0.0	0.0	0.0	0.0	11.1	13.1	12.9	12.7	12.6	14.0	2.9
Austria[2]	0.0	19.8	21.0	20.8	18.6	18.8	18.8	18.4	18.3	18.2	19.0	0.1
Belgium	0.0	16.3	15.8	16.5	15.3	16.2	15.9	16.4	16.2	15.8	16.1	–0.1
Canada	0.0	0.0	0.0	0.0	8.4	9.2	10.0	9.5	9.1	8.3	8.5	–0.7
Chile	..	..	..	37.4	40.6	41.8	37.8	32.0	32.9	39.4	42.5	0.6
Czech Republic	..	..	..	..	16.7	18.3	19.2	17.9	17.6	19.6	20.6	2.3
Denmark[2]	..	17.3	20.2	18.3	19.2	19.3	19.7	20.7	21.2	21.0	21.1	1.8
Estonia						27.3	28.3	29.6	28.2	24.9	25.3	–2.0
Finland	18.5	15.6	18.3	19.3	17.4	17.4	19.8	19.9	19.5	19.5	20.2	2.8
France[2]	20.1	23.1	19.7	18.4	17.0	16.7	16.7	16.5	16.5	16.3	16.1	–0.5
Germany	0.0	14.6	15.8	16.6	17.4	18.4	18.0	17.9	19.5	19.5	20.1	1.7
Greece[2]	0.0	0.0	0.0	24.6	22.0	21.2	21.6	22.4	22.8	22.7	21.1	0.0
Hungary	..	..	..	..	17.8	22.4	22.6	20.4	20.0	19.4	21.5	–1.0
Iceland	0.0	0.0	0.0	28.4	29.9	28.5	27.3	27.2	25.9	24.7	23.7	–4.9
Ireland	0.0	14.7	20.6	20.6	21.2	22.1	24.6	24.1	24.1	24.3	23.0	0.9
Israel[4]	..	..	..	..	23.3	21.3	22.5	21.6	21.7	23.2	24.6	3.3
Italy	0.0	13.7	14.5	14.7	13.8	15.4	14.6	14.8	14.3	13.8	13.1	–2.3
Japan	0.0	..	..	4.4	5.4	9.1	9.5	9.2	8.8	8.9	9.6	0.5
Korea	..	0.0	21.1	19.7	18.9	17.0	17.4	16.7	15.8	16.1	17.3	0.3
Luxembourg	0.0	12.1	11.1	11.8	12.2	13.3	16.0	15.8	15.7	16.4	16.8	3.5
Mexico	..	..	15.9	20.8	16.9	18.7	19.1	20.2	20.4	18.0	19.7	1.0
Netherlands	0.0	14.4	16.2	16.5	15.6	17.4	19.6	18.9	19.4	18.5	18.3	0.9
New Zealand	0.0	0.0	0.0	22.4	22.8	24.9	23.8	24.4	23.5	25.4	27.6	2.7
Norway	0.0	20.5	18.2	18.8	21.2	19.7	18.1	18.2	19.1	17.1	18.6	–1.0
Poland	..	..	..	..	17.0	21.2	22.9	23.5	23.5	23.0	22.9	1.8
Portugal	..	0.0	0.0	19.6	22.2	24.8	27.1	26.9	26.1	25.8	23.2	–1.6
Slovak Republic	..	..	..	..	..	20.4	25.0	25.3	22.9	23.5	23.1	2.7
Slovenia	..	..	..	..	0.0	23.3	22.2	22.2	22.4	22.9	22.5	–0.7
Spain[2]	0.0	0.0	0.0	15.7	15.8	17.5	17.4	17.2	16.2	15.5	13.0	–4.5
Sweden	0.0	12.0	14.0	14.9	19.4	16.9	18.3	18.5	19.1	20.0	20.7	3.8
Switzerland	0.0	0.0	0.0	0.0	8.6	13.1	13.4	13.3	12.9	12.8	12.3	–0.7
Turkey	..	..	22.3	18.3	24.3	24.2	21.8	22.2	21.3	20.3	20.0	–4.2
United Kingdom	0.0	8.9	15.9	16.9	19.0	18.1	18.7	18.1	18.2	17.8	16.6	–1.5
United States	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Unweighted average[3]:												
OECD Total	**1.8**	**8.8**	**11.2**	**16.1**	**16.8**	**19.0**	**19.4**	**19.2**	**19.0**	**19.0**	**19.2**	**0.2**

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

Source: OECD, *Revenue Statistics 1965-2010*.

StatLink http://dx.doi.org/10.1787/888932718725

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

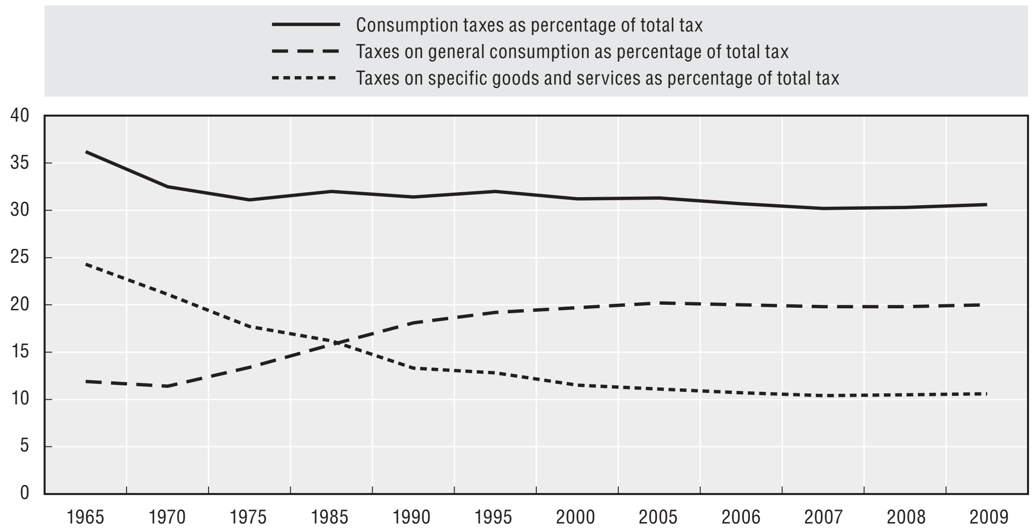

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Table 3.7. **Tax structures in the OECD area**[1]

	1965	1975	1985	1995	2005	2009
Personal income tax	26	30	30	27	24	25
Corporate income tax	9	8	8	8	10	8
Social security contributions[2]	18	22	22	25	25	27
(employee)	*(6)*	*(7)*	*(7)*	*(9)*	*(9)*	*(9)*
(employer)	*(10)*	*(14)*	*(13)*	*(14)*	*(14)*	*(15)*
Payroll taxes	1	1	1	1	1	1
Property taxes	8	6	5	6	6	5
General consumption taxes	12	13	16	20	20	20
(of which VAT)	*(2)*	*(9)*	*(11)*	*(17)*	*(19)*	*(19)*
Specific consumption taxes	24	18	16	13	11	11
Other consumption taxes[3]	2	2	2	3	3	3
Total	**100**	**100**	**100**	**103**	**100**	**100**

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

StatLink http://dx.doi.org/10.1787/888932718744

Key features of the VAT systems

Although most VAT systems build on the same core VAT principles, many differences exist in the way they are implemented in practice. This is illustrated by the existence of a wide range of lower rates, exemptions and special arrangements that are frequently designed for non-tax policy objectives. Such VAT preferential treatments are still widely used in OECD countries, for equity or social objectives (basic essentials, health, education, etc.) or for practical (*e.g.* financial services) or historical reasons (postal services, letting of immovable property, etc.).

There is no "ideal" system and tax design depends on local economic, political, social and historic conditions as well as the need for revenue to fund public services. Nevertheless, economic analysis suggests that the full potential of VAT may be better achieved by broadening the tax base and eliminating reduced rates.

Differences in the design and scope of VAT may also have an impact on international trade, in particular where differing proxies for determining the place of taxation for cross-border transactions are used, creating risks of double taxation, unintended non-taxation and distortion of competition. In this context, the OECD is developing its *International VAT/GST Guidelines* (see Chapter 2), which are designed to provide guidance to governments on the VAT treatment of the most common types of cross-border transactions to ensure that VATs interact consistently and facilitate international trade.

The rates of VAT

Evolution of VAT rates

After a period of relative stability between 1996 and 2008, the average standard rate of VAT has started to rise again since 2008 (see Table 3.8.). This suggests that many countries have increased their standard VAT rates over the last couple of years to raise more revenue to consolidate their budgets. Between 1 January 2009 and 1 January 2012, 16 OECD member countries have increased their standard and/or their reduced VAT rate. These changes have mainly occurred in European Union countries (Czech Republic, Estonia, Finland, Greece, Hungary, Ireland, Italy, Poland, Portugal, Slovakia, Spain and United Kingdom) and a few non-EU countries (Iceland, Mexico, New Zealand, and Switzerland). On the other hand, none have decreased their rates in the same period (while 6 had actually decreased their standard rate between 2000 and 2008 *i.e.* Canada, Czech Republic, France, Hungary, Israel and Slovak Republic). This resulted in a hike of one point of the unweighted OECD average standard VAT rate from 17.7% to 18.7% between 1 January 2008 and 1 January 2012.

Since 1 January 2012, further rate increases have been implemented in Czech Republic (from 20% to 21%); Finland (from 23% to 24%); Israel (from 16% to 17%); Netherlands (from 19% to 21%); Poland (from 23% to 24%) and (Spain from 18% to 21%). This would result in a further hike of the OECD average standard VAT rate from 18.7% to 19%.

There are major differences in standard rates between the OECD countries, with rates ranging from 5% in Japan and Canada (although most Canadian Provinces levy consumption taxes alongside the federal 5%) to 25% in Denmark, Iceland, Norway and Sweden and 27% in Hungary. Half of the member countries (17 out of 33) have standard rates between 15% and 21% and about one third have standard rates above 21% (10 out of 33 compared to only 4 in 2008).

The average standard rate of the 21 OECD countries that are members of the European Union (21.2%) is significantly above the OECD average (18.7%). Member states of the European Union are bound by common rules regarding VAT rates (VAT Directive 2006/112/EC). These rules provide that supplies of goods and services are normally subject to a standard rate of at least 15%. Two reduced rates of not less than 5% may be applied to a restrictive list of goods and services as well as to certain labour intensive services. However, a multitude of derogations has been granted to many member states.

Most countries that have increased their standard VAT rate have also increased the reduced rates, but in most cases to a lesser extent. In such cases, the increased difference between the standard and reduced rate(s) can lead to growing pressure on governments from a variety of interest groups lobbying for the introduction or maintenance of reduced rates. In addition, disputes about the correct application of differing VAT rates are likely to become more frequent as the amounts at stake become more important, while higher rates and higher differences between rates may also encourage tax avoidance and evasion. This may result in increased administrative burden and compliance costs, which tend to fall particularly heavily on smaller traders (where these are not exempt; see below).

Table 3.8. **VAT/GST rates**[1]

	Implemented	Standard rate													Reduced rates[2]	Specific regional rates
		1976	1980	1988	1992	1996	2000	2002	2004	2006	2008	2010	2011	2012		
Australia	2000	–	–	–	–	–	–	10.0	10.0	10.0	10.0	10.0	10.0	10.0	0.0	-
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	20.0	10.0/12.0	19.00
Belgium	1971	18.0	16.0	19.0	19.0	21.0	21.0	21.0	21.0	21.0	21.0	21.0	21.0	21.0	0.0/6.0/12.0	-
Canada	1991	–	–	–	7.0	7.0	7.0	7.0	7.0	7.0	5.0	5.0	5.0	5.0	0.0	12.0/13.0/14.5/15.0
Chile	1975	20.0	20.0	16.0	18.0	18.0	18.0	18.0	19.0	19.0	19.0	19.0	19.0	19.0	-	-
Czech Republic	1993	–	–	–	–	22.0	22.0	22.0	22.0	19.0	19.0	20.0	20.0	20.0	14.0	-
Denmark	1967	15.0	22.0	22.0	25.0	25.0	25.0	25.0	25.0	25.0	25.0	25.0	25.0	25.0	0.0	-
Estonia	1991	–	–	–	10.0	18.0	18.0	18.0	18.0	18.0	18.0	20.0	20.0	20.0	9.0	-
Finland	1994	–	–	–	–	22.0	22.0	22.0	22.0	22.0	22.0	22.0	23.0	23.0	0.0/9.0/13.0	-
France	1968	20.0	17.6	18.6	18.6	20.6	20.6	19.6	19.6	19.6	19.6	19.6	19.6	19.6	2.1/5.5/7.0	0.9/2.1/8.0/13.0 & 1.05/ 1.75/2.1/8.5
Germany	1968	11.0	13.0	14.0	14.0	15.0	16.0	16.0	16.0	16.0	19.0	19.0	19.0	19.0	7.0	-
Greece	1987	–	–	16.0	18.0	18.0	18.0	18.0	18.0	19.0	19.0	19.0	23.0	23.0	6.5/13.0	5.0/ 9.0/16.0
Hungary	1988	–	–	25.0	25.0	25.0	25.0	25.0	25.0	20.0	20.0	25.0	25.0	27.0	5.0/18.0	-
Iceland	1990	–	–	–	24.5	24.5	24.5	24.5	24.5	24.5	24.5	25.5	25.5	25.5	7.0	-
Ireland	1972	20.0	25.0	25.0	21.0	21.0	21.0	21.0	21.0	21.0	21.0	21.0	21.0	23.0	0.0/4.8/9.0/13.5	-
Israel	1976	8.0	12.0	15.0	18.0	17.0	17.0	17.0	18.0	16.5	15.5	16.0	16.0	16.0	0.0	-
Italy	1973	12.0	15.0	18.0	19.0	19.0	20.0	20.0	20.0	20.0	20.0	20.0	20.0	21.0	4.0/10.0	-
Japan	1989	–	–	–	3.0	3.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	-	-
Korea	1977	–	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	0	-
Luxembourg	1970	10.0	10.0	12.0	15.0	15.0	15.0	15.0	15.0	15.0	15.0	15.0	15.0	15.0	3.0/6.0/12.0	-
Mexico	1980	–	10.0	15.0	10.0	15.0	15.0	15.0	15.0	15.0	15.0	16.0	16.0	16.0	0.0	11.00
Netherlands	1969	18.0	18.0	20.0	17.5	17.5	17.5	19.0	19.0	19.0	19.0	19.0	19.0	19.0	6.0	-
New Zealand	1986	–	–	10.0	12.5	12.5	12.5	12.5	12.5	12.5	12.5	12.5	15.0	15.0	0	-
Norway	1970	20.0	20.0	20.0	20.0	23.0	23.0	24.0	24.0	25.0	25.0	25.0	25.0	25.0	0.0/8.0/15.0	-
Poland	1993	–	–	–	–	22.0	22.0	22.0	22.0	22.0	22.0	22.0	23.0	23.0	5.0/8.0	-
Portugal	1986	–	–	16.0	16.0	17.0	17.0	17.0	19.0	21.0	21.0	20.0	23.0	23.0	6.0/13.0	4.0/9.0/16.0 & 5,0/12,0/22,0
Slovak Republic	1993	–	–	–	–	23.0	23.0	23.0	19.0	19.0	19.0	19.0	20.0	20.0	10	-
Slovenia	1999	–	–	–	–	–	19.0	20.0	20.0	20.0	20.0	20.0	20.0	20.0	8,5	-
Spain	1986	–	–	12.0	12.0	16.0	16.0	16.0	16.0	16.0	16.0	16.0	18.0	18.0	4.0/8.0	2.0/5.0/9.0/13.0 & 4.0/5.0
Sweden	1969	17.65	23.46	23.46	25.0	25.0	25.0	25.0	25.0	25.0	25.0	25.0	25.0	25.0	0.0/6.0/12.0	-
Switzerland	1995	–	–	–	–	6.5	7.5	7.6	7.6	7.6	7.6	7.6	8.0	8.0	0.0/2.5/3.8	-

Table 3.8. **VAT/GST rates**[1] *(cont.)*

	Implemented	Standard rate													Reduced rates[2]	Specific regional rates
		1976	1980	1988	1992	1996	2000	2002	2004	2006	2008	2010	2011	2012		
Turkey	1985	–	–	10.0	10.0	15.0	17.0	18.0	18.0	18.0	18.0	18.0	18.0	18.0	1.0/8.0	-
United Kingdom	1973	8.0	15.0	15.0	17.5	17.5	17.5	17.5	17.5	17.5	17.5	17.5	20.0	20.0	0.0/5.0	-
Unweighted average		**15.4**	**16.6**	**16.9**	**16.4**	**17.8**	**18.0**	**17.9**	**17.9**	**17.7**	**17.7**	**18.0**	**18.5**	**18.7**		

Notes

1. Yearly data: the rates shown in the table are rates applicable on 1 January of each year. Reduced rates and specific rates applicable in specific regions are those applicable as at 1 January 2012
2. Reduced rates: reduced rates include zero-rates applicable to domestic supplies (*i.e.* an exemption with right to deduct input tax). This does not include zero-rated exports.

Country notes

Australia: The GST was introduced on 1 July 2000.

Austria: A standard rate of 19% applies in Jungholz and Mittelberg.

Canada: The following provinces have harmonised their provincial sales taxes with the federal Goods and Services Tax and therefore levy a rate of GST/HST of: British Columbia 12%; New Brunswick, Newfoundland and Labrador, Ontario: 13%; Nova Scotia 15%. Québec applies GST at a rate of 5% and Québec Sales Tax at a rate of 9.5% (applied on a tax base that includes GST). Other Canadian provinces, with the exception of Alberta, apply a provincial sales tax to certain goods and services. British Columbians have voted to return to a separate provincial sales tax regime effective April 1, 2013.

France: Rates of 0.9%; 2.1%; 8.0%; 13.0%; 19.6% apply in Corsica; rates of 1.05%; 1.75%; 2.1%; 8.5% apply to overseas departments (DOM) excluding French Guyana.

Greece: Rates of 5.0%; 9.0% and 16.0% apply in the regions Lesbos, Chios, Samos, Dodecanese, Cyclades, Thassos, Northern Sporades, Samothrace and Skiros.

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

Mexico: A VAT rate of 11% applies in the border regions (the border zone is up to 20 kilometers within the Mexican borders and the whole territories of the states of Baja California, Baja California Sur, Quintana Roo and part of the state of Sonora).

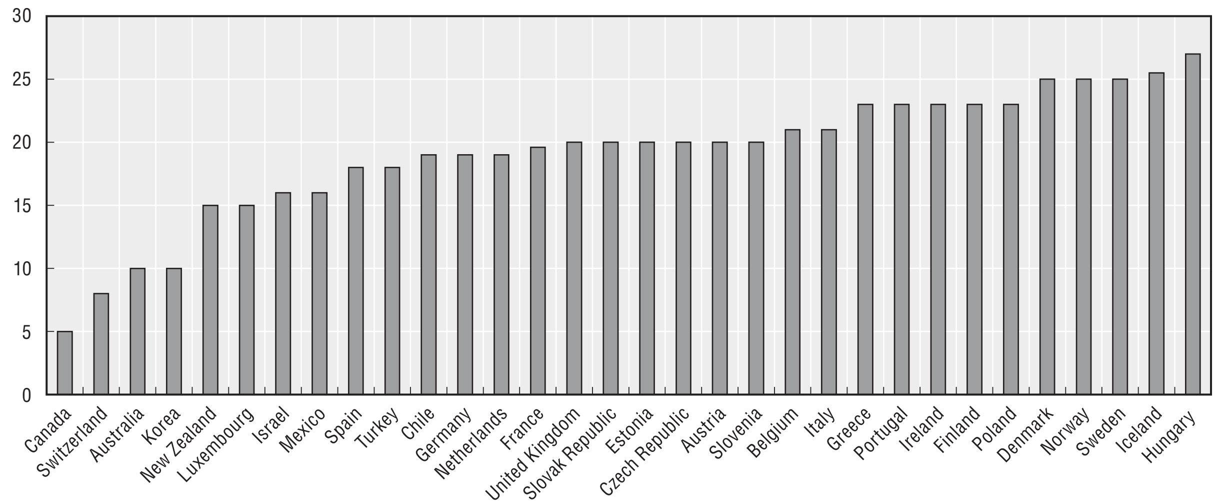
Portugal: The standard VAT rate in the Islands of Azores is 16%. In the Islands of Madeira the standard rate is 22% (since 1st April 2012); reduced VAT rates in Azores are 4% and 9%. In Madeira reduced rates are 5% and 12% (since 1st April 2012).

Spain: Rates of 2.0%; 5.0%; 9.0%; 13.0% apply in the Canary Islands. Rates of 05.% and 4% apply in Ceuta and Melila

Source: National delegates – position as at 1 January 2012.

http://dx.doi.org/10.1787/888932718763

Figure 3.2. **Standard rates of VAT**



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Fiscal devaluation

Beyond the need to address fiscal imbalances, countries are increasingly considering VAT increases as part of broader tax reforms designed to stimulate economic performance by shifting the balance of taxation more towards consumption and away from taxation on income, which discourages investment and entrepreneurship. Policies to stimulate competitiveness and employment often include reductions in labour costs through a reduction in social contributions, combined with an increase in VAT sufficient to preserve government revenue. The underlying objective is that lower labour costs would increase labour demand, reduce unemployment and improve international competitiveness. The reduction in the social security contributions is assumed to be fully passed on in producer prices, so that domestically produced products as well as exports become cheaper. The increase of VAT remains neutral on exports, as exports are free of VAT in accordance with the destination principle (see Chapter 1), whereas imports become more expensive as they are subject to domestic VAT at a higher rate. Thus, exports become cheaper abroad and imports more expensive at home. Economic analysis suggests that such "fiscal devaluation" policy may have a noticeable positive impact on trade performance in the short term (IMF, 2012). However, two essential conditions for the effectiveness of such measure are a fixed exchange rate and wage rigidity. With a flexible exchange rate, the increased demand for exports and reduced demand for imports caused by the fiscal devaluation would cause an appreciation of the nominal exchange rate that undoes the competitiveness impact of the measure. Even with a fixed exchange rate, the effects of fiscal devaluation would only be temporary if nominal wages would be increased in response to the increased VAT rate, which would over time again increase producer prices. In addition, if such fiscal devaluation is applied in many competing countries at the same time, the impact on the net exports of each is diminished (IMF, 2012). Notably the recession in Europe has renewed interest for fiscal devaluation as it is considered by some as one of the few options left for Euro zone countries with low economic performance, unemployment and high levels of debt to address. Indeed, the effect of fiscal devaluation is broadly equivalent to an exchange rate devaluation. However, there are few countries that have actually implemented a fiscal devaluation and country-specific factors influence heavily the success of a fiscal devaluation.

Rationale and impact of reduced VAT rates

With the exceptions of Chile and Japan, all OECD countries have one or more reduced rates (including domestic zero rates, also called "GST-free supplies" or "exempt with right to deduct input tax" that should not be confused with the zero-rating of exports) (see Table 3.8). Derogations from the application of the standard rate broadly fall within the following categories (see Table 3.11):

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

One of the reasons for the introduction of a differentiated rates structure is the promotion of equity (ensuring a fairer distribution of aggregate income). It is considered desirable to alleviate the tax on goods and services that form a larger share of expenditure of the poorest households (*e.g.*, basic food, water). Neither do most countries want to tax medicine, health services and housing at high rates.

Reduced VAT rates are also applied in order stimulate consumption of "merit goods" (*e.g.* cultural products and education) and goods with positive externalities (*e.g.* energy-saving appliances). However, other reduced rates seem less targeted. Amongst these are admissions to cultural events, including circuses and cinemas, hotel accommodation and cut flowers.

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

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

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

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

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

Distributional arguments in favour of VAT rate differentiation may be more persuasive where countries do not have the administrative capacity to provide more direct transfers to poorer households (Heady and Smith, 1995). In low-income countries, significant and stable differences in consumption patterns between high- and low-income groups allow for an easier and more efficient alleviation of poverty through exemptions from consumption taxes or low rates. In these countries, low-income families purchase most of their goods from local small-scale producers whose output either may be exempted or escape taxation, while high-income families are likely to buy more factory-made or imported goods that can be taxed more effectively (Copenhagen Economics, 2007).

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

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

(Copenhagen Economics, 2007). Even if there are positive externalities, it may be more effective to tax polluting goods in order to reduce the negative externalities that arise if these goods are consumed, instead of subsidising (by way of reduced rates) the consumption of more environmentally friendly goods.

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

On the other hand, this result may change (and administration costs will be reduced) when a broad-based single rate VAT (set at a reasonable rate) is combined with an appropriate VAT threshold and a well-targeted audit programme (OECD, 2010a). In addition, if the theoretical motivation for these reduced rates is to raise demand for low-skilled labour by boosting the demand for such services, other policy instruments such as labour market reforms (flexibility, administrative simplifications, etc.) could be more efficient in achieving this objective (Copenhagen Economics, 2007).

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

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

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

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

Exemptions

In addition to reduced rates, there is also an extensive use of exemption across countries (see Table 3.11). In this context, exemption means that no VAT is chargeable by the supplier and the supplier is unable to recover any input tax incurred in the process of making such supplies. In some jurisdictions, exemption is referred to as "input taxation". Although it is a significant departure from the basic logic of VAT, all OECD countries (with the exceptions of New Zealand and Turkey) exempt a number of specific sectors considered as essential for social reasons, in particular health, education and charities. In addition most countries also use exemptions for practical reasons (*e.g.* financial and insurance services, due to the difficulties in assessing the tax base) or for historical reasons (postal services, letting of immovable property, supply of land and buildings). Certain sectors that are exempt from VAT may be subject to other specific taxes (*e.g.* property, insurance, financial services).

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

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

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

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

Managing exemptions also involves higher administrative and compliance costs. As for differentiated rates structure, it may be difficult to distinguish between exempt and taxable supplies, in particular in such complex areas as financial services. Moreover, businesses that make both taxable and exempt supplies are faced with complex tax calculations. Their right to deduction of input tax must be allocated between the two kinds of sales either by an assessment of a global proportion of the taxable outputs by comparison with total outputs, or on the basis of actual use of inputs or some other method that is acceptable to the tax administration. This adds administrative and compliance burdens that should be taken into account when assessing the impact of exemptions.

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

Exemption of financial services

Financial (banking and insurance) services are generally exempt from VAT mainly because of the difficulty to assess the tax base on a transaction-by-transaction basis for the complex intermediation services that constitute the bulk of financial activity. Ideally, the VAT would be levied only on the intermediation charge, which reflects the actual value added created by the financial institution and not on the interest rate, premium or return that has to be paid by the financial institution's customers. However, in practice, this distinction is not easily made. Although taxing financial services under VAT would improve the efficiency of the system, it is often argued that, in the absence of a simple and robust enough approach to assessing the tax base, such taxation might lead to high tax compliance, administration and enforcement costs.

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

The exemption of financial services also creates cascading tax since the irrecoverable VAT embedded in the charges that banks make to their business customers cannot be recovered and will be carried through to final prices for domestic consumption. The incidence of the non-recoverable VAT can also affect profits in the financial sector and/or lead to higher prices for consumers depending on the degree of competition on the market.

One way of correcting this cascading effect would be to apply a zero rate to business-to-business financial transactions (as is the case to some extent in New Zealand). However, this might be a significant cost in terms of revenue foregone, especially in countries with major financial service sectors.

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

Exemption of health care

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

Thresholds

An exemption may be defined either in terms of particular goods and services (see above) or in terms of particular businesses. The most common example of the latter kind is the exclusion of small firms from the VAT system by a threshold below which they are (compulsorily or voluntarily) not required to charge and collect the tax (Table 3.10). Indeed, most OECD countries that operate a VAT (29 out of 33) allow small businesses to exempt their supplies on the condition that they do not deduct input tax. The consequences of such "individual" exemptions are equivalent to treating small businesses as non-taxable businesses. There are two kinds of thresholds: registration thresholds that relieve suppliers from both the requirement to register for VAT and to collect the tax; and collection thresholds for which taxpayers, even those below the threshold, are required to register for VAT, but are relieved from collecting the tax until they exceed the threshold. Relief from registration and/or collection may also be available to specific industries or certain types of firms (*e.g.* non-resident suppliers).

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

- Fifteen member countries have a relatively high threshold (more than USD 30 000): Australia, Austria, the Czech Republic, Estonia, France, Hungary, Ireland, Italy, Japan, New Zealand, Poland, the Slovak Republic, Slovenia, Switzerland and the United Kingdom.
- Fourteen member countries have a relatively low threshold (between USD 1500 and 30 000): Belgium, Canada, Denmark, Finland, Germany, Greece, Iceland, Israel, Korea, Luxembourg, Netherlands, Norway, Portugal and Sweden.

- Four member countries have no general exemption threshold: Chile, Mexico, Spain and Turkey.

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

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

Special VAT taxation methods

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

One of the most common methods is the reverse charge mechanism (see Chapter 1). Table 3.13 shows the increase in the use of this mechanism for cross-border supplies of services and intangible products between businesses (Iceland, Japan and Mexico are the only countries that do not use it). It is also used in the international trade in goods (including transactions within the framework of VAT warehouses) or when, for example, a foreign supplier installs or assembles goods in the country of the taxable customer. The main benefit of the mechanism is that the foreign supplier does not have to register and account for VAT in the customer's country. Reverse charge is also used for some domestic transactions such as work on immovable properties, leasing of means of transport and transactions in investment gold. In several cases, apart from the simplification objective, the mechanism is also used as a means of combating fraud.

Table 3.13 also shows that more than 80% of OECD member countries that operate a VAT (27 of 33) have systems of taxing the margin between purchase and selling prices rather than the selling price. These systems apply mainly to gambling, travel agencies, second-hand goods (including antiques) and works of art. Many countries have also implemented flat rate schemes to help minimise compliance costs for small businesses (*e.g.* hairdressers and farmers).

Restrictions to the right to deduct VAT on specific inputs

According to the VAT principles (see Chapter 1), VAT normally flows through businesses so that the final consumer, not the business, bears the burden of the tax. In domestic trade, VAT neutrality is achieved by the staged payment system: each business pays VAT to its suppliers on its inputs and receives VAT from its customers on its outputs. Input VAT incurred by each business is offset against output VAT so that the amount of tax to be remitted to tax authorities by each business is the net amount or balance of those two. In some cases, the result of the offset gives rise to a refund due by the tax authorities to the business. Examples include businesses that incur more tax on their inputs than is due on their outputs (such as exporters, as their output is free of VAT under the destination principle) and businesses whose purchases are larger than their sales in the same period (such as with new or developing businesses or seasonality).

Although the burden of VAT should not fall on businesses, the right to deduct input taxes is limited to the extent that those inputs are used for the taxable purposes of businesses. The right of deduction is legitimately denied in cases where inputs are used to make onward transactions that fall outside the scope of the tax such as exempt transactions (*e.g.* health care, financial services). This is also the case for input tax relating to purchases that are not wholly used for furtherance of taxable business activity, for example, when they are used for the private needs of the business owner or its employees (*i.e.* final consumption). All these limitations to the right of deduction are justified by the use businesses make of the related inputs and are perfectly consistent with the VAT principle.

However, in addition to the rules above, most OECD countries have legislation in place that provides for input tax deduction blocking on a number of goods and services because of their nature rather than because of their use by businesses, generally with a view to ensure (input) taxation of their *deemed* final consumption (see Table 3.12). Only six countries (Czech Republic, Denmark, Iceland, Israel, Mexico and Switzerland) have not implemented such limitations to the right of deduction.

Amongst the other 27 countries, input tax blockings on entertainment is the most widespread although the items included in that category may vary widely. Depending on countries, this concept may include restaurant meals, (alcoholic) beverages, reception costs, hotel accommodation, attendance at sporting or cultural events, gifts and transport services. The VAT connected to the use of cars is also often not deductible.

In a number of countries, the input VAT blocking is limited to a portion of the VAT incurred. For example, the right of deduction for the VAT incurred in relation to the use of cars by the employees of a business is limited to a fixed percentage. In some countries for example, only 50% of the VAT incurred is deductible, even if the car is fully used for business purposes.

The rationale behind those limitations is threefold: first, it avoids the administrative burden for the administration to control the actual use of such goods and services, which may be easily used for dual business/private purposes due to their very nature; second it is a way of reducing the risks for fraud and finally because such commodities are supposed to contain an element of "consumption" in the "real life" sense of the term. This would be the case for restaurant meals for example. However, this last justification may be considered inconsistent with the main features of the VAT system. Indeed, businesses (or their employees) never "consume" goods and services when used in the furtherance of a taxable activity.

VAT relief for goods imported by final consumers

The overarching purpose of a VAT is to impose a broad-based tax on consumption by households (see Chapter 1). As a result, all goods and services consumed by final consumers should be taxed under VAT. According to the destination principle (see Chapter 2), taxation should occur in the jurisdictions where consumers are located, *i.e.* on the domestic market. According to the same principles, VAT should be paid where consumers reside when they bring back goods from abroad in their luggage or when they order goods at a distance from a foreign seller. Mechanisms are in place in most countries to tax those flows of goods. Similarly, VAT relief mechanisms exist to relieve consumers from VAT in the country of export.

Experience shows that it is always more difficult to apply the destination principle to business-to-consumer trade than to business-to-business transactions. The main difficulty lies in the fact that consumers – essentially private individuals – are normally not registered for VAT purposes. It is also difficult to require foreign providers to register and account for VAT in jurisdictions where they have no presence whatsoever. For the cross-border trade in goods, customs have a key role to play since they are responsible for the collection of the tax at the border. However, controlling the flow of isolated goods (rather than containers) through borders in travellers' luggage or in postal consignments involves a very high collection cost compared to the value of the goods and hence the amount of tax incurred. Therefore, almost all OECD countries apply VAT collection thresholds on such imports considering that the costs of tax collection may actually exceed the tax that would be collected.

Low Value Consignment Relief

Most OECD countries apply a VAT relief arrangement for low value imports, sometimes known as *Low Value Consignment Relief*, to facilitate the transit of low value goods and to reduce the cost of tax collection. Table 3.15 shows that the thresholds vary widely across countries, from USD 10 in Denmark to USD 642 in Australia. In more than two thirds of OECD countries (23 out of 33), the threshold is between USD 20 and USD 50. However, 19 out of these 23 countries belong to the European Union where legislation[2] provides that member states must exempt from VAT the import of goods whose value does not exceed EUR 10. Member states may grant an exemption for imported goods with a value of more than EUR 10 but not exceeding EUR 22. EU member states may exclude from the low value import arrangements goods imported on mail order (France is the only EU country that makes use of this option). The exemption does not apply to alcoholic products, perfumes and toilet waters, tobacco or tobacco products. All EU member states that are members of the OECD have opted for the higher threshold of EUR 22, except Denmark that applies the lower threshold of EUR 10. The UK legislated to reduce the threshold from GBP 18 to GBP 15 from November 2011. Three countries (Chile, Israel and Turkey) have no threshold at all and tax in principle all import of goods, whatever their value.

Concerns have risen in a number of countries recently about the competitive disadvantage of this relief for domestic retailers. With the development of e-commerce, domestic retailers are increasingly facing competition from businesses setting up offshore structures to attack the market via the Internet with products that can be imported "tax free" under the Low Value Consignment Relief. Some countries are therefore considering a reduction of the threshold or the introduction of specific measures to counter abuse. The difficulty lies in the balance between the need for an appropriate revenue protection and avoidance of distortions of competition, which tend to favour a lower threshold and the need to keep the cost of collection proportionate to the relatively small level of VAT collected, which favours a higher threshold. At the time when most current low value consignment reliefs were introduced, Internet shopping did not exist and the level of imports benefitting from the relief was relatively small.

VAT relief for import/export of goods by individuals

Table 3.14 shows the thresholds for tax-free import of goods in the luggage of individual travellers. Again, huge differences exist amongst OECD countries, except within the European Union where common rules apply (although differences may appear when value is converted in USD due to the use of the Purchase Parity Power PPP exchange rates (see Annex 1).

Table 3.14. also shows the thresholds for VAT refunds for individual travellers upon exports.

Table 3.9. **Coverage of different VAT/GST rates**

	Domestic zero rate[1]	Lower rate
Australia	Most food and beverages for human consumption (excl. prepared food); most health and medical; education and students accommodation; child care; religious services; activities of charitable institutions; water (except supplied in, or transferred to, a container less than 100L); 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 subject to a (general) threshold of AUD 57 466; certain government services; - telecommunication supplies made under arrangements for global roaming in Australia.	–
Austria	–	Agriculture; forestry; books; food; hospitals; newspapers; art; culture; supply of wine by farmers (12%); water supply; refuse (waste) collection; sewage; dwelling; passenger transport; hotel accommodation; restaurant services (except drinks); medicine.
Belgium	Cars for disabled; newspapers and certain weeklies, certain recovered materials and by-products.	Agriculture; food; water distribution; pharmaceuticals; books; works of art, collectors' items and antiques delivered by their authors/creators or their heirs or imported; funeral services; devices for disabled; passenger transport; shows; hotels and camping sites; renovation of dwellings over 5 years old; private homes and establishments for disabled; subsidised institutional housing; coal and coke; some labour intensive services (small repair services); Under strict conditions and specific limitations as to the amount, reconstruction – subsequent to demolition works- leading to the construction of new private housing.
Canada	Medicine, basic groceries; certain financial services provided by financial institutions (usually to non-residents); certain agricultural and fishing products; medical devices; international organisations and officials; precious metals; sales of 25 cents or less made through mechanical coin-operated devices.	–
Chile	–	–
Czech Republic	–	Food; agricultural products; heating; personal transport; medicine; art; cultural services; books; newspapers; equipment and repair for disabled; supply of water; disposal or waste water; accommodation; construction of private dwellings and social houses; health care and domestic care services; cleaning in households; funeral; sport activities.
Denmark	Newspapers and periodicals.	First time sale of products of artistic work valued over 300 000 DKK (5%).
Estonia	–	Books; newspapers and periodicals; medicinal products; medical equipment or devices for disabled; accommodation services.
Finland	Printing services for certain membership publications; certain vessels.	Food; non-alcoholic drinks; animal feed; food and non-alcoholic drinks served in restaurants; 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; copyrights to literary and artistic works; subscribed newspapers and periodicals.
France	–	Gas; electricity; most food products and drinks (except alcoholic beverages); medicine; pharmaceutical products; equipment for disabled; books; hotels; entertainment; author's rights; passengers transport; accommodation; farm products; gardens, plants and flowers; books; catering; newspapers; water; work on dwellings over 2 years old under certain conditions; refuse (waste) collection; sewage.

Table 3.9. **Coverage of different VAT/GST rates** *(cont.)*

	Domestic zero rate[1]	Lower rate
Germany	–	Food; books; newspapers; plants; flowers; devices for the disabled; certain cultural events; museums; zoos; circuses; charitable work if not exempt; author's rights; passenger transport by ship (only for passenger transport within a municipality or if the distance covered is not more than 50 km) and local public passenger transport.
Greece	–	Electricity; natural gas; district heating; passengers transport and their luggage; foodstuffs (excluding beverages, alcoholic products, fruit and vegetable juices, aerated waters for human and animal consumption); live animals; seeds; plants and ingredients used in the preparation of foodstuffs; fertilisers; water supply; pharmaceutical products; medicine (if not exempted); medical equipment and other appliances for the disabled persons; products used for contraception and sanitary protection: admission to shows, cultural and sporting events; agricultural services; hotels and similar accommodation; charitable work (if not exempted); funeral services and supplies of goods related thereto; collection and treatment of waste; authors and artists and the rights related to them; books; newspapers and periodicals; some labour-intensive services (domestic care services, clothing, shoes and leather goods repair; bicycle's repair; renovation and repair of private dwellings); plants and flowers; wood for use as firewood, goods intended for use in agricultural production
Hungary	-	Medicine, certain equipment for the blind, books; newspapers; musical notes; district heating services, milk and dairy products, products containing cereals, flour, starch or milk, provision of accommodation, services supplied by performing artists.
Iceland	Ship-building and maintenance of ships and aircraft; services to foreign fishing vessels related to landing and sale of fish in Iceland; direct payments to farmers.	Food and beverages (excluding alcohol); books including music books; audio recordings of books. CD's and similar media with text as well as electronic version of such books; magazines, newspapers and countryside- and district newspapers; periodicals; subscriptions to radio and TV; hotels; hot water, electricity and fuel oil used for the heating of houses and swimming pools; admission tolls to land transportation projects; CD disks, records, magnetic tapes and other similar means of music recordings, other than visual records. Electronic version of music other than visual.
Ireland	Books; children's clothing and footwear; oral medicine; certain medical equipment; food products; seeds; fertiliser; certain aircraft and sea-going vessels; footwear for children.	Gas; newspapers and certain periodicals; fuel for certain purposes; electricity; works of art; veterinary services; agricultural services; short-term car and boat hire; driving instruction; photographic prints; concrete; holiday accommodation; restaurant/hotel meals; building services; immovable goods; repair services; waste disposal; certain foods; tour guide services; admission to cinemas/certain musical performances and sporting facilities; recreational and sport services; certain nursery and garden centre stock.
Israel*	Hotel accommodation for foreign tourists; rental of a private motor vehicle to a tourist to drive himself; transportation of tourists in a private motor vehicle or a bus; sale of fruits and vegetables.	-
Italy	–	4%: certain food; medications and health products/services for the disabled; supply of construction, renovation and maintenance work for residential housing; books; newspapers; weekly magazines. 10%: combustible gas for cooking; electricity; gas; urban waste; purification stations; livestock meat and fish; renewable-source energy; works of art; admission to shows and cultural events; transport; letting of immovable property by building enterprises.
Japan	–	–
Korea	Supply of certain machinery and materials for agriculture; fishery; livestock and forestry; supply of mineral oil used for certain purposes in agriculture, fishery and forestry; certain equipment for the disabled.	–

Table 3.9. **Coverage of different VAT/GST rates** *(cont.)*

	Domestic zero rate[1]	Lower rate
Luxembourg	–	Accommodation; admission to cultural and sporting events; agriculture; author's rights; books; certain medical equipment; aids and other appliances normally intended to alleviate or treat disability; certain labour intensive services; children's clothing; construction of dwellings; electricity; foodstuffs for human and animal consumption; funeral services; gas; newspapers; passenger transport; periodicals; pharmaceutical products; renovation of dwellings over 20 years old; restaurant services; services supplied in connection with refuse collection and waste treatment; use of sporting facilities; water; works of art delivered by their authors/creators of their heirs or imported.
Mexico	Sale of non industrialised animals and vegetables (except rubber); patent medicines; milk; water (except for bottles of less than 10 liters); ice; food (except sale of processed food in restaurants and food establishments); agricultural equipment; machinery and fishing boats; wholesale of gold; gold bullion (with a content of at least 80% of gold) and jewellery; some agricultural and fishing services; magazines, books and newspapers printed by the taxpayer himself; domestic water supply; hotel services provided to foreign tourists participating in congresses, conventions and trade shows; call centre services for telephone calls originated abroad, as long as the services are contracted and paid a foreign resident without a permanent establishment in Mexico.	Sale of goods and services in the border regions.
Netherlands	–	Accommodation; agricultural inputs; books; lending of books; catering; food; goods and services for the disabled; medicine; newspapers; magazines; passenger transport (except passenger transport by air); water; entrance fees for sports events; amusement; parks; museums; cinemas; zoos and circuses; cut flowers and plants; restaurant and hotel meals; aids for the visually disabled; use of sports accommodation; art and antiques; hotel and holiday accommodation; certain labour intensive services like services for the maintenance and repair of dwellings; cleaning of dwellings and hairdressing.
New Zealand	Supply of taxable activity (business) as a going concern; supply of fine metal (gold, silver or platinum) from a refiner in fine metal to a dealer in fine metal; supply by local authorities of the local authorities petroleum tax; supply of financial services to registered GST businesses.	Long-term stay in a commercial dwelling; certain services provided as part of the right to occupancy (taxed at the standard rate on 60% of the value of the supply).
Norway	Books; newspapers; certain periodicals and publications; electric power and energy supplied from alternative energy sources for household use in the counties of Finnmark, Troms and Nordland; electric motor vehicles; second-hand vehicles covered by re-registration tax; services in the form of the construction, maintenance, etc of public roads and railways for public passenger transport; supply of certain ships, aircrafts and drilling platforms and hiring out such vessels; services that are directly related to the construction of embassy buildings (to final consumer); goods and services to specific international military forces and command units; supply of taxable activity (business) as a going concern; supply of human organs, blood; supply by funeral directors of services relating to the transportation of deceased persons.	Accommodation, passenger transport and transport of vehicles by ferries of other vessels in connection with the domestic road network; public broadcasting; admission to sporting events, museums, cinemas and amusement parks (8%); foodstuffs (15%).
Poland	–	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.
Portugal	–	6%: essential foodstuff; water; medicine; devices for the disabled; medical services (if not exempt); books; newspapers; passenger transport; hotels and similar; social housing; some goods used in agriculture. 13%: some other foodstuffs; diesel fuel for agriculture; still wine; machinery mainly used in agricultural production; admission to cultural events.

Table 3.9. **Coverage of different VAT/GST rates** *(cont.)*

	Domestic zero rate[1]	Lower rate
Slovak Republic	–	10%: Radioactive elements and isotopes and compounds – only for health service; Pharmaceutical products; Diagnostic or laboratory reagents; Printed books, brochures, leaflets and similar printed matter; books for children; music; certain medical and sanitary means; orthopaedic appliances; contact and spectacle lenses; certain means for blind and partly blind persons, hard-of-hearing persons and hard health-disabled persons.
Slovenia	–	Foodstuff (for human and animal consumption); preparation of food; water; medicine, devices for the disabled; passenger transport; books, newspapers and periodicals; admission to cultural and sporting events; author's rights; import and supply of certain works of art, collectors' items or antiques; social housing; renovation and maintenance work of residential housing not provided as part of a social policy; livestock; hotel accommodation; use of sporting facilities, supplies by undertakers an cremation services; public hygiene services.
Spain	–	Books; social accommodation; catering; certain cultural and entertainment services; food (for human and animal consumption); hotels; restaurants; supplies to the disabled; medicines and other medical devices (e.g. lenses); transport; newspapers; public amenities; burial services; agriculture and forestry products used as food; goods used in agricultural and forestry undertakings, including flowers and plants; hairdressing and complementary services; minor work on private housing; cleaning; waste treatment; cleaning of public sewage; water; supply of new buildings for private and social housing; the supply of cleaning and maintenance services.
Sweden	Commercial aircraft and ships and certain services related to these; aircraft fuel; prescribed medicine; printing of certain membership publications.	Accommodation; food and restaurants services;passenger transport; works of art owned by the originator; import of antiques, collector's items and works of art; culture (theatre, cinema, etc.); author's rights; books; newspapers; magazines; zoos; commercial sports events; commercial museums.
Switzerland	Supply of services by travel agents and organisers of events, if they make use of supplies of goods and services by third parties that are provided abroad; the supply of goods to persons departing abroad or arriving from abroad by air; certain supplies of goods and services to international airlines; supplies of some specific sorts of gold.	Water in pipes, food, cattle, poultry, fish, grains, seeds, planting roots and bulbs, living plants, cuttings, scions and cut flowers and branches, animal feed, silage acids, scatterings for animals, fertilisers, pesticides, mulch, medication, newspapers, magazines, non-commercial services of radio and television companies, certain supplies in connection with agricultural production, accommodation services. Optional taxation of the following supplies exempt from the tax without credit: certain cultural services supplied directly to the public, considerations demanded for sporting events, cultural services and the supply of works by their creators.
Turkey	Supply of ships, aircraft, and rail transportation vehicles; supply of services related to the manufacture, repair, maintenance of such vehicles; supply of services to ships and aircraft at harbours or airports; supply of goods and services for the exploration, management and refining of gold, silver, platinum, and oil; supply of machinery and equipment to persons who have an investment incentive document; goods and construction works for the construction, restoration and enlargement of seaports and airports; some goods and services related to national security; international roaming services supplied in Turkey according to the reciprocity principle; supply of goods that are listed in the second list of excise duty tax law to the prime ministry central organisation; the first supply of product certificate that are drawn up according to agricultural product license warehousing law via commodity exchange market; exemption for delivery of equipments produced for the disabled.	Agricultural products; leasing; second-hand cars; newspapers; books; magazines; blood and blood component; funeral services; basic foodstuffs; cinema; theatre; opera and ballet tickets; private educational service; stationery goods; blood products and vaccines; some medical products and services; ambulance services; medicine; medical equipment; waste water services; seeds; accommodation services; supply of residential housing (under 150 m2); textile and confection products and custom manufacturing of them.
United Kingdom	Certain services and goods supplied to charities; children's clothing; food; passenger transport; books; newspapers; domestic sewage and water; prescribed drugs; medicine; certain aids and services for disabled people; new housing, including the construction of new houses; residential and some charitable buildings; alterations to listed buildings.	Fuel and power for domestic and charity use (5%); certain energy saving materials supplied together with fitting services to recipient of benefits; certain grant-funded installations of heating equipment; children car seats; certain pharmaceutical products.

* Israel: The statistical data for Israel are supplied by and under the responsibility of the relevant Israeli authorities. The use of such data by the OECD is without prejudice to the status of the Golan Heights, East Jerusalem and Israeli settlements in the West Bank under the terms of international law.
Source: National delegates; position as at 1 January, 2012.

Table 3.10. **Annual turnover concessions for VAT/GST registration and collection**

	National currency	Registration/collection thresholds[1]						Registration/collection allowed prior to exceeding threshold[2]	Minimum registration period[3]	PPP Exchange rates
		General threshold		Reduced threshold for suppliers of services only		Special threshold for non-profit and charitable sector				
		Nat. curr.	USD (4)	Nat. curr.	USD	Nat. curr.	USD			
Australia	AUD	75 000	48 123			150 000	96 247	Yes	1 year	1.56
Austria	EUR	30 000	35 309					Yes	5 years	0.85
Belgium*	EUR	5 580	6 443					Yes	None	0.87
Canada	CAD	30 000	24 402			50 000	40 670	Yes	1 year	1.23
Chile*	CLP	None	0	See note		See note		Yes	1 year	406.55
Czech Republic	CZR	1 000 000	71 840					Yes	1 year	13.92
Denmark	DKK	50 000	6 399					Yes	None	7.81
Estonia	EUR	16 000	30 075					Yes	None	0.53
Finland	EUR	8 500	8 983					Yes	None	0.95
France	EUR	81 500	94 006	32 600	37 602			Yes	2 years	0.87
Germany	EUR	17 500	21 927					Yes	5 years	0.80
Greece	EUR	10 000	14 133	5 000	7 067			Yes	5 years	0.71
Hungary*	HUF	5 000 000	38 494					Yes	1 year	129.89
Iceland	ISK	1 000 000	7 263					Yes	None	137.69
Ireland	EUR	75 000	89 579	37 500	44 790			Yes	None	0.84
Israel	IS	70 605	19 042							3.71
Italy	EUR	30 000	37 575					Yes	None	0.80
Japan	JPY	10 000 000	93 566					Yes	2 years	106.88
Korea	KRW	24 000 000	29 170					Yes	None	822.78
Luxembourg	EUR	10 000	10 719					Yes	5 years	0.93
Mexico	MXN	None	0							8.15
Netherlands*	EUR	1 345	1 616					No	None	0.83
New Zealand	NZD	60 000	39 388					Yes	None	1.52
Norway	NOK	50 000	5 196			140 000	14 549	Yes	2 years	9.62
Poland	PLN	150 000	80 014					Yes	1 year	1.87
Portugal*	EUR	10 000	15 826					Yes	None	0.63
Slovak Republic	EUR	49 790	95 833					Yes	1 year	0.52
Slovenia	EUR	25 000	39 685					Yes	5 years	0.63
Spain	EUR	None	0							0.71
Sweden	SEK	30 000	3 366							8.91
Switzerland	CHF	100 000	66 832			150 000	100 248	Yes	1 year	1.50
Turkey	TRY	None	0							1.04
United Kingdom	GBP	73 000	110 744					Yes	None	0.66

Notes:
1. **Registration/collection thresholds** identified in this table are general concessions that relieve suppliers from the requirement to register and/or to collect for VAT/GST until such time as they exceed the threshold. Except where specifically identified, registration thresholds also relieve suppliers from the requirement to charge and collect VAT/GST on supplies made within a particular jurisdiction. Relief from registration and collection may be available to specific industries or types of traders (for example non resident suppliers) under more detailed rules, or a specific industry or type of trader may be subject to more stringent registration and collection requirements. In countries marked by *, a collection threshold applies: all taxpayers are required to register for VAT/GST, but will not be required to charge and collect VAT/GST until they exceed the collection threshold. Thresholds shown in this table apply to businesses established in the country. In most countries, the registration threshold do not apply to foreign businesses i.e. businesses having no seat, place of business, fixed establishment, domicile or habitual residence within the country
2. "Yes" means a supplier is allowed to voluntarily register and collect VAT/GST where their total annual turnover is less than the registration threshold.
3. Minimum registration/collection periods apply to general concessions. This period is the minimum term during which the concession is applied to taxpayers which have opted for it.
4. **Exchange rates** for conversion into USD are Purchase Parity Rates (PPPs) for private consumption. Data is taken from OECD Dotstat *http://stats.oecd.org/index.aspx?queryid=27286*. For further detail see *www.oecd.org/std/ppp*.

Country notes

Chile: Despite that all taxpayers are required to register and obtain a taxpayers' identification number that not only serves for VAT purposes but for all types of taxes, small businesses, craftsman and small service providers can be subject to a special regime in accordance to which they charge VAT for a fixed amount based on the average level of income for the last 12 months, provided they do not exceed the annual collection threshold of 20 Monthly Tax Unit (CLP$ 782.760 or USD$ 1.565 approx.). The collection threshold does not apply to legal entities but only to individuals. This system must be adopted for at least 12 months after which the taxpayer can return to the ordinary regime.

Czech Republic: The registration threshold does not apply to fixed establishments in the Czech Republic of non-resident businesses.

Denmark: A higher threshold of DKK 170 000 (EUR 22 840) applies to the blind, and a threshold of DKK 300 000 (EUR 40 300) applies to the first sale of works of art by their creator or his successors in title. For the purposes of the latter exemption, the threshold of DKK 300 000 must not have been exceeded in the current or preceding year.

France: Specific thresholds apply for certain activities. EUR 41 700 for lawyers, writers and artists; EUR 32 000 for providers of services other than hotel accommodation and restaurants.

Greece: The registration/collection thresholds do not apply to certain categories of taxable persons, such as freelancers, taxpayers whose annual turnover from B2B transactions is at least 60%, exporters, technicians who render services in relation to maintenance or repair of buildings and construction sites, such as painters, electricians and plumbers.

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

Italy: Self-employed that have an income lower than EUR 30 000 can choose the micro-sized taxpayers scheme (regime dei contribuenti minimi). It involves exemption from IRAP (Regional tax on productive activities) and VAT and a 20% tax rate in place of the ordinary PIT. As from 1 January 2012, such scheme is intended only for individuals under 35 years of age who have started up new business activities as self-employed or enterprises since 31 December 2007. The exemptions from IRAP and VAT have been confirmed, while ordinary personal income taxes will be replaced by a 5% tax.

Japan: Businesses (companies and individuals) are not required to register and account for Consumption Tax (VAT) during the first two years of establishment (except for companies whose capital is of JPY 10 000 000 or more. In this case they should be registered for Consumption Tax from the beginning). After this two year period, whether businesses should be registered as a taxable person is determined every year based on their annual taxable turnover for the accounting period/tax year two years before the current accounting period/tax year. If that turnover has exceeded JPY 10 000 000, the business should be registered. Businesses can opt for a voluntary registration for Consumption Tax, even if their turnover is below the threshold. In that case, the businesses have to remain registered for two years.

Netherlands: The amount of EUR 1 345 is based on the special scheme for small businesses. It is not a threshold based on turnover but on net annual VAT due. If the net annual VAT due (VAT on outputs minus VAT on inputs) is EUR 1 345 or less, the taxpayer gets a full VAT rebate and no VAT is due to the Tax Authorities. In this case, the taxpayer has no obligation to file VAT returns. However, businesses under the small business scheme must still register as VAT taxpayers. In that sense, there is no threshold for registration for VAT purposes. If the net annual VAT due is more than EUR 1 345 but less than EUR 1 883, the taxpayer gets a partial VAT rebate. In this case, the taxpayer must file a VAT return.

Norway: A higher threshold of NOK 3 000 000 applies for admission to sporting events.

Portugal: The collection threshold does not apply to commercial legal entities. For small retailers that fulfil some specific conditions the collection threshold is EUR 12 500.

United Kingdom: the registration threshold in effect from 1 April 2010 up to 31 March 2011 was GBP 70 000. It went up to GBP 73 000 with effect from 1 April 2011.

Source: National delegates; position as at 1 January 2012.

StatLink http://dx.doi.org/10.1787/888932718782

Table 3.11. **VAT/GST Exemptions**[2]

	Exemptions	Taxation of "common exemptions"[3]
Australia	Financial services; residential rent and residential premises (other than new residential premises); certain supplies of precious metals; school canteens operated by non-profit bodies (optional); certain fund raising events conducted by charitable institutions.	Domestic postal services; sporting services; cultural services excluding religious services (zero rate); insurance and reinsurance excluding health insurance (zero rate); gambling (including lottery tickets and betting); supplies of land and buildings (except certain supplies of farm land and supplies of going concerns – zero rate; and existing residential premises – exempt).
Austria	Common exemptions.	Letting (private housing).
Belgium	Common exemptions; legal services provided by lawyers.	–
Canada	Standard exemptions; legal aid; ferry; road and bridge tolls, child and personal care services.	Lotteries and gambling, supply and leasing of commercial land and buildings, domestic postal services.
Chile	Common exemptions; commissions earned by the Regional and Metropolitan Housing and Urbanization Services and Social Security Institutions on mortgages; income such as wages, salaries and directors fees if taxed with income tax, other compensation earned by dependant employees and independent contractors that is not considered as taxable income; income obtained by independent professionals, where the physical effort is more relevant than the capital or materials used; construction activity; transport and related services, if certain requirements are met; certain qualified Income obtained from services rendered to persons domiciled or resident abroad; income obtained by hotels relating to services rendered to foreign tourists; fees paid for managing retirement savings earned by specific authorized institutions; broadcasting and television networks excluding income from advertisement.	Postal services not rendered by "*Servicio de Correos y Telégrafos de Chile*"; Income from artistic shows or plays not sponsored by the Ministry of Education; income from certain circus and sports events if certain requirements are not met.
Czech Republic	Common exemptions; public television and radio.	Certain cultural services (*e.g.* admission to theatres, cinemas, concerts, etc subject to reduced rates); sporting services provided by others than by non-profit making organisations; supply of construction land and of new buildings; option to tax letting of buildings.
Denmark	Common exemptions; passenger transport; burials; sale of products of artistic work valued under DKK 300 000; travel agents.	Theatre; concerts and cinema.
Estonia	Common exemptions.	Immovable property, except dwellings (optional); financial services (optional); cultural services.
Finland	Common exemptions; services of performers; copyright to literary and artistic works; certain transactions by blind people; public cemetery services; self-picked natural berries.	Cultural services; letting of commercial buildings in certain cases (optional).
France	Common exemptions; construction, improvement, repair and maintenance work on monuments; cemeteries and graves commemorating war victims undertaken for public authorities and non-profit bodies; Commodity futures transactions carried out on a regulated market; Services rendered by resource consortia to their members composed of natural or legal persons that are VAT exempt or not subject to VAT.	Letting of immovable property (full taxation for letting of developed immovable property and land for professional use; option to tax for letting of undeveloped immovable property for professional use in certain circumstances and letting of land and buildings for agricultural use); transport services for sick/injured persons in vehicles not specially equipped for this purpose and/or carried out by persons who do not have administrative certification; recreational and sporting services; cinemas, concerts and theatres.
Germany	Common exemptions.	
Greece	Standard exemptions; Greek Post Office (EL.TA.) services and the supply of goods incidental thereto; national radio and TV activities other than those of commercial nature; hospital and medical care supplied by public or non-profit making organizations; medical and paramedical professions; welfare and social security works; supply of immovable property excluding that of new buildings; postage and other similar stamps not disposed to collectors; supply of goods used exclusively in an exempted activity or excluded from VAT, which was not allowed to deduction.	Postal services not rendered by the Greek Post Office (EL.TA); Cultural services (under conditions – admission to theatres, cinemas, concerts, etc.: lower rate); hospital and medical care supplied by profit organisations charitable work when provided by profit organisations; sporting services supplied by profit organisations; supply of new buildings; letting of immovable property for use as commercial centre (optional taxation).
Hungary	Common exemptions; public radio and TV broadcasting (except for commercial activities).	Building land, supply of new buildings (taxation of further supplies and letting of immovable property is optional); certain cultural services (*e.g.* admission to theatres, cinemas, concerts), certain sporting services (*e.g.* swimming pool services, entrance tickets to sporting events).
Iceland	Common exemptions; sports, passenger transport, authors, composers, burials and church-related services; medical and social services; cultural services; postal services; insurance activities; financial services; lotteries and betting pools.	

Table 3.11. **VAT/GST Exemptions**[2] *(cont.)*

	Exemptions	Taxation of "common exemptions"[3]
Ireland	Common exemptions; passenger transport; broadcasting; supply of water by public authorities; admissions to sporting events; funeral undertaking; travel agents/tour operators.	Letting of commercial immovable property (subject to the option for taxation by the landlord); supply of land and buildings; recreational and sporting services.
Israel*	Rentals for residential purposes for a period of not more than 25 years, the sale of that part of a building which was approved as a rental building, transactions of an exempt dealer, other than transactions that are sales of real estate, the sale of an asset, on which input tax in respect of its acquisition or importation could not be deducted lawfully at the time of its acquisition or importation, deposits of money by a dealer with a financial institution or extension of a loan by a dealer to a financial institution, goods whose import is tax exempt in certain cases	
Italy	Common exemptions; taxi; burials.	Supply and letting of land; supply of commercial buildings if sold within four years from their construction or if sold to persons not entitled to deduction (standard rate); residential housing taxed only when let by building enterprises within four years from their construction (at lower rate of 4% and, in case of non residential housing and luxury housing at a rate of 10%). Medical care is exempt only if earmarked to elderly or poor people, or to people with AIDS.
Japan	Common exemptions; social welfare services; sale of certain kinds of equipment for the disabled people; administrative services; alienation of securities, textbooks, tuition fees.	Postal services; supply of buildings; cultural and sporting services provided by others than non-profit organisations; letting of immovable property by business.
Korea	Common exemptions; certain public transport; supply of water and certain coal; mineral oil used for certain purposes in agriculture and fishery; funeral undertaking; certain personal services similar to labour; books, newspapers and magazines; broadcasting services; supply of farm, marine and forest products.	Rental and supply of commercial buildings; commercial cultural services; gambling in licensed clubs.
Luxembourg	Common exemptions.	–
Mexico	Common exemptions; gold and silver coins; shares; foreign currency; retailing of gold bullion with a content of at least 99 % gold; authors' rights; public transport of passengers by land (except by train); sale of used movable property (with exception of those sold by companies); professional medical services.	Postal services; insurance services (except life and agricultural insurance); transport of sick/injured persons; private hospital and medical care, sports services; financial services for consumer and personal credits; certain kinds of public like movie tickets; supplies of land and buildings (except housing) and certain fund raising events.
Netherlands	Common exemptions; burials; cremations; public broadcasting; sports clubs; the services of composers, writers and journalists.	Cultural services (mostly lower rate); letting of immovable property other than houses (only at combined request by letter and hirer); supply of immovable property (only at the combined request of supplier and purchaser); the use of sports accommodation; recreational and sporting services; admission to cinemas, concerts and theatres; sporting events; museums and zoological gardens.
New Zealand	Financial services; supply of residential accommodation in a dwelling; fine metal; supply by a non-profit body of donated goods and services.	Postal services; human blood, tissues and organs; hospital and medical care; transport of sick/injured persons; dental care; charitable work; certain fund raising events; education; non-commercial activities of non-profit making organisations (other than unconditional gifts); cultural services; sporting services; insurance and reinsurance (other than life insurance and reinsurance); letting of immovable property (other than residential accommodation); betting, lotteries and gambling; supply of land and buildings (other than land and buildings which have been used for the provision of residential accommodation for five years or more).
Norway	Common exemptions; certain alternative treatments/fringe medicine; burials; stamps and coins for collection purposes; management services by a housing association to an affiliated housing cooperative; services in the form of membership of a board, supervisory board, committee, council or similar if the consideration is included in the employer's National Insurance contributions; services in the form of offsetting emission allowances	Postal services; infrastructural services within the passenger transport sector; admission to sporting events, museums, cinemas and amusement parks; letting of commercial buildings (optional).
Poland	Common exemptions; 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	Common exemptions; agriculture.	–

Table 3.11. **VAT/GST Exemptions**[2] *(cont.)*

	Exemptions	Taxation of "common exemptions"[3]
Slovak Republic	Common exemptions; public television and radio; services supplied to members; sale of postal and fiscal stamps.	Supply of a construction, including the supply of building land, on which the structure is constructed, provided that the supply is made within five years after the first approval of the building or a part thereof based on which the building or a part thereof was approved for use or within five years from the day when the building or a part thereof was put in use for the first time; option to tax supply and letting of immovable property; training, educational, sporting and cultural services provided by others than by non-profit making organisations.
Slovenia	Common exemptions; public television and radio.	Supply of new buildings; admission to cultural and sporting events; educational, sporting and cultural services, provided by profit making organisations; option to tax letting of buildings.
Spain	Common exemptions; copyright to literature and works of art.	Some cultural services provided to paying consumers; letting of commercial buildings; building land; supply of new buildings.
Sweden	Common exemptions; public television and radio; public cemetery services; social services; creative artists.	Postal services; most cultural services; letting of commercial buildings in certain cases (optional).
Switzerland	Common 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	Importation of goods for cultural and educational purposes or for social purposes; restoration project related to cultural object; delivery of goods and provision of services to military factories, shipyards and factory plants; exempted taxpayers according to Income Tax Law; mergers and transfer according to Corporate Tax Law; transactions on leasing of real properties not included in economic enterprises; banking and insurance transaction; transactions of the Mint House and the Stamp Printing House; supply of precious mine and waste; supply of water used in agriculture; services supplied in free trade area; transportation of foreign oil and gas by pipelines; supply of land and workplace for organised industrial zone; supply of goods within the scope of financial restructuring; the transactions of Savings Deposit Insurance Fund; news service provided to General Directorate of Press and Information; renting work place in customs area; delivery and leasing of immovable property by the Treasury ; transfers and deliveries resulting from the sales of shares and real properties that have been included for at least two years in the assets of institutions; transfer of movable and immovable assets and intangible assets to the asset leasing company and the leasing of assets by asset leasing company.	Private education; private cultural services and sporting services; private hospital and medical care and dental care; human blood; transport of sick/ injured persons(lower rate); postal services; sale of commercial buildings; letting; radio and television broadcasting; betting, lotteries and gambling; financial services that made by financial corporation; supply of land and buildings included in economic enterprises (standard rate); public hospital and medical care and dental care; public education; public cultural services and sporting services; tissues and organs; certain charitable work that is made by public organization or certificated institution; insurance and reinsurance; letting of immovable property not included in economic enterprises (exemption); non-commercial activities of non-profit making organisations; certain fund-raising events(non-taxable).
United Kingdom	Common exemptions; burials and cremations; sports competitions; certain luxury hospital care; works of art.	Standard rated: freehold sales of new commercial buildings (standard rated for three years from completion date) and "option to tax" for other ordinarily exempted supplies of commercial buildings; gaming machines and certain gambling in licensed clubs Zero rated: New housing, including construction of new houses; residential and some charity buildings.

* Israel: The statistical data for Israel are supplied by and under the responsibility of the relevant Israeli authorities. The use of such data by the OECD is without prejudice to the status of the Golan Heights, East Jerusalem and Israeli settlements in the West Bank under the terms of international law.
Source: National delegates; position as at 1 January 2012.

Table 3.12. **Restrictions to the right to deduct VAT/GST on specific inputs**[1]

Country	Inputs on which the right to deduct VAT/GST is denied or limited
Australia	**Entertainment:** recreational club leisure facility, entertainment, meal entertainment, family maintenance, relative's travel. **Vehicles:** the amount of GST recoverable on the acquisition of a car is limited to that applicable to the car depreciation limit for the income year, currently AUD 57 466. **Others:** penalties, non-compulsory uniforms. GST is not recoverable on the expenses above to the extent they are not eligible for a deduction under the income tax law.
Austria	**Entertainment:** restaurants and entertainment. **Vehicles:** vehicles, except used for commercial passenger transport, for leasing purposes or used at least 80% for driving schools.
Belgium	**Entertainment:** full input tax block for restaurant and hotel (with a number of strict exceptions), certain alcoholic beverages (with a number of strict exceptions) and reception and hospitality costs. **Vehicles:** Expenses relating to vehicles for transport of persons and/or goods by road. The right to deduct input tax may in principle not exceed 50% (with a number of strict exceptions). **Others:** supplies relating to special VAT scheme (*e.g.* margin scheme, special VAT scheme for tobacco).
Canada	**Entertainment:** deductions restrictions apply to memberships in dining, recreational or sporting facilities clubs; deduction for food, beverages, and entertainment expenses generally limited to 50% of the GST/HST payable. **Vehicles:** deduction is limited on passenger vehicles acquired as capital property to the GST/HST payable on the capital cost value ($30 000); deduction is limited on passenger vehicles leases to the GST/HST payable on $800 monthly lease payments; **Others:** home office expenses; restriction to the extent that the consumption or use of a property or service of such quality, nature, or cost is unreasonable given the person's commercial activity; **Local limitations:** large businesses (generally those with annual taxable supplies in excess of $10 million) that acquire certain property or services in the provinces of Ontario and British Columbia that are subject to the 13% or 12% HST, respectively, are generally restricted to claiming only the 5% federal part of the HST on these acquisitions.
Chile	**Vehicles:** automobiles, station wagons and similar vehicles as well its lubricants, spare parts, repairs or maintenance unless the regular business activity of the taxpayer is the sale, rental or lease of automobiles, station wagons and similar vehicles; **Others:** products or components that have any form of subsidy for end consumers.
Czech Republic	None.
Denmark	
Estonia	**Entertainment:** goods or services relating to the reception of guests or the provision of meals or accommodation for employees. This restriction is not applied to the deduction of input value added tax paid for accommodation services received during a business trip.
Finland	**Entertainment:** representation and entertainment expenses. **Vehicles, boats and aircraft:** used for sporting and leisure purposes, cars, motorcycles and caravans. However, any means of transport which are to be resold, rented out or used in professional passenger transport or in driving lessons as well as passenger cars used only for taxable transactions are deductible. **Others:** travelling costs of personnel between home and workplace; goods and services related to dwellings or buildings provided for the recreation of personnel
France	**Vehicles:** vehicles or equipment, whatever their nature, designed to carry persons or mixed-use, except those for resale as new; leased, having in addition to the driver's seat more than eight seats used by companies to bring their staff on the workplace, assigned exclusively to the driving instruction, all type of road vehicles exclusively for the operation of ski lifts and ski areas, once they have been certified by the testing of lifts and guided transport under conditions set by decree, vehicles acquired by companies of public passenger transport and assigned exclusively to the realization of such transport. Components, parts and accessories of vehicles and machines previously referred. **Others:** gifts above a certain value; goods or services linked to the free supply of housing to officers or employees of a company, except when it's for the security staff on construction sites or in company premises; good or services used for advertising alcoholic beverages; supply of passenger transport and services ancillary to such transport, except those produced either on behalf of an enterprise of public passenger transport, or under a permanent contract of transport by companies to bring their staff on the workplace; most fuels not subsequently delivered or sold as is or as other petroleum products. **Partial restrictions:** The right to deduction is limited to 50% for gas oil and other hydrocarbons in gaseous state and kerosene used as fuel, when such products are used for vehicles and equipment mentioned above. The right to deduction is limited to 80% for gas oils and bio ethanol E 85 used as fuel for vehicles and equipment mentioned above, except those used for testing for the purposes of making engines or motorized equipment and insofar as they are not subsequently delivered or sold as is or as other petroleum products.
Germany	**Entertainment:** representation expenditures as defined in the income tax law for which there is no tax allowance according to the income tax law (*e.g.* gifts except small gifts, restaurant, catering, entertainment expenditure except appropriate ones, expenditures on hunting and fishing, sailing yacht or motor yachts and expenditures of similar nature).
Greece	**Entertainment**: receptions, recreation and hospitality in general; accommodation, food, drinks, transport and recreation for the personnel or members of a company. **Vehicles:** passenger vehicles with up to nine seats intended for private use, motorcycles, motorised pedal cycles, ships and aircrafts for pleasure or sporting purposes, as well the cost of fuel, repair, hiring and maintenance for such conveyances. **Others:** manufactured tobacco and spirituous or alcoholic beverages not to be used in taxable activities.
Hungary	**Entertainment:** services of restaurants and other public catering services; entertainment services; food and beverages. **Vehicles:** passenger cars, motorcycles above 125 cubic centimetres; yachts and vessels. **Others**: supplies of motor fuels, other fuels, other goods or services used in connection with the operation or maintenance of passenger cars; residential properties, goods and services used for the construction or remodelling of residential properties; taxi services, parking services, highway toll services; 30% of input tax regarding fixed phone, mobile phone and VOIP service.

Table 3.12. **Restrictions to the right to deduct VAT/GST on specific inputs**[1] *(cont.)*

Country	Inputs on which the right to deduct VAT/GST is denied or limited
Iceland	
Ireland	**Entertainment:** food, drink, accommodation (except for qualifying conferences), personal services, entertainment. **Vehicles:** purchase or hire of passenger vehicles (20% of the cost is allowed where the car meets certain conditions regarding business use and emission levels). **Others:** petrol.
Israel[2]	None.
Italy	**Vehicles**: motor vehicles, aircraft and yachts.
Japan	None.
Korea	**Entertainment:** entertainment expenses and similar expenditures. **Vehicles:** purchase and maintenance of non-business small automobiles
Luxembourg	**Entertainment:** luxuries, entertainment, amusements, tobacco.
Mexico	No restrictions list, the law establishes that deductions must come from goods and services “strictly indispensable” for the principal activity. The expenses deductible to VAT/GST purposes must be deductible in terms of the Income Tax Law. The Income Tax Law has list of “Authorized deductions” for each type of regime.
Netherlands	**Entertainment:** restaurant services.
New Zealand	None.
Norway	**Entertainment:** Catering and hiring of locations related to catering; entertainment expenses; the construction, maintenance, renting or operation of real property for accommodation or welfare needs. **Vehicles:** procurement, operation or maintenance of passenger vehicles. **Others:** works of art or antiques; accommodation of- and remuneration in kind to the owner, management, employees or pensioners of an enterprise; business gifts, goods and services for distribution for advertising purposes; cash payments above NOK 10 000 (USD 1 040).
Poland	**Entertainment:** restaurant services and accommodation. **Others:** fuels for passenger cars.
Portugal	**Entertainment:** Transport, accommodation or meals (except connected with conferences, seminars, fairs or exhibitions, which, under certain conditions, are deductible in 25% or 50%). Luxury and entertainment expenses. **Vehicles:** acquisition or hiring of light vehicles deemed to be used for non-business purposes, as well as pleasure boats, helicopters, aircrafts and motorcycles (except if intended for sale or constitute the core of the business activity). **Others** fuel used in motor vehicles (other than gas oil, liquefied petroleum gas and bio fuels, which are deductible at 50%; or fully deductible if used in certain heavy vehicles or tractors).
Slovak Republic	**Entertainment:** goods and services for the purposes of hospitality and entertainment. **Other:** suspense items (Suspense items means expenses paid on behalf and for the account of the purchaser or the customer, which the supplier charges to the purchaser or the customer.).
Slovenia	**Entertainment:** entertainment expenses (where entertainment expenses shall include only the costs of entertainment and amusement during business or social contacts); meals (including drinks) and accommodation expenses, except expenses incurred by taxable person in connection with these supplies in the ordinary course of his business. **Vehicles:** yachts and boats intended for sport and recreation; aircraft other than those used for transport of passengers and goods, leasing, renting and resale. Passenger cars and motorcycles other than: vehicles used for transport of passengers and goods, leasing, renting and resale, vehicles used in driving schools for the provision of the driver's training program in accordance with the regulations in force and combined vehicles for carrying out an activity of a public line and special line transport, and special vehicles adapted exclusively for the transport of deceased people. **Others:** fuels, lubricants, spare parts and services which are closely linked to vehicles above.
Spain	**Entertainment:** access to shows and services of a recreational character; travel, accommodation and catering services, unless they are deductible as a cost in income taxes. **Others:** jewellery, gold and platinum objects, pearls, precious stones; food, drinks and tobacco; goods or services used as gifts to clients, employees or third parties;
Sweden	
Switzerland	None.
Turkey	**Cars**: purchases of cars except when used by car renting companies. **Others**: Missing and stolen stocks (excluding those lost due to fire in places of compelling reason declared by Ministry of Finance).
United Kingdom	**Entertainment:** Business entertainment; in general terms the free provision of any hospitality to business contacts is not recoverable. The exception is where the entertainment is provided to non UK customers. However it is likely that if recovery is granted it would be off-set by a private use charge that would effectively cancel out any credit obtained. **Vehicles:** motor cars in general, except motor cars that are stock in trade (car dealers etc), tools of the trade (driving schools etc) or exclusively used for business purposes with no availability for private use (leasing companies etc). Lease of a motor car (right to deduction is limited to 50%).

Notes

1. The table includes limitations of the right to deduct input VAT/GST on specific goods, services and intangibles **because of their nature,** generally with a view to ensure (input) taxation of their **deemed** final consumption. The table does **not** include input tax blockings related to the exemption of outputs (e.g. limited right of deduction for inputs used to provide financial and insurance services, medical care, education, etc listed in Table 3.11. on VAT/GST exemptions) or to inputs not connected with the taxable activity of the business.
2. Israel: The statistical data for Israel are supplied by and under the responsibility of the relevant Israeli authorities. The use of such data by the OECD is without prejudice to the status of the Golan Heights, East Jerusalem and Israeli settlements in the West Bank under the terms of international law.

Source: National delegates; position as at 1 January 2012.

Table 3.13. **Special VAT/GST taxation methods**

	Usage of reverse charge system	Usage of margin schemes[1]
Australia	Imports of intangible supplies are reverse charged to the recipient (registered) business if they would not have been entitled to a full input tax credit for GST paid on that supply. 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 generally based on the difference between the tax inclusive sale price and the original purchase price. Special rules apply in certain cases, such as sales between associates or members of the same GST group. Gambling: GST applies to the gambling margin calculated based on the total amount wagered less total monetary prizes awarded Second hand goods when second-hand dealers adopt a special 'global' accounting method. It applies when (1) Second-hand goods are acquired from an unregistered supplier and are divided up for re-supply and (2) The dealer exercises the option to apply the global method over a specified category of second-hand good.
Austria[2]	Several services delivered internationally and intra-Community delivery of goods (EU Directive); construction services if the recipient is acting as general contractor or if he usually is rendering construction services; supply of goods provided as security by a VAT taxable person to another person in execution of that security; supply of goods following the cession of the reservation of ownership to an assignee and the exercising of this right by the assignee; the supply of immovable property sold by the judgment debtor in a compulsory sale procedure to another person. Supplies of gas and electricity provided by an entrepreneur resident abroad. Transfer of CO^2 Emission Certificates. Supply of scrap and waste. Mobile telephones and integrated circuit devices under certain conditions.	Travel agencies; second-hand goods, works of art, collector's items and antiques (EU Directive).
Belgium[2]	Several services delivered internationally and intra-Community delivery of goods (EU Directive); supplies of goods and services by traders not established in Belgium under several conditions; some supplies of investment gold; work on immovable property under several conditions; several transactions within the framework of a VAT warehouse.	Travel agencies; second-hand goods, works of art, collector's items and antiques (EU Directive).
Canada	Resident business recipient of an imported taxable supply of intangible personal property or a service is required to self-assess tax in respect of the supply unless it is acquired for use, consumption or supply exclusively in the course of the commercial activities of the recipient.	–
Chile	Resident recipients of an imported taxable good (whether they import frequently or not, and whether they are individuals or businesses). Resident beneficiary of a cross border service provided the service provider is a non resident. The tax authority may establish a reverse charge system through general rules under some circumstances dealing with intermediaries, difficult auditing situations (e.g. certain dealings in produce such as the sale of rice, berries, livestock, beans, wood, wild berries, paper and cardboard and wheat), or unidentified taxpayers.	–
Czech Republic[2]	Several services delivered internationally and intra-community delivery of goods, supplies of goods with assembly or installation; supplies of gas, electricity and certain other services by non-established traders to established taxable persons (EU Directive); delivery of taxable investment gold and gold material of purity equal to or greater than 333 thousandths, supply of designated categories of scrap and waste, transfers of CO_2 emission allowances and supply of construction and assembly services) provided between taxable persons registered for Czech VAT.	Travel agencies; second- hand goods; works of art; collector’s items and antiques (EU Directive).
Denmark[2]	Several services delivered internationally and intra-Community delivery of goods (EU Directive); goods imported B2B into Denmark from a country outside the EU; leasing of means of transport from outside the EU to a taxable person in Denmark.	Travel agencies; second-hand goods, works of art, collector's items and antiques (EU Directive).
Estonia	Several services delivered internationally and intra-Community delivery of goods (EU Directive); immovable property, where the supplier has opted for taxation; scrap metal.	Travel agencies; second-hand goods, works of art, collector's items and antiques (EU Directive).
Finland[1, 2]	Several services delivered internationally and intra-Community delivery of goods (EU Directive); If a foreign enterprise does not have a fixed establishment in Finland, the purchaser is usually liable for tax. A reverse charge procedure is applied to taxable investment gold as well as gold material and semi-manufactured gold products of purity equal to or greater than 325 thousandths. A reverse charge procedure is applied to emission permits and construction services supplied in Finland.	Travel agencies; second-hand goods, works of art, collector's items and antiques (EU Directive).
France[2]	Several services delivered internationally and intra-Community delivery of goods (EU Directive).	Travel agencies; second-hand goods, works of art, collector's items and antiques (EU Directive); Real estate agents.

Table 3.13. **Special VAT/GST taxation methods** *(cont.)*

	Usage of reverse charge system	Usage of margin schemes[1]
Germany[2]	Several services delivered internationally and intra-Community delivery of goods (EU Directive); If customer is an entrepreneur or a legal person governed by public or private law: supplies of work and other services provided by an entrepreneur resident abroad (with the exception of certain services involving passenger transport) and supplies of pledged assets by the guarantor to the recipient of the security outside the framework of judicial liquidation; turnover covered by the Real Property Transfer Tax Law (in particular transfers of real estate). If the customer is an entrepreneur: supplies of work or other services serving the construction, repair, maintenance, alteration or removal of structures (except for planning and supervision) and cleaning of buildings when the customer himself supplies such services; supplies of gas and electricity provided by an entrepreneur resident abroad; supply of gold (unwrought or semi-finished), of mobile devices or integrated circuits and of emissions allowances.	Travel agencies; second-hand goods, works of art, collector's items and antiques (EU Directive).
Greece[2]	Several services and goods delivered internationally (EU Directive); supply of recyclable waste materials; tradable greenhouse gas emission permits.	Travel agencies; second-hand goods, works of art, collector's items and antiques (EU Directive); sales by public auction.
Hungary[2]	Several services delivered internationally and intra-Community delivery of goods (EU Directive); Domestic reverse charge applies to: ● the handing over of construction works regarded as a supply of goods; ● construction or other alteration or repair activity qualifying as service, directed at the construction, expansion, rearrangement or other modification (including demolition) of immovable property and subject to authorization by the building authority; ● the hiring-out of employees and the supply of staff for the supply of goods or services mentioned before; ● the supply of waste products; ● the supply of a building and the land on which it stands or of an inbuilt plot of land (with certain exceptions) if the supplier opted for taxation; ● in relation with debtors and creditors, the supply of goods that were pledged as collateral security to cover an overdue claim in execution of that security; ● the specific supply of goods or services, if the supplier taxable person is adjudicated in liquidation proceedings or any similar insolvency proceedings; ● the alienation of transferable rights to emit green house gases (emission unit).	Travel agencies; second-hand goods; works of art, antiques, collectors' items (EU Directive).
Iceland	Several services delivered internationally for use in part or in full in the country.	–
Ireland[2]	Several services delivered internationally and intra-Community delivery of goods (EU Directive); construction services supplied to principal contractors; supply of scrap metal.	Optional margin scheme for antiques, works of art and second hand goods (EU Directive). Mandatory margin scheme for auctioneers and travel agents.
Israel3	A person not liable for payment of the tax may, with the Director's consent and on conditions prescribed by him, take the payment upon himself, and after the date of that consent he shall be treated as the person liable for its payment. The tax levied on a buyer, if the buyer is a licensed dealer (i.e. a VAT registered enterprise) and has committed a real estate sale which is an occasional transaction. If a transaction is performed in Israel, and the seller or performer of the service is a foreign resident, then the obligation to pay the tax rests on the purchaser. Sale of metal debris. Import, including import of intangible goods – the owner of the goods is liable to pay the tax If a dealer, non-profit organization or financial institution received services of the types specified below from a person, whose main income is from wage, benefit or pension, then he must pay the tax in respect of that service, unless he received a tax invoice from the person who rendered the service; these are the services: (1) Artistic performance, construction or preparation of stage sets; preparation, checking, conducting and supervising examinations; lectures etc. (2) Services of the following professionals: agronomist, architect, practical engineer, private investigator, rabbinical pleader, technician, dental technician, organizational, management, scientific or tax consultant, economist, engineer etc.	Sale art objects and used assets – other than dwellings – when they are sold by a person whose business is the sale of such assets, Sale of used vehicle, motorcycle or cross-country vehicle by a dealer whose business is a purchase and sale of used vehicles; Sale of dwellings by a real estate dealer, who acquired it from a person who is not a non-profit organisation, a financial institution or a dealer. Sale of coins, medals purchased from a non licensed dealer (i.e. not VAT registered business). Sale of postage stamps and revenue stamps by a person whose business is the sale of such stamps (deemed to be a service). Sale of securities or other negotiable instruments, including the acquisition of aforesaid securities and instruments in order to collect their redemption or retirement price, by persons whose business is the sale of such assets or the sale of foreign currency, then that sale or collection of redemption or retirement shall be deemed a brokerage service rendered by the dealer, between the person who sold them to him and the person who bought them from him or redeemed them or retired them.
Italy[2]	Several services delivered internationally and intra-Community delivery of goods (EU Directive); Investment gold: supply of semi-finished products, gold purity >0.325, so called industrial gold, scrap iron; supplies carried out by subcontractors in the building sector; mobile telephones and integrated circuit devices under certain conditions.	Travel agencies; second-hand goods, works of art, collector's items and antiques (EU Directive).
Japan	–	–

Table 3.13. **Special VAT/GST taxation methods**

	Usage of reverse charge system	Usage of margin schemes[1]
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. Supply of gold between taxable persons.	–
Luxembourg[2]	Several services delivered internationally and intra-Community delivery of goods (EU Directive).	Travel agencies; second-hand goods, works of art, collector's items and antiques (EU Directive).
Mexico	When an individual provides or rents goods for a business the obligation to withhold and pay the tax is on business.	–
Netherlands[2]	Several services delivered internationally and intra-Community delivery of goods (EU Directive).	Travel agencies; second-hand goods, works of art, collector's items and antiques (EU Directive).
New Zealand	Residents are required to self assess tax on the value of imported services, including imported intra-group cost allocations. A requirement to register for GST arises, absent of a taxable activity, if the value of any imported services exceeds NZD 60 000 in a twelve-month period.	–
Norway	Reverse charge applies to business-to-business transactions of international services (services capable of delivery from a remote location); Reverse charge on domestic business-to-business transactions of tradable permits of CO2 emissions.	Voluntary margin scheme for second hand goods, works of art, collectors' items and antiques.
Poland[2]	Several services delivered internationally and intra-Community delivery of goods (EU Directive), supply of metal scrap and metal waste, and transfer of allowances to emit greenhouse gases.	Travel agencies; second-hand goods; works of art; collector's items and antiques (EU Directive).
Portugal[2]	Several services delivered internationally and intra-Community delivery of goods (EU Directive).	Travel agencies; second-hand goods, works of art, collector's items and antiques (EU Directive) and fuel retailers.
Slovak Republic[2]	Several services delivered internationally and intra-Community delivery of goods (EU Directive). Supply of gold between taxable persons; Domestic supply of metal scrap and metal waste; supplies of goods with assembly or installation; domestic supply of CO2 emission tradable permit; gas, electricity and certain other services by non-established traders to established taxable persons.	Travel agencies; second-hand goods, works of art, collector's items and antiques (EU Directive).
Slovenia[2]	Several services delivered internationally and intra-Community delivery of goods (EU Directive).	Travel agencies; second-hand goods, works of art, collector's items and antiques (EU Directive).
Spain[2]	Several services delivered internationally and intra-Community delivery of goods (EU Directive).	Travel agencies; second-hand goods, works of art, collector's items and antiques (EU Directive).
Sweden[2]	Several services delivered internationally and intra-Community delivery of goods (EU Directive).	Travel agencies; second-hand goods, works of art, collector's items and antiques (EU Directive).
Switzerland	The reverse charge system is applicable for: Supplies of services by businesses with their place of business abroad that are not entered in the Register of Taxable Persons, if the place of supply is situated on Swiss territory; The import of data storage media without market value with the services and rights included therein. Supplies of goods on Swiss territory by businesses with their place of business abroad that are not entered in the Register of Taxable Persons, if these supplies of goods are not subject to the import tax.	Optional margin taxation scheme for used, individualised, movable goods for the purpose of resale, if a deduction of input tax on the purchase price was not possible or was not claimed. As such goods are also deemed works of art, collectors' items and antiques (except precious metals and precious stones).
Turkey	If the taxpayer does not have a place of business, residence, legal or business centre in Turkey or if considered necessary by the Ministry of Finance, , any of the people involved in a transaction subject to taxation may be held responsible for the payment of tax to cover the tax income.	Travel agencies (commission taken from tour sold abroad is exempt; commission taken from tour sold in Turkey is subject to tax.)
United Kingdom[2]	Several services delivered internationally and intra-Community delivery of goods (EU Directive); investment gold.	Travel agencies; second-hand goods, works of art, collector's items and antiques (EU Directive).

1. Margin scheme: In this context, a margin scheme means a scheme where the tax base is calculated on the difference between the price paid by the taxpayer for an item and the price of resale rather than on the full selling price. The reseller is not allowed to deduct the input VAT embedded in the buying price of the items resold under the margin scheme.
2. EU Directive – Reverse charge: within the European Union the person liable to pay the tax is in principle the taxable person carrying out the supply of goods or services. Nevertheless, several operations give rise to payment of VAT by the person to whom the goods or services are supplied (Directive 2006/112/EC). This is mainly the case for the intra-Community supply of goods between taxable persons and supply of services between taxable persons if the services are supplied by a taxable person not established within the territory of a given Member State.
3. Israel: The statistical data for Israel are supplied by and under the responsibility of the relevant Israeli authorities. The use of such data by the OECD is without prejudice to the status of the Golan Heights, East Jerusalem and Israeli settlements in the West Bank under the terms of international law.

Source: National delegations; position as at 1 January 2012.

Table 3.14. **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	AUD 900 worth of general goods (or AUD 450 for people under the age of 18 and air and sea crew members); 2.25 litres of alcohol and 250 cigarettes or 250g of cigars or other tobacco products plus one open packet containing 25 cigarettes or less may be imported without individuals needing to be assessed for GST and customs duty. If the individuals have in excess of this amount, they need to declare goods and be assessed.	AUD 900	577	Tourist Refund Scheme (TRS): individuals may claim a refund of GST on purchases made over AUD 300 from a single business within 30 days of departure which is worn or taken as hand luggage. 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	192
Austria	EU Scheme[1] In air and sea traffic In land traffic	 EUR 430 EUR 300	 506 353	Refund to individuals exporting goods in their personal luggage to a destination outside the EU. Minimum invoice amount EUR 75.	EUR 75	88
Belgium	EU Scheme[1] In air and sea traffic In land traffic Restrictions of these thresholds apply depending on the age of the passenger, the nature of the products (excise products) staff of the means of transport.	 EUR 430 EUR 300	 494 345	Refund to individuals exporting goods in their personal luggage to a destination outside the EU. Minimum invoice EUR 125.	EUR 125	144
Canada	I. Goods acquired abroad and for personal or household use imported by Canadian residents, temporary residents or former residents returning to live in Canada: – returning after an absence of not less than 24 hours, goods (except alcoholic beverages and tobacco products) valued at not more than CAD 50 and included in the baggage accompanying the person – returning after an absence of not less than 48 hours, goods (including either wine not exceeding 1.5 litres or any alcoholic beverages not exceeding 1.14 litres and tobacco not exceeding fifty cigars, two hundred cigarettes, two hundred tobacco sticks and two hundred grams of manufactured tobacco) valued at not more than CAD 400 and included in the baggage accompanying the resident – returning after an absence of not less than seven days, goods (including either wine not exceeding 1.5 litres or any alcoholic beverages not exceeding 1.14 litres and tobacco not exceeding fifty cigars, two hundred cigarettes, two hundred tobacco sticks and two hundred grams of manufactured tobacco)valued at not more than CAD 750 whether or not (except for alcoholic beverages and tobacco products) included in the baggage accompanying the person. II. Goods that are zero-rated when supplied domestically (for example, basic groceries). 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.	CAD 750	610	Rebate is available to non-resident individuals who purchase eligible goods. Generally, eligible goods are those that are acquired by the individual primarily for use outside Canada, exported within 60 days of delivery to the individual and for which there is appropriate proof of export. Eligible goods exclude excisable goods and gasoline, diesel fuel and other motor fuels. A rebate up to 50% of the GST/HST is available to a non-resident individual who purchases an eligible tour package that includes short-term and/or camping accommodation. The total purchase amount before taxes must be at least CAD.	CAD 200	163

Table 3.14. **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
	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.					
Chile	Goods acquired abroad and imported by: – Passengers regarding ‘travel baggage’ exempted under of Customs Duties limited to travel stuff, clothes and garments, toiletries, personal care and fancies needed for ordinary and personal care and use; including four hundred cigarettes, five hundred grams of tobacco, fifty cigar and 2.5 litres of alcoholic beverages. The exemption excludes goods imported with commercial purpose or exclusively intended to perform a profession or job. Home appliances, underwear, paintings, music instruments, telecommunication equipment, voice, music and video players, electrical equipment and goods deemed as commercial are not exempted. – Officers or employees of the Chilean Government who serve abroad and immigrants provided that the goods are personal effects, home appliances, tools and work equipment, provided these items do not require an import register. – Crew personnel of a ship, aircraft or another vehicle concerning travel baggage exempted of Customs Duties; – Travellers and Chilean residents from the First Region (Chile) under some circumstances.	CLP 2.400.000	5 903	– Goods acquired in tax duty free shop only, up to a value of USD 500. – Nonresident individuals who leave the country through the Chacalluta border crossing (on the First Region) can obtain a refund of VAT paid on merchandise acquired in Arica and Parinacota (subject to daily caps).	CLP 240.000	590

Table 3.14. **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
	– Travellers regarding goods subject to the customs classifications (goods owned by travellers coming from the Chilean duty-free zone up to USD 1 000; goods imported by Chilean residents of border places up to USD 150; home appliances of Chileans returning after an absence between six and one year (up to USD 500); home appliances and work equipment of Chileans returning after an absence of not less than one year (up to USD 3 000); home appliances and work equipment of Chileans returning after an absence of not less than five years (up to USD 5 000); goods of foreign national with a temporary residence in Chile or with a job agreement not less than a one year term (up to USD 5 000) under some conditions such as the purpose of the import (not commercial); age of goods (acquired and used abroad); and beneficiaries (traveller and his/her dependants). – National artists regarding their art works performed abroad under customs classification (drafts, painting, sculptures). Travellers and temporal visitors regarding goods for personal use during their visiting to Chile (not exceeding 90 days), and vehicles for their private transportation. Goods considered as: – Cultural or sport s prizes and trophies won abroad without commercial nature, and not commercial gifts occasionally awarded to individuals under customs classification. In both case, goods cannot exceed the value of USD 50. Prizes and gifts awarded to Chilean individuals, listed under the customs classification, who obtain highest distinction and under specific requirements.					
Czech Republic	EU Scheme[1] In air and sea traffic In land traffic	 EUR 430 (CZK 10 642) EUR 300 (CZK 7 425)	 765 533	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	144
Denmark	EU Scheme[1] In air and sea traffic In land traffic	 EUR 430 (DKK 3204) EUR 300 (DKK 2235)	 410 286	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	154
Estonia	EU Scheme[1] In air and sea traffic In land traffic	 EUR 430 EUR 300	 811 566	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.	EUR 38	72
Finland	EU Scheme[1] In air and sea traffic In land traffic	 EUR 430 EUR 300	 453 316	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	42
France	EU Scheme[1] In air and sea traffic In land traffic	 EUR 430 EUR 300	 512 345	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	201

Table 3.14. **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
Germany	EU Scheme[1] In air and sea traffic In land traffic	 EUR 430 EUR 300	 538 375	Refund to individuals exporting goods in their personal luggage to a destination outside the EU. The traveller's habitual residence must be outside the European Union. The goods have to be exported within three months following the month of purchase. There is no threshold as to the amount. The VAT exemption is only valid for non-commercial purposes (except for the equipment and supply of private means of transport *e.g.* car, motorboat, aeroplane etc.)	-	-
Greece	EU Scheme[1] In air and sea traffic In land traffic	 EUR 430 EUR 300	 606 423	Refund to individuals exporting goods in their personal luggage to a destination outside the EU Minimum invoice EUR 120 Limitations : alimentary products, alcoholic beverages, tobaccos, goods for the supply and equipment of private motor vehicles, aircrafts or sea-going vessels, goods having commercial character	EUR 120	169
Hungary	EU Scheme[1] In air and sea traffic In land traffic	 EUR 430 (HUF 127 000) EUR 300 (HUF 88 000)	 978 678	Refund to individuals exporting goods in their personal luggage to a destination outside the EU. Minimum invoice HUF 42 000 Limitation: certain works of art, antiques and tobacco products.	EUR 175 (HUF 52 000)	400
Iceland	ISK 65 000 for travellers. The value of individual object may not exceed ISK 32 500.	ISK 65 000	472	Refund for individuals when leaving the country for goods worth more than ISK 4 000.	ISK 4 000	29
Ireland	EU Scheme[1] In air and sea traffic In land traffic	 EUR 430 EUR 300	 512 357	Refund to individuals exporting goods in their personal luggage to a destination outside the EU. There is no threshold as to the amount.	-	-
Israel*	Import duty exemption: personal products, beverages and wines: liquor up to 1 litter and up to 2 litters of wine-for each entrant age 18. Alcoholic perfume- to 1/4 litters per entrant. Tobacco- weight not exceeding 250 gr. Products that do not exceed 200 $.		200	A refund will be given to the visitor , a non citizen holding a foreign passport. The arrangement does not apply to purchases of tobacco products, food and beverages,(except wineries). Minimum purchase amount for VAT refund is: 400 NIS including VAT, purchase at the same time in one business transaction. Providing a refund is subject to the purchase in **a registered** [an improved] business .	ILS 400	108
Italy	EU Scheme[1] In air and sea traffic In land traffic	 EUR 430 EUR 300	 538 375	Refund to individuals exporting goods in their personal luggage to a destination outside the EU Minimum threshold is fixed at EUR 154.94.	EUR 155	194
Japan	(1) goods which total taxable value do not exceed JPY 10 000. (2) goods other than those in (1), which total taxable value do not exceed JPY 200 000. (3) tax-free import of liquor, tobacco and perfume is limited to certain quantities.	JPY 10 000 200 000	94 1870	Foreign travellers are exempted from VAT for exported goods for daily use (except food etc) only when they are acquired in Tax-free shops. The minimum threshold per transaction is JPY 10 000.	10 000	94
Korea	Exempt: Books, newspapers, and magazines. Duty-exempt goods of a small amount (USD 400) imported by a resident. 1 bottle of alcoholic beverage (not exceeding 1liter and USD400). 200 cigarettes and 50 cigars. Goods imported from moving, immigration, or inheritance. Personal effects of travellers, or goods arriving by separate post and mailed goods that are exempted from customs duties or chargeable by the simplified tariff rates	KRW 304 800	370	Foreign travellers are exempted from VAT for exported goods when they are acquired in Tax-free shops only. Minimum invoice KRW 30 000.	30 000	37
Luxembourg	EU Scheme[1] In air and sea traffic In land traffic	 EUR 430 EUR 300	 462 323	Refund to individuals exporting goods in their personal luggage to a destination outside the EU. Minimum invoice EUR 74.	EUR 74	80

Table 3.14. **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
Mexico	(1) Administrative Rule No. 3.2.3. 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 75.		300	Foreign tourists leaving the country by airplane or ship may claim a refund on the VAT paid on the acquisition of goods in Mexico when, among other requirements, the amount paid for the goods in one single store is at least 1 200 MXN	MXN 1 200	147
Netherlands	EU Scheme[1] In air and sea traffic In land traffic	 EUR 430 EUR 300	 518 361	Refund to individuals exporting goods in their personal luggage to a destination outside the EU. Minimum invoice EUR 136.	EUR 50	60
New Zealand	When entering New Zealand, people are entitled to a personal goods concession which allows them to bring goods up to a total combined value of NZD 700 into the country, free of duty and GST. The personal goods concession applies to goods which accompany that person through Customs, are for that person's personal use or are intended as gifts, are not intended for sale of exchange, are not for use in their businesses or profession and are not imported for other persons at their request. On entering New Zealand a person is entitled to bring, free of duty and GST, the following quantities: Tobacco: 200 cigarettes, or 250 grams of tobacco, or 50 cigars, or a mixture of all three weighing not more than 250gr. Alcoholic Beverages: 4.5 litres of wine or 4.5 litres of beer - 3 bottles containing not more than 1,125ml 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. 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	461	No refund scheme.	–	–
Norway	The threshold is NOK 6 000 for travel abroad for more than 24 hours. For travel abroad of less than 24 hours, the threshold is NOK 3 000. For alcohol and tobacco, special quantitative limits apply.	NOK 6 000	624	VAT refunds are available for tourists. For Nordic countries a higher value applies.	NOK 250	26
Poland	EU Scheme[1] In air and sea traffic In land traffic	 EUR 430 (PLN 1894) EUR 300 (PLN 1322)	 1013 707	Refund to individuals exporting goods (excluding fuels) in their personal luggage to a destination outside the EU. Minimum invoice PLN 200.	PLN 200	107
Portugal	EU Scheme[1] In air and sea traffic In land traffic Travellers under 15 years old	 EUR 430 EUR 300 EUR 150	 682 476 238	Refund to individuals exporting goods (except equipment, fuelling and provisioning of private means of transport) in their personal luggage to a destination outside the EU. Minimum invoice EUR 50.	EUR 50	79

Table 3.14. **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
Slovak Republic	EU Scheme[1] In air and sea traffic In land traffic Per person under 15 years of age, regardless of transportation means	 EUR 430 EUR 300 EUR 150	 827 577 288	For travellers without permanent or temporary address within the EU. The total amount including VAT of exported goods to one taxpayer in one day should exceed EUR 175 and goods should be exported within 3 months after the last day of the month where goods were purchased.	EUR 175	337
Slovenia	EU Scheme[1] In air and sea traffic In land traffic	 EUR 430 EUR 300	 683 476	Refund to individuals exporting goods (except equipment, fuelling and provisioning of private means of transport) in their personal luggage to a destination outside the EU. Minimum invoice EUR 50.	EUR 50	79
Spain	EU Scheme[1] In air and sea traffic In land traffic	 EUR 430 EUR 300	 606 423	Refund to individuals exporting goods in their personal luggage to a destination outside the EU Minimum invoice EUR 90	EUR 90	127
Sweden	EU Scheme[1] In air and sea traffic In land traffic	 EUR 430 (SEK 3 841) EUR 300 (SEK 2 680)	 431 300	Refund to individuals exporting goods in their personal luggage to a destination outside the EU Minimum invoice SEK 200. Higher value for Norway and the Åland island.	SEK 200	22
Switzerland	Personal belongings; food and non-alcoholic beverages for the day of travel; alcoholic beverages and tobacco: 200 cigarettes or 50 cigars or 250 grams of pipe-tobacco and 2 lt. up to 15% 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	200	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. Minimum invoice: CHF 300. Selling goods by authorised stores to members of escorted tourist groups directly without VAT within Switzerland.	CHF 300	200
Turkey	–	–	–	VAT refund to passengers who do not reside in Turkey for the purchasing goods taken to abroad. Minimum invoice: TRY 100.	TRY 100	96
United Kingdom	EU Scheme[1] In air and sea traffic In land traffic	 EUR 430 (GBP 355) EUR 300 (GBP 248)	 538 376	Refund to individuals exporting goods in their personal luggage to a destination outside the EU Threshold on refunds set by retailer.	–	–
United States	The allowance is USD 800 per person for absences over 48 hours, every 30 days, including up to 1 litre of alcoholic beverages, 200 cigarettes and 100 cigars. The goods must be for personal or household use only, or bona fide gifts, and not for the account of any other person, nor may they be re-sold. The amount may be pooled with family members. A traveller who has already used the USD 800 monthly allowance still has available a USD 200 exemption per crossing. This amount may not be pooled with family members, and if the value of the goods exceeds USD 200 the exemption does not apply and duties are levied on the total value of the goods imported.	USD 800	800	No refund scheme.	–	–

1. European Union: EU rules allow tax-free import of goods from outside the EU by individuals for non-commercial purposes in their personal luggage to the extent that the global value of the imported goods does not exceed EUR 175 to EUR 430 for air and sea travellers and to EUR 300 for land and inland waterways travellers. Nevertheless, special quantitative limits by traveller may apply for the following high-duty goods: tobacco, cigarettes, cigars, alcoholic beverages and perfumes.

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

Source: National delegations; position as at 1 January 2012.

Table 3.15. **VAT/GST relief for low value imports**[1]

Country	Currency	Threshold in Local currency[2]	Threshold in USD[3]
Australia	AUD	1000	642
Austria	EUR	22	26
Belgium	EUR	22	25
Canada	CAD	20	16
Chile	CLP	0	0
Czech Republic	EUR	22	39
Denmark	EUR	10	10
Estonia	EUR	22	41
Finland	EUR	22	23
France	EUR	22	25
Germany	EUR	22	28
Greece	EUR	22	31
Hungary	EUR	22	49
Iceland	ISK	1500	11
Ireland	EUR	22	26
Israel	ILS	0	0
Italy	EUR	22	28
Japan	JPY	10 000	94
Korea	KRW	150 000	182
Luxembourg	EUR	22	24
Mexico	USD	300	300
Netherlands	EUR	22	26
New Zealand	NZD	400	263
Norway	NOK	200	21
Poland	EUR	22	49
Portugal	EUR	22	35
Slovak Republic	EUR	22	42
Slovenia	EUR	22	35
Spain	EUR	22	31
Sweden	EUR	22	22
Switzerland	CHF	62	41
Turkey	TRY	0.0	0
United Kingdom	GBP	15	23

1. This table does not include thresholds for goods imported by travellers themselves (see Table 3.14).
2. Amounts in local currency: for Member States of the European Union, the threshold is mentioned in Euro (EUR) even for those that do not have the Euro as national currency (i.e. Czech Republic, Denmark, Hungary, Poland and Sweden), with the exception of the United Kingdom. Indeed the threshold applied in EU countries is determined in EUR by common EU legislation (Directive 2009/132/EC states that Member States shall exempt the import of goods whose value does not exceed EUR 10. They may grant an exemption for goods whose value does not exceed EUR 22). The amount in EUR is converted into USD as follows: it is first converted into local currency at current market exchange rate and then into USD at PPP exchange rate. **For Mexico,** the threshold is not provided in local currency in national legislation but in USD only.
3. Amounts are converted into USD at Purchase Parity Rates (PPPs). PPPs are the rates of currency conversion that equalise the purchasing power of different countries by eliminating differences in price levels between countries. They show the specified number of monetary units needed in each country to buy the same representative basket of consumer goods and services, which costs USD 1 in the United States. The currency conversion rates used in Consumption Tax Trends are the PPP rates for GDP. The PPPs are given in national currency unit per US dollar. Data is taken from OECD Dotstat *http://stats.oecd.org/index.aspx?queryid=27286*. For further detail see *www.oecd.org/std/ppp.*

Table 3.15. **VAT/GST relief for low value imports**[1]

Country Notes
Chile: There is no low value threshold and all imports are taxed under VAT, except when import is made by the postal service where imports with a value of less than USD 20 are exempt.
France: The threshold does not apply to goods imported on mail order.
Iceland: Data collected from the Icelandic Customs Administration (*www.tollur.is*)
Israel: The statistical data for Israel are supplied by and under the responsibility of the relevant Israeli authorities. The use of such data by the OECD is without prejudice to the status of the Golan Heights, East Jerusalem and Israeli settlements in the West Bank under the terms of international law.
Mexico: The threshold is not provided in local currency but in USD by Mexican legislation.
New Zealand: The threshold is not based on the value of the goods but on the amount of tax. Customs duty and VAT are not levied if the amount of tax due is NZD 60 or less. For ease of comparison, the equivalent threshold under the standard GST rate without applicable customs duties is shown in the table above *i.e.* NZD 400 x 15% GST = NZD 60.
Poland: the threshold does not apply to goods imported on mail order
Switzerland: The threshold is not based on the value of the goods but on the amount of tax. VAT is not levied if the amount of tax due is CHF 5 or less per declaration. For ease of comparison, the equivalent threshold under the standard VAT rate is shown in the table above *i.e.* CHF 62 × 8% VAT = CHF 5. For goods taxed under the reduced rat of 2,5 % (*e.g.* books) the value of the threshold would be max. CHF 400 till the tax amount of 5 CHF is reached.
United Kingdom: With effect from 1 April 2012, there is no LVCR on imports into the UK from the Channel Islands.

1. In this context, zero rate supplies means that VAT/GST is not levied on the amount charged by the taxpayer but deduction of input tax is allowed. In some countries these supplies are called “GST Free Supplies”. Exports of goods, intangibles and services are generally zero rated in all OECD countries, however, the provision of goods and services for export, consumed outside the country or considered as taking place abroad are not listed in this table. Neither are some operations closely linked to exports such as international transport, customs regimes, duty-free shops or supplies to diplomatic missions and international organisations.
2. For the purposes of this table, “exemption” means supplies for which VAT/GST is not levied on the amount charged by the provider while the latter is not allowed to deduct related input tax. In some countries, such supplies are called “input taxed supplies”.
3 “Common exemptions" hereafter refer to exemptions generally applied in most OECD countries: postal services; transport of sick/injured persons; hospital and medical care; human blood, tissues and organs; dental care; charitable work; education; non-commercial activities of non-profit making organisations; sporting services; cultural services (except radio and television broadcasting); insurance and reinsurance; letting of immovable property; financial services; betting, lotteries and gambling; supply of land and buildings; certain fund-raising events.

Source: National delegations 2012.

StatLink http://dx.doi.org/10.1787/888932718801

Notes

1. For ease of reading, all value added taxes will be referred to as VAT in this chapter.
2. Article 143, paragraph 1b) of Directive 2006/112/EC of 28 November 2006 in connection with Article 23 of Directive 2009/132/EC of 19 October 2009 (formerly Article 22 of Directive 83/181/EEC of 28 March 1983).

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Chapter 4

Measuring performance of VAT: The VAT Revenue Ratio

This Chapter describes how the performance of VAT systems can be assessed and how the VAT Revenue Ratio (VRR) provides an indicator of the effect of exemptions and reduced rates, fraud, evasion and tax planning on government revenues. It explains how the VRR is calculated and how it should be interpreted and provides some analysis of countries' results.

Introduction

There is considerable diversity in the way countries have implemented value added taxes (VAT). Each country has its own mix of rates, exemptions, thresholds and special taxation methods (see Chapter 3), within the constraints of the European Union's VAT Directives, in the case of EU member states. At a time when many countries are seeking ways to address large fiscal deficits, raising the standard VAT rate is often considered the easiest way to increase revenues from the tax. However, this has its limitations, in particular in countries where the rate is already relatively high. Another option may be to raise additional revenues by improving the "performance" of VAT systems without having to increase the standard rate. One way of increasing "VAT performance" would be to broaden the tax base by limiting the use of reduced rates and exemptions. In addition, revenue authorities could explore ways to improve tax administration and to ensure better compliance.

The meaning of "performance" in this context requires clarification. VAT is, potentially, a broad-based tax aimed at taxing all household consumption (Chapter 1). At its origin, it was designed not to meet social or redistributive objectives, but to raise revenues from the taxation of goods and services without distorting international trade. In theory, the tax is at its most "efficient" when imposed on all final consumption at a single standard rate. A study for the European Commission (Copenhagen Economics, 2007) showed that that a single VAT rate is the best policy choice because household and business choices about what to consume and about production techniques are not distorted. Furthermore, exemptions and reduced rates lead to additional compliance cost and administrative burden, which reduce the efficiency of the tax. However, it is recognised that, in some circumstances, reduced rates and exemptions may provide a way of meeting particular policy objectives.

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

From this perspective, a VAT system should be considered, in absolute terms, "efficient" when it covers the whole of the potential tax base at a single rate and where all the tax due is collected by the tax administration. The VAT Revenue Ratio (VRR) is intended to be such a measure of "efficiency" or "performance". It builds on a concept developed initially by the IMF (the "C-efficiency ratio").

What does the VRR measure?

The VRR measures the difference between the VAT revenue actually collected and what would theoretically be raised if VAT was applied at the standard rate to the entire potential tax base in a "pure" VAT regime and all revenue was collected.

The "standard" rate means the rate applicable to the tax base, unless otherwise advised by legislation. Legislation can (and almost all countries do) provide that lower (or higher) rates are applicable to a defined list of products. Almost all OECD countries (except Chile, Israel and Japan) apply lower VAT rates in addition to the standard rate. None of them applies higher VAT rates (see Chapter 3).

The potential VAT base includes all supplies of goods, services and intangibles made for consideration (or deemed to be made for consideration) by businesses or any other entity acting as a business (*e.g.* individuals, government entities providing supplies for direct consideration, etc). In other words, the tax base corresponds to the expenditure made to obtain goods, services and intangibles. In practice, only transactions (sales) or deemed transactions (*e.g.* barter) are taxed under VAT and not consumption as such. For example, public goods provided by government, like defence (for which no user fee is possible, even in theory), do not belong to the tax base, as there is no direct payment in exchange for them.

Under a "pure" VAT regime", all supplies made for consideration should be taxed at the standard rate, without any reduced rate, exemptions or specific tax relief. In practice, no country applies such a "pure VAT regime".

Calculation method

Basic methodology

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

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

where:

VR = actual VAT revenues.

B = potential tax base.

r = standard VAT rate.

The main methodological difficulty for calculating the VRR lies in the assessment of the potential tax base, since no standard assessment of the potential VAT base for all OECD countries is available. In the absence of such data, the closest statistic for that base is final consumption expenditure as measured in the national accounts, since VAT is, ultimately, a tax on final consumption. Final consumption expenditure is calculated according to a standard international norm (1993, SNA, "*System of National Accounts 1993*").[1]

The final consumption expenditure (domestic demand) is made of a number of components:

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

Final consumption expenditures by NPSH and general government should be considered as final consumption for VAT purposes since these organisations are at the last step in the VAT supply chain. They pay VAT on their inputs but cannot, in principle, deduct this input VAT since their output is generally exempt or outside the scope of VAT. This approach broadly fits with the definition of the tax base provided in the section above, which covers expenditure to attain consumption (rather than actual consumption itself).

Adjustment: Excluding VAT from the market prices

National accounts measure consumption at market prices *i.e.* including VAT. VAT revenues should therefore be removed from this amount since the theoretical basis for taxation should not include the tax itself. As a result, the VRR is calculated as follows:

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

where:

VR = actual VAT revenues.

FCE = Final consumption expenditure (Item P3 in National Accounts).

r = standard VAT rate.

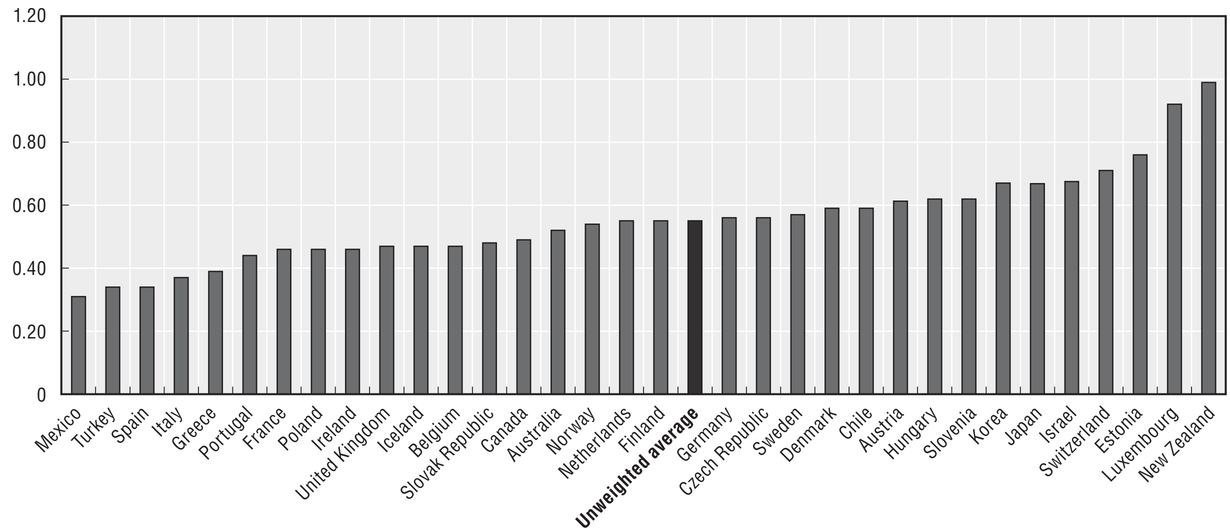
VRR figures presented in Table 4.1 are calculated according to the method above.

Further possible adjustments

The main measure of consumption in national accounts is final consumption expenditure. This includes the consumption by households, non-profit organisations and general government. It includes a number of items that are not considered part of the tax base in any OECD country, such as the imputed rents on owner-occupied housing (part of consumption of households) and the services provided free of charge by the public administration (part of government consumption). On the other hand, it does not include items that are subject to VAT in some OECD countries, most notably housing construction.

Given the differences between final consumption expenditure and the VAT base, one can take the view that VAT is a general tax on consumption and that this implies that its revenues should be compared with those that would be raised if it were applied to the national accounts definition of consumption – its natural base. Alternatively, an adjustment of the national accounts measure of consumption to bring it closer to a typical VAT base would allow for a better interpretation of a country's VRR as it would better reflect the revenue impact of deviations from a generally accepted VAT base.

Figure 4.1. **VAT revenue ratio**



StatLink http://dx.doi.org/10.1787/888932718573

Whichever approach is taken, a number of more detailed issues will need to be addressed. This is most obvious for the second approach, where detailed decisions would have to be made as to what constitutes a "standard VAT base". This problem is similar to the problem of defining a benchmark tax system against which tax expenditures are judged, and it might well be as difficult to solve. The sections below look at a number of adjustments to the VRR calculation that could be considered and the difficulties of implementing them.

Household final consumption expenditure: Residential property

Household final consumption expenditure includes the rental of dwellings: when dwellings are made available for rent by their owners, rentals are recorded as final consumption expenditures by tenants. Since rental of dwellings generally belongs to the potential VAT base, it is logical to keep the corresponding amounts included in the denominator of the VRR. However, final consumption in the national accounts also includes the imputed value of the housing services for owner-occupiers. But there is no transaction here that can be subject to VAT, which would argue for the corresponding amounts to be removed from the potential VAT base (*i.e.* from the denominator of the VRR). A practical difficulty, though, is that the value of imputed rents is not available in national accounts of all member countries.

On the other hand, expenditures incurred by the owner for decoration, maintenance and repair of its own occupied dwelling are not treated as household final consumption expenditure in the national accounts since they are considered as an intermediate consumption. If the value of the imputed rents is to be removed from the denominator of the VRR, repair, maintenance and decoration should be included in the denominator of the VRR.

Household final consumption expenditure excludes expenditures on fixed assets in the form of dwellings (goods used by their owners to produce housing services). The purchase of dwellings (expenditure on dwellings by households), including reconstructions, renovations or enlargements and services relating to ownership transfer such as legal services, is considered as gross capital formation (*i.e.* investment) by SNA. It is therefore not included in Item P3 (consumption) but in Item P5 (gross capital formation). Since the sale of dwellings by businesses (*e.g.* builders) is part of the potential VAT base in many countries, the relevant amounts should arguably be included in the denominator of the VRR. However some adjustments would have to be made as Item P5 also includes the ownership transfer between households. On the other hand, if expenditures on fixed assets in the form of dwellings were completely included in the potential tax base, there would be some double counting in respect of rentals of dwellings.

Final consumption by general government

Final consumption by government is the second largest final use after household consumption. Expenditures by general government are considered by convention as forming part of the consumption of general government itself. General government consumption expenditure includes *Collective consumption expenditure* (expenditure related to the activities of general government that are not attributable uniquely to households but also benefit enterprises such as National Assemblies, Parliaments, ministries of foreign affairs, safety and order, defence, home affairs, economic affairs, etc.) and expenditures where individual beneficiaries could in principle be identified (expenditure that is clearly carried out for the benefit of households such as public education and public healthcare; spending on aid for social housing; operating expenses of museums and other government services to households). Even though these services benefit households and enterprises, it is not possible to attribute this expenditure precisely to the beneficiaries, since they do not buy them. The agreed National Accounts treatment is therefore to attribute all these expenditures to general government consumption.

Generally, governments' activities are VAT exempt or outside the scope of VAT. As a consequence, governments cannot deduct the input VAT paid on their expenditure and this non-deductible VAT is therefore part of the cost of government consumption. Some VAT is thus paid on government consumption and exclusion of all government consumption from the denominator of the VRR could bias the ratio upwards. However, some elements of government final consumption, notably compensation of employees of the government, virtually never bear VAT. There is thus a case for excluding compensation of government employees from the VRR denominator.

There may be good arguments to consider a number of government activities as belonging to the potential (if not actual) VAT base, since exemption creates a bias towards vertical integration (to avoid the cost of non-deductible VAT) and may create distortions of competition on increasingly liberalised markets. As a result, a distinction could be made between:

- Individual consumption expenditure, that could be considered as belonging to a theoretic VAT base since there would be a possible interaction with the private sector and distortion of competition if the one is exempt and the other is taxed. In this case, the potential tax base could include the value of the outputs from government ; and
- Collective consumption expenditure, that would never belong to the potential tax base and where government entities act as final consumer themselves and for which only the taxable input should belong to the tax base.

Where this line is drawn could, though, vary from country to country and thus have an impact on the VRR calculation.

Final consumption expenditure by the non-profit institutions servicing households (NPISHs)

NPISHs are units formed by groups of households in order to supply services to themselves or to other households on a non-commercial basis. NPISHs include political parties, trade unions, religious organisations, sports and bridge clubs, cultural associations, charities and associations with philanthropic aims (Red Cross, etc.), and certain charitable foundations. In some countries, a number of universities are also classified in this sector. On the other hand, non-profit institutions that are not directly financed by households but, for example, by enterprises (Chambers of Commerce, professional associations, etc.) are classified in the enterprise sector. Those controlled or financed by general government are classified in the general government sector. NPISHs constitute only a small sector in the national accounts.

Like general government, the NPISHs provide "non-market" services. For this reason, their treatment in the national accounts is similar to that of general government. The output of services by NPISHs is valued at cost, and by convention the NPISHs "consume" the services they produce. Final consumption expenditure of the NPISHs is therefore equal to their operating costs. There is no need to divide between individual expenditure and collective expenditure here since these organisations are at the service of households and all their expenditure is therefore considered as individual. In most countries NPISHs are VAT exempt (without right to deduct input tax).

In terms of the VRR, the pros and cons of excluding compensation of employees and consumption of fixed capital would be similar to the case of general government, but with a stronger presumption that all the final consumption of NPISHs should be part of the VRR denominator.

Cascading effect of exemptions in the financial sector

In most OECD countries, the provision of financial and insurance services on the domestic market is VAT exempt without right to deduct the VAT paid by those providers on their inputs. Such an exemption generates a "cascading effect" when the cost of the non-deductible VAT on inputs is passed on to customers of the financial institutions and cannot be recovered by taxable businesses further down the supply chain. These businesses are then overtaxed. The consequence of this cascading effect may be an increase of net revenues in a non-transparent manner. Depending on the size and structure of the market for such products, the cascading effect may generate more VAT revenue than the revenue cost of the exemption itself. This may create distortions in the VRR calculations since the VRR is increased by revenue generated by a tax that does not tax consumption but that cascades in the supply chain. Distortions may vary widely across countries depending on the size of their financial sector and the structure of the market.

Remedying such a distortion would imply the removal of revenues arising from the cascading effect, from the VAT revenues in the numerator of the VRR. Further work may be needed to assess possible measurement methodologies. For instance, it is unclear if the amount of non-deductible VAT incurred by financial institutions could be approximated by using industry-specific input-output tables in the national accounts or other sources.

Other potential distortions

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

Interpretation of the VRR

In theory, the closer the VAT system of a country is to the "pure" VAT regime, the closer its VRR is to 1. A lower value reflects such factors as the effects of reduced rates, exemptions or a failure to collect all tax due. A VRR above 1 is possible in theory where almost all the tax base is covered by the standard rate and a number of exemptions without right to deduction apply so that the cascading effect of the exemption (see below) provides additional revenue for the government that exceeds the cost of the exemption. A VRR close to 1 is taken as an indicator of a VAT bearing uniformly on a broad base with effective tax collection.

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

- Tax compliance never reaches 100 per cent;
- In many countries, a wide range of goods and services are subject to reduced rates of VAT;
- Some goods and services are usually exempt from VAT (*e.g.* healthcare, education, financial services). Such exemption may reduce the tax revenue (when exemption applies to goods and services directly supplied to final consumer *e.g.* healthcare) or may increase that revenue when exemption occurs early in the supply chain (*e.g.* financial services made to businesses) and the revenue arising from the cascading effect exceeds the potential tax arising from regular taxation.
- Some distortions may be created by the place of taxation rules applicable to international trade (*e.g.* services taxed in the country where the supplier is established while its consumers reside abroad).
- Small traders are exempt from VAT in many countries (registration/collection thresholds) since compliance costs (for businesses) and administrative costs (for tax administrations) could well exceed economic efficiency gains from including their outputs within the VAT base. But these thresholds reduce the amount of VAT collected.

- The revenue cost of reduced VAT rates or inefficient tax collection may be partially offset in revenue terms by a failure to pay VAT refunds to businesses when they are in a tax credit situation (*e.g.* exporters can claim a tax credit on their inputs while exports are made tax free).
- There may be a difference between the goods and services regarded as potentially subject to VAT and the measure of consumption reported in the national accounts (see below).

These factors include both policy decisions – affecting the tax base or the coverage of the standard rate – and compliance levels. If the aim of the measure were to look simply at the policy issue of the extent to which the VAT legislation differs from taxing consumption at a uniform rate, it would be better to compare the theoretical VAT revenue under the actual tax base and rates (assuming perfect compliance) with that under a uniform tax on all consumption:

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

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

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

It is clear that the VRR is a combination of the "Policy Efficiency Ratio" and the "Compliance Efficiency Ratio". Methods may be developed to produce breakdowns of the composition of the VRR. One method may consist in using the tax expenditure (*i.e.* the revenue cost of departure from the application of the standard rate to the "entire" tax base) which may allow for calculating the policy efficiency ratio. The remaining difference between 1 and the actual VRR would provide the compliance efficiency ratio by deduction.

Another method would be to calculate the "tax gap" (the difference between tax collected and the tax that should be collected if all individuals and companies fully complied with the law). The UK tax administration has actually developed a methodology to estimate the VAT gap (HMRC, 2011). It uses national accounts data to calculate the theoretical total VAT liability in the UK, which is defined as the amount which would be collected in the absence of any fraud, avoidance, debt or other losses. The difference between actual cash receipts and this theoretical amount of VAT is the VAT gap. The gross VAT theoretical tax liability is built up from five expenditure components: household consumption; capital expenditure on housing; government expenditure; charities expenditure; and expenditure of partially exempt businesses. The measure takes into account the applicable VAT rates on that expenditure based on commodity breakdowns; the legitimate refunds (deductions) and exemptions occurring through schemes and reliefs.

The VAT gap measure is close, in terms of methodology, to the way the VRR is calculated although the theoretical VAT liability reflects actual tax rates, exemptions and thresholds applied to a narrower base than total final consumption as in the national accounts.

Analysis of VRR figures

Table 4.1. shows the considerable variation in the VAT revenue Ratio across OECD countries. In 2009 it varied from 0.31 (Mexico) to 0.98 (New Zealand). Two countries have a VRR far above the others: New Zealand (0.98) and Luxembourg (0.93). New Zealand's figure appears to be due to a combination of factors including a broad base with limited exemptions (see Table 3.10) and a limited use of a zero rate (see Table 3.11).[3]

The majority of countries (26 of 33) have a VRR below 0.65 and about a half (14 of 33) have a ratio below 0.50 with an OECD average of 0.55. This suggests that about one half of potential VAT revenue is not collected.

This VRR notably suggests that most OECD countries apply VAT only on a narrow tax base, which is confirmed by the wide range of exemptions and lower rates that exist in most member countries (see Tables 3.9 and 3.11). This is also confirmed by available data on tax expenditures, reflecting the cost of tax concessions, in particular in Italy, Mexico, Spain and the United Kingdom (OECD, 2010b).

It also appears that the level of the standard rate has a limited influence on the VRR. Countries with comparable standard rates can have very different VRRs. Luxembourg and Mexico, for example, both apply a standard rate of 15% in 2009 but their VRR is respectively 0.92 and 0.31. The low VRR for Mexico probably results from a combination of an extended use of the domestic zero rate, a reduced rate for the sale of goods in the border regions and a lower compliance rate.

Although a large majority of countries (21 of 33) have a VRR between 0.45 and 0.65, they have standard VAT rates which vary widely, from 5% (Canada) to 25% (Sweden) without correlation between the level of the standard VAT rate and the VRR. Denmark, Norway and Sweden have high standard VAT rates (25%) with a higher VRR (respectively 0.59, 0.54 and 0.57) while Spain and Turkey have lower standard rates (respectively 16% and 18%) with lower VRR (0.34). It is difficult to draw typical profiles for "efficient" and "inefficient" countries in the collection of VAT revenues on the basis of this VRR. Only Japan combines a single (low) VAT rate, an absence of a domestic zero rate and a high VRR (0.67).

However, other factors may significantly affect the VRR. For example, the evolution of the VRR for Luxemburg, which has increased significantly from 0.57 in 1996 to 0.92 in 2009, may have been influenced by particular market circumstances. It is notably reasonable to assume that Luxemburg's position as an international financial centre has an upward effect on its VRR. Supplies by financial service providers are generally VAT exempt in Luxemburg without right to deduct input tax, including when supplied to customers in other EU member states. This means that the Luxemburg VAT incurred by these service providers in the country increases its VAT revenues while a large part of the corresponding final consumption occurs in other EU member states as a result of the increasing cross-border trade in financial services. Luxemburg has over time also become an international centre for e-commerce, notably as a consequence of the VAT treatment of this activity under the EU VAT legislation. Under this legislation, e-commerce transactions to final consumers are taxed in the EU member state where the supplier is established. The low standard VAT rate in Luxemburg (15%), has acted as an incentive to e-suppliers to establish in Luxemburg and this has generated additional revenue for the country. This rule will change on 1 January 2015. From then on, suppliers will have to charge VAT to EU consumers on the basis of the rate applicable in the consumer's member state and the revenue collected will accrue to that member state.

Another example is the decrease of the VRR for Australia in 2008 from 0.54 to 0.50. It may be explained by a change in consumption patterns. Due to a hike in the prices on the housing market, household expenditures shifted from goods and services that are subject to VAT (*e.g.* cars, recreational activities) to rents that are exempted from VAT. Therefore, the reduction in the VRR for 2008 cannot be interpreted as a reduction of the tax base or a lesser efficiency of the tax administration to collect taxes.

More generally, it is reasonable to conclude that among the factors that influence the performance of VAT systems, the following are particularly relevant:

- the structural features of the tax, *i.e.* rates, exemptions, bases and thresholds;
- the evolution of consumption patterns (where part of the potential tax base is exempt);
- place of taxation rules for international trade that diverge from the destination principle and distort the allocation of taxing rights across jurisdictions;
- the capacity of the tax administration to manage the system in an efficient way; and
- the degree of compliance by taxpayers.

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

	Standard VAT rate 2009	1976	1980	1984	1988	1992	1996	2000	2003	2005	2006	2007.0	2008	2009	Difference 2000-2009
AUSTRALIA	10.0								0.55	0.56	0.55	0.54	0.50	0.52	0.52
AUSTRIA	20.0	0.65	0.65	0.66	0.61	0.60	0.60	0.62	0.61	0.61	0.59	0.61	0.61	0.61	–0.01
BELGIUM	21.0	0.57	0.61	0.50	0.53	0.50	0.47	0.51	0.48	0.50	0.52	0.51	0.48	0.47	–0.05
CANADA[3]	5.0					0.44	0.48	0.51	0.51	0.52	0.48	0.52	0.51	0.49	–0.02
CHILE	19.0					0.62	0.67	0.64	0.67	0.67	0.64	0.67	0.70	0.59	–0.05
CZECH REPUBLIC	19.0						0.43	0.43	0.41	0.57	0.53	0.55	0.58	0.56	0.13
DENMARK	25.0	0.64	0.61	0.60	0.60	0.55	0.58	0.60	0.60	0.62	0.64	0.65	0.62	0.59	–0.02
ESTONIA	18.0						0.73	0.70	0.69	0.75	0.81	0.80	0.67	0.76	0.05
FINLAND	22.0						0.54	0.60	0.60	0.60	0.61	0.60	0.58	0.55	–0.05
FRANCE	19.6	0.65	0.68	0.62	0.61	0.52	0.51	0.50	0.50	0.51	0.51	0.51	0.49	0.46	–0.04
GERMANY	19.0	0.56	0.57	0.52	0.50	0.62	0.60	0.61	0.56	0.55	0.57	0.55	0.56	0.56	–0.05
GREECE	19.0				0.46	0.46	0.43	0.50	0.49	0.48	0.47	0.48	0.46	0.39	–0.10
HUNGARY	20.0					0.30	0.43	0.52	0.46	0.49	0.55	0.59	0.57	0.62	0.10
ICELAND	24.5					0.56	0.54	0.59	0.54	0.62	0.65	0.60	0.54	0.47	–0.12
IRELAND	21.5	0.30	0.21	0.44	0.42	0.46	0.52	0.58	0.57	0.65	0.66	0.62	0.54	0.46	–0.12
ISRAEL[4]	15.5						0.68	0.64	0.63	0.64	0.64	0.69	0.68	0.68	0.04
ITALY	20.0	0.46	0.43	0.40	0.40	0.39	0.40	0.45	0.41	0.41	0.43	0.43	0.41	0.37	–0.08
JAPAN	5.0					0.68	0.71	0.68	0.66	0.71	0.70	0.69	0.67	0.67	–0.01
KOREA	10.0					0.64	0.59	0.61	0.69	0.66	0.65	0.65	0.65	0.67	0.06
LUXEMBOURG	15.0	0.60	0.56	0.56	0.57	0.47	0.57	0.68	0.75	0.87	0.87	0.91	0.94	0.92	0.24
MEXICO	15.0		0.33	0.28	0.26	0.32	0.25	0.29	0.30	0.31	0.34	0.34	0.35	0.31	0.02
NETHERLANDS	19.0	0.49	0.54	0.51	0.56	0.59	0.57	0.60	0.57	0.61	0.60	0.62	0.60	0.55	–0.06
NEW ZEALAND	12.5				0.89	0.97	0.99	0.98	1.07	1.02	1.03	0.96	0.97	0.99	0.01
NORWAY	25.0	0.66	0.66	0.63	0.69	0.58	0.60	0.67	0.56	0.57	0.61	0.63	0.57	0.54	–0.13
POLAND	22.0						0.43	0.42	0.42	0.46	0.50	0.53	0.49	0.46	0.04
PORTUGAL	20.0				0.45	0.50	0.56	0.60	0.54	0.57	0.53	0.53	0.51	0.44	–0.16
SLOVAK REPUBLIC	19.0						0.48	0.43	0.53	0.61	0.57	0.53	0.54	0.48	0.04
SLOVENIA	20.0							0.68	0.65	0.66	0.67	0.69	0.67	0.62	–0.06
SPAIN	16.0				0.59	0.62	0.45	0.53	0.53	0.56	0.57	0.54	0.45	0.34	–0.19
SWEDEN	25.0	0.45	0.36	0.39	0.42	0.41	0.50	0.52	0.52	0.55	0.56	0.57	0.58	0.57	0.05
SWITZERLAND	7.6						0.68	0.75	0.73	0.73	0.75	0.74	0.74	0.71	–0.05
TURKEY	18.0				0.45	0.44	0.43	0.45	0.47	0.38	0.34	0.36	0.35	0.34	–0.11
UNITED KINGDOM	15.0	0.47	0.45	0.49	0.53	0.48	0.49	0.48	0.49	0.48	0.48	0.48	0.46	0.47	–0.02
Unweighted average		**0.54**	**0.51**	**0.51**	**0.53**	**0.53**	**0.55**	**0.58**	**0.57**	**0.59**	**0.59**	**0.60**	**0.58**	**0.55**	**0.02**

Notes

1. Calculation formula: VRR = VAT revenue/(consumption x standard VAT rate) - VAT revenue). Consumption = final consumption expenditure (heading P3) in national accounts. VAT rates used are standard rates applicable as at 1 January of each year.
2. Time series: Since data beyond 2009 is not available for all countries at the time of publication, VRR is not calculated after this date.
3. **Canada:** VRR Calculation includes federal VAT only
4. **Israel:** The statistical data for Israel are supplied by and under the responsibility of the relevant Israeli authorities. The use of such data by the OECD is without prejudice to the status of the Golan Heights, East Jerusalem and Israeli settlements in the West Bank under the terms of international law. Although VAT was implemented in Israel in 1976, the VRR is only calculated from 1996 onwards since tax revenue figures are not available before that year.

StatLink http://dx.doi.org/10.1787/888932718820

The interaction between these five factors is crucial. For example, a high standard rate may provide an incentive for evasion while multiple lower rates often lead to misclassifications and create high compliance and administrative burdens. It is likely that high registration or collection thresholds improve the performance of tax administrations by allowing them to concentrate on the larger taxpayers. Exemption of certain 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 reduce the degree of compliance of taxpayers. Etc…

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

Notes

1. A revised norm "SNA 2008" has been developed but its implementation is still in progress in a number of OECD countries. Therefore the SNA 1993 is still used for the international comparison purposes.
2. In this context, "exempt" means that outputs are not taxed but that the tax on inputs is not deductible. In some countries, such exemption is called "input taxation".
3. Unlike exemption, zero rate means that no VAT is chargeable by the supplier and the supplier is able to fully recover input tax incurred in the process of making such supplies.

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Chapter 5

Selected excise duties in OECD member countries

This chapter describes the main features of the excise duties and their impact on revenue, customer behaviour and markets. It explains the respective impact of specific excise and ad valorem taxes and how they interact. It shows the detailed excise tax rates on beer, wine, alcoholic beverages, tobacco, and mineral oil products in OECD countries.

Introduction

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

Excise duty, unlike value added taxes (VAT)[1] and other general consumption taxes, is levied only on specifically defined goods. There are still many products subject to excise duties in many countries, such as chocolate, coffee and orange juice, but only a few are taxed in all OECD countries. The three principal product groups that are liable to excise duties in all OECD countries are alcoholic beverages, mineral oils and tobacco products.

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

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

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

In addition to their rates and tax base, the weight and impact of excise taxes may also be substantially affected by their structure. There are two main ways in which excisable products can be taxed: by a *specific tax*, charged as a fixed amount per unit of the product (*e.g.* 1 USD per litre), which is actually a tax on the volume of sales; and an *ad valorem tax,* specified as a proportion of the product price (*e.g.* 20% of the selling price), which is actually a tax on the value of sales. In a number of instances (*e.g.* tobacco taxes as presented in Table 5.5.) the total excise tax results from a mix of *ad valorem* and specific taxes. The specific tax requires a precise definition of the nature and characteristics of the tax base (*e.g.* a litre of unleaded gasoline with 94 RON) while the *ad valorem* tax is simply based on the price. Most products naturally present a bundle of different characteristics (volume, weight, strength, octane or alcoholic content, etc.). A specific tax will remain unaffected by any changes in the product characteristics that have not been defined as being relevant for the tax base whereas *ad valorem* taxes bear on all the characteristics of the product that are reflected in the price. As a result, the impact of both types of taxes impact on production and consumption will be different. For example, a specific tax on beer (per litre per degree plato) may encourage brewers to develop a varieties of beer, including more luxurious products, that could be offered at higher prices while remaining subject to the same level of excise duty as the cheaper product. On the other hand, *ad valorem* taxes may discourage costly improvements in product quality.

Keen (2008) shows that there is no optimal balance between the two taxes in absolute terms since it depends on the particular characteristics of the market at stake and the aim of the tax. There are examples in which wholly *ad valorem* taxation would be optimal, situations where wholly specific taxation would be optimal and some where a combination of the two would be optimal.

While the main purpose and the original reason for the introduction of excise duties were to raise revenue, they were also used to discourage consumption of certain products considered harmful. In recent years, excise duties have increasingly been used as a means of influencing consumer behaviour in a number of areas. The case put forward in relation to alcoholic beverages and tobacco products is that drinking and smoking are health hazards and increased excise duties help to reduce consumption. For mineral oils, reasons for determining consumer behaviour reflect a mixture of energy conservation, transport and environmental issues. Over the last decade, environmental issues have played an increasing role in determining the nature and application of taxes *e.g.* to road fuel, motor vehicles (see Chapter 6) and CO_2 emissions. OECD analysis (OECD, 2010) confirms the advantages of environmental taxes such as environmental effectiveness, economic efficiency, the ability to raise public revenue, and transparency. Also, environmental taxes have been successfully used to address a wide range of issues including waste disposal, water pollution and air emissions. It also shows how the way they are designed and implemented is crucial to their success (OECD, 2011).

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 and structure, sometimes gives rise to significant differences between countries. For example, excise duties on wine (Table 5.2) may vary from zero (Austria, Czech Republic, Germany, Greece, Hungary, Israel, Italy, Luxemburg, Portugal, Slovak Republic, Slovenia, Spain and Switzerland) to more than USD 2 a litre (Finland, Ireland, Norway, Sweden and United Kingdom). These differences often result from traditions that exist in countries, in particular as regards the overall tax treatment of alcoholic beverages.

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

Alcoholic beverages

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

Excise duties are applied to alcoholic beverages in two main ways. The duty can be either specific in relation to the alcoholic content of the product (specific tax) or calculated according to the value of the product (*ad valorem tax*). The two methods are sometimes combined to include both the volume (based on alcohol content) and value. The effect of a specific rate is to penalise cheap or raw products (which may be more harmful to health) and to benefit the more expensive and mature products. The reverse can be said of taxation according to the value and this is often the reasoning behind using a combination of the two methods. One exception is Mexico where the rate of tax is calculated exclusively on the value of the product for alcoholic beverages, with a graduated rate for beer based on the alcoholic content of the product.

Tables 5.1, 5.2 and 5.3 and associated boxes 1, 2 and 3 in respect of excise duties on beer, wine and spirits illustrate, respectively, the complicated computations for excise duties. Due to fluctuations in the value base, coupled with a mixture of specific rates and rates calculated according to the value, it is difficult to be precise about the price differentials from a consumer point of view. What is apparent however is that differences between certain neighbouring countries encourage cross-border "bootlegging" activities (*e.g.* UK/France and Denmark/Germany). Although some would argue that market forces should encourage moves towards approximation of rates, this is contradictory with other policy factors when issues such as health are taken into account in setting the rates.

Mineral oil products

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

For social reasons nearly all OECD countries tax heating oil for households at a lower rate than diesel even though these two products are more or less identical. One OECD country (Mexico) has a tax on energy products according to the value only. All other countries have a specific duty rate. The revenues raised from these taxes are significant, as a result of the considerable level of consumption in the OECD countries and high tax rates in many of them. Compared to other tax rates within the overall economy, the level of taxation for fuel relative to the base is very high, with the total burden (mainly excise plus VAT) typically exceeding 100% of pre-tax prices.

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

Table 5.4 gives the current excise rates for mineral oil products and LPG in OECD countries and again illustrates the wide disparity. For example, excise taxes on premium unleaded gasoline vary from USD 0.109 in the United States to USD 1.483 in Turkey for 1 litre. More generally, North America has the lowest fuel taxes, followed by OECD countries in Asia and the Pacific, with European countries having significantly higher tax rates.

It is interesting to note that the excise taxation levels for diesel fuel are significantly lower than those for gasoline. Only two countries – Switzerland and the United States – have a higher level of tax for diesel than gasoline; the rates are the same for both fuel types in Australia and the United Kingdom. From an environmental point of view, this is peculiar, as diesel consumption in vehicles has a much greater environmental impact than unleaded gasoline, largely due to the significant differences in NO_x[2] and particulate emissions. With more stringent motor vehicle regulations, the difference is becoming less distinct (OECD, 2010).

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

Tobacco products

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

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

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

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

Table 5.1. **Taxation of beer**

	Specific excise per hectolitre per degree alc.[1]		Lower excise for small independent breweries			Excise duty on low alcohol (not exceeding 2.8% alcohol by volume) beerExcise per hectolitre of product		VAT rate	Excise rates which are progressive by strength
	National currency	USD	Annual production (hl)	National currency	USD	National currency	USD	Per cent	
Australia	See note		See note	See note		See note		10.0	Yes
Austria	5.00	5.88	< 12 500	3	3.53	_	_	20.0	No
			< 25 000	3.5	4.12			20.0	
			< 37 500	4	4.71			20.0	
			≤ 50 000	4.5	5.30			20.0	
Belgium	4.28	4.94	≤ 12 500	3.73	4.31	_	_	21.0	No
			≤ 25 000	3.85	4.45			21.0	
			≤ 50 000	3.98	4.60			21.0	
			≤ 75 000	4.10	4.73			21.0	
			≤ 200 000	4.22	4.87			21.0	
Canada	31.22	25.39	From 0 to 2 000	3.12	2.54	See note		5.0, 12.0, 13.0 or 15.0	Yes
			From 2 001 to 5 000	6.24	5.08			5.0, 12.0, 13.0 or 15.0	
			From 5 001 to 15 000	12.49	10.16			5.0, 12.0, 13.0 or 15.0	
			From 15 001 to 50 000	21.85	17.77			5.0, 12.0, 13.0 or 15.0	
			From 50 001 to 75 000	26.54	21.59			5.0, 12.0, 13.0 or 15.0	
Chile	See note		See note			See note		19.0	No
Czech Republic	32.00	2.30	≤ 10 000	16.00	1.15	_	_	20.0	No
			≤ 50 000	19.2	1.38			20.0	
			≤ 100 000	22.40	1.61			20.0	
			≤ 150 000	25.60	1.84			20.0	
			≤ 200 000	28.80	2.07			20.0	
Denmark	50.90	6.51	≤ 3 700	See note		0.00	0.00	25.0	No
			≤ 20 000	See note				25.0	
			< 200 000	See note				25.0	
Estonia	5.43	10.21	≤ 3 000	2.72	5.11	_	_	20.0	No
Finland	29.90	31.60	≤ 2 000	14.95	15.80	4.00	4.23	23.0	No
			≤ 30 000	20.93	22.12			22.0	
			≤ 55 000	23.92	25.28			22.0	
			≤ 100 000	26.91	28.44			22.0	
France	2.75	3.17	≤ 10 000	1.38	1.59	1.38	1.59	19.6	No
			≤ 50 000	1.64	1.89			19.6	
			≤ 200 000	2.07	2.39			19.6	
Germany	1.97	2.47	≤ 5 000	1.10	1.38	_	_	19.0	No
			≤ 10 000	1.32	1.65			19.0	
			≤ 20 000	1.54	1.93			19.0	
			≤ 40 000	1.65	2.07			19.0	
Greece	6.50	9.19	≤ 200 000	1.30	1.84	_	_	23.0	No
Hungary	1470.00	11.32	< 800	735.00	5.66			27.0	No
Iceland	See note		_	_	_	See note	_	25.5	Yes
Ireland	15.71	18.76	≤ 20 000	see note		See note		21.0	No
Israel	218.00	58.79	_	_	_	See note		16.0	No
Italy	5.88	7.36	_	_	_	See note	_	21.0	No
Japan	See note					_	_	5.0	No
Korea	See note					See note		10.0	No
Luxembourg	1.98	2.12	≤ 50 000	0.99	1.06	_	_	15.0	No
			≤ 200 000	1.12	1.20	_	_	15.0	
Mexico	25%					_	_	16.0	Yes
Netherlands	See note		_	_	_	_	_	19.0	Yes

Table 5.1. **Taxation of beer**

	Specific excise per hectolitre per degree alc.[1]		Lower excise for small independent breweries			Excise duty on low alcohol (not exceeding 2.8% alcohol by volume) beerExcise per hectolitre of product		VAT rate	Excise rates which are progressive by strength
	National currency	USD	Annual production (hl)	National currency	USD	National currency	USD	Per cent	
New Zealand	27.20	17.86				See note		15.0	No
Norway	See note					See note		25.0	Yes
Poland	19.48	10.39	See note			_	_	23.0	No
Portugal	See note		See note			See note		23.0	Yes
Slovak Republic	3.59	6.90	≤ 200 000	2.652	5.10	_	_	20.0	No
Slovenia	10.00	15.87				_	_	20.0	No
Spain	See note		_	_	_	See note		18.0	Yes
Sweden	166.00	18.62	_	_	_	_	_	25.0	No
Switzerland	See note					See note		8.0	Yes
Turkey	63.30%	_	_	_	_	_	_	18.0	No
United Kingdom	18.57	28.17	See note			9.29	14.09	20.0	No
United States	See note					_	_		No

Notes:

1. In some countries the excise rate on beer is calculated per hectolitre per degree Plato. For ease of reading, all amounts have been converted in excise per hectolitre per degree of absolute alcohol. There is no precise conversion between degrees Plato and degrees of absolute alcohol but for tax purposes it is often assumed that 1% alcohol is equivalent to 2.5 degrees Plato. As a result, tax rates expressed in degree Plato have been multiplied by 2.5 to obtain the rates in degree alcohol.
2. Israel: The statistical data for Israel are supplied by and under the responsibility of the relevant Israeli authorities. The use of such data by the OECD is without prejudice to the status of the Golan Heights, East Jerusalem and Israeli settlements in the West Bank under the terms of international law.

Source: National Delegates; position as at 1 January, 2012.

StatLink http://dx.doi.org/10.1787/888932718839

Box 1. **Country notes to Table 5.1**

Australia. The excise rates for beer in individual containers not exceeding 48 litres are: AUD 37.63 per litre of alcohol where volume of alcohol does not exceed 3 per cent, AUD 43.85 where volume of alcohol exceeds 3 per cent but does not exceed 3.5 per cent and AUD 43.85 where volume exceeds 3.5 per cent. The rates for beer in individual containers exceeding 48 litres are: AUD 7.51 per litre of alcohol where volume of alcohol does not exceed 3 per cent, AUD 23.59 where volume of alcohol exceeds 3 per cent but not more than 3.5 per cent, and AUD 30.86 where volume exceeds 3.5 per cent. These rates apply as of 1 August 2011. Each rate is calculated on the amount by which the alcohol content exceeds 1.15 per cent. Beer that does not contain more that 1.15 per cent by volume of alcohol is free of excise. These rates are indexed to inflation in February and August each year. Microbrewers receive an excise refund of 60 per cent of the excise paid up to a maximum of AUD 10 000 per financial year provided the production of beer does not exceed 30 000 litres.

Box 1. **Country notes to Table 5.1** *(cont.)*

Canada. The excise duty rates for beer (2.5% absolute ethyl alcohol by volume or less) are: On the first 2 000 hectolitres of beer and malt liquor brewed in Canada, if it contains more than 1.2% absolute ethyl alcohol by volume but not more than 2.5% absolute ethyl alcohol by volume, $1.561 per hectolitre; if it contains not more than 1.2% absolute ethyl alcohol by volume, $0.2591 per hectolitre. On the next 3 000 hectolitres of beer and malt liquor brewed in Canada, if it contains more than 1.2% absolute ethyl alcohol by volume but not more than 2.5% absolute ethyl alcohol by volume, $3.122 per hectolitre; if it contains not more than 1.2% absolute ethyl alcohol by volume, $0.5182 per hectolitre. On the next 10 000 hectolitres of beer and malt liquor brewed in Canada, if it contains more than 1.2% absolute ethyl alcohol by volume but not more than 2.5% absolute ethyl alcohol by volume, $6.244 per hectolitre; if it contains not more than 1.2% absolute ethyl alcohol by volume, $1.0364 per hectolitre. On the next 3 000 hectolitres of beer and malt liquor brewed in Canada, if it contains more than 1.2% absolute ethyl alcohol by volume but not more than 2.5% absolute ethyl alcohol by volume, $10.927 per hectolitre; if it contains not more than 1.2% absolute ethyl alcohol by volume, $1.8137 per hectolitre. On the next 25 000 hectolitres of beer and malt liquor brewed in Canada, if it contains more than 1.2% absolute ethyl alcohol by volume but not more than 2.5% absolute ethyl alcohol by volume, $13.269 per hectolitre; if it contains not more than 1.2% absolute ethyl alcohol by volume, $2.2024 per hectolitre.

Chile. The sale of alcoholic beverages (including wine, beer, distilled alcoholic beverages and other alcoholic beverages) is subject to 19% VAT and also to surtax on the sale or import of alcoholic beverages. The rate applied to beer is of 15% and does not depend upon the degree of alcohol that the beer contains. The tax is applied to the VAT base, that is the sale`s price (excluding VAT itself) and levies sales made between wholesale dealers. For sales between wholesalers, the tax paid to the vendor is creditable against the tax applied on sales at each stage of the value chain (including imports) until the last sale to the final retailer. The sale from the retailer to the final consumer is not subject to the surtax and the retailer cannot deduct the input tax.

Denmark. Lower rates on small independent breweries: production ≤ 3 700 hl receives a tax reduction of DKK 70 per hl; production ≤ 20 000 (X) receives a tax reduction of DKK 236.073/X + 6.20 per hl; production < 200 000 hl receives a tax reduction of DKK 20 – X/10 000 per hl. An additional duty is placed on products which contains a mixture of beer and non-alcoholic drinks, Rates: DKK 8.15 pr. l of mixture with alcohol content <= 10% in the final product and DKK 14.80 pr. l of mixture with alcohol content > 10% in the final product.

Finland. Beer with an alcoholic content less than 0.5 % vol. is free of excise.

Iceland. The duty in Iceland is ISK 91.33 per centilitre of alcohol per litre minus 2.25 centilitres. For example, one litre of beer that has 6% alc./vol. has 6 centilitres alcohol per litre. So the duty for one litre of beer that contains 6% alc./vol. would be as follows: (6-2.25) *91.33 = ISK 342.49 ISK. per litre. As a result of this formula, beer with less than 2.25% alc. vol. is not taxed.

Ireland. There is repayment of 50% alcohol products tax (excise duty) on beer brewed in independent small breweries producing up to 20 000 hl a year. For low alcohol beer, the rate is 0.00 (beer ≤ 1.2 alc.) and EUR 7.85 (beer > 1.2 up to 2.8 alc.).

Israel. The duty was set as ILS 218 on 1 January 2012. The amount is updated each year according to the change in the Consumer Price Index (CPI). There is no duty on beer under 2% alcohol (or under 8% alcohol if marketed in resusable bottles).

Box 1. **Country notes to Table 5.1** *(cont.)*

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

Japan. Excise rates are JPY 22 000 per hectolitre of product. Small brewers who produce no more than 13 hectolitre of beer per year pay JPY 17 600 per hectolitre on the first two hectolitre for the first five years of the license (temporary measure).

Korea. The rate of Liquor Tax on beer is 72% of the manufacturer's price. In addition, Education Tax (30% on the amount of Liquor Tax levied) is also levied.

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 and other alcoholic beverages apply as follows: 25% up to 14° GL; 30% above 14° GL and up to 20° GL; 50% above 20° GL. As a mechanism to discourage the use of disposable containers, taxpayers should pay the greater amount between the result of applying the corresponding rate to the value or a 3 MXN per litre fee (taxpayers that use re-usable containers can reduce an amount of 1.26 MXN per litre).

Netherlands. For beer that is sold usually, that is, beer of 12 degree Plato in the range 11-15 degree Plato (EUR 32.64:12 = EUR 2.72 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 24.49; *c)* 11-15 degree Plato EUR 32.64; *d)* over 15 degree Plato EUR 40.82. 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 22.65; *c)* 11-15 degree Plato EUR 30.19; *d)* over 15 degree Plato EUR 37.76. For beer with a maximum 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 27.206 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 40.802 per litre of product. There is no excise duty on beer containing less than 1.15% vol.

Norway. Excise rates are as follows per hectolitre of product: *a)* 0.0-0.7% vol. NOK 0; *b)* 0.7-2.7% vol. NOK 300; *c)* 2.7-3.7% vol. NOK 1 131; *d)* 3.7-4.7% vol. NOK 1 959. The excise rate for beer with an alcoholic content of more than 4.7% vol. is NOK 438 per degree of alcohol and hectolitre.

Poland. Allowances for small breweries: production ≤ 20 000 hl a year tax is reduced by PLN 30 /hl; production ≤ 70 000 hl a year tax is reduced by PLN 15/hl; production ≤ 150 000 hl a year tax is reduced by PLN 12.00/hl and by PLN 9.00/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 7.36 ; *b)* more than 1.2% vol. and a degree Plato up to 7 – EUR 9.22; *c)* more than 1.2% vol. and a degree Plato in excess of 7 but up to 11 – EUR 14.72; *d)* more than 1.2% vol. and a degree of Plato in excess of 11 but up to 13 – EUR 18.43; *e)* more than 1.2% vol. and a degree of Plato in excess of 13 but up to 15 – EUR 22.10; *f)* more than 1.2% vol. and a degree of Plato in excess of 15 – EUR 25.85. Rates for small breweries (annual production up to 200 000 hl) are 50% of the normal rates.

Slovenia. Specific excise per hectolitre per degree alc. was EUR 9.00 until end of June 2010. Since 1 July 2010, it is EUR 10.00.

Box 1. **Country notes to Table 5.1** *(cont.)*

Spain. Excise rate according to strength is : beer < 1.2% vol. is free of excise; beer between 1.2% and 2.8% vol. is EUR 2.75/hl; beer between 2.8% vol. and 11 degree Plato is EUR 7.48/hl; beer with a degree Plato > 11 and not > 15 = EUR 9.96/hl; beer with a degree Plato > 15 and not > 19 = EUR 13.56/hl; beer with a degree Plato > 19 = EUR 0.91/hl and per degree Plato. There is no tax on Beer in Ceuta and Melilla (Spanish cities situated in the North of Africa).

Switzerland. Rates per hectolitre: light beer (up to 10.0° Plato): CHF 16.88, regular and special beer (10.1 to 14.0° Plato): CHF 25.32, strong beer (from 14.1° Plato): CHF 33.76. Reductions for small breweries from 40 % (annual production max. 15 000 hl) to 0 % (annual production min. 55 000 hl). Beer with more than 15 % vol. is taxed as an alcoholic beverage (CHF 2 900 per hectolitre of absolute alcohol).

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: United Kingdom. Beer with an alcoholic content not exceeding 1.2% vol. is free of excise. Lower strength beer duty applies to beer 1.3 to 2.8% alcohol by volume and is equivalent to 50% of the general beer duty rate. High strength beer duty was introduced from 1 October 2011 and is a duty applied to all beer exceeding 7.5% alcohol by volume in addition to general beer duty. Reduced duty rates apply for independent breweries producing between 5 000 hectolitres and 30 000 hectolitres = annual production – 2 500/annual production × standard rate of duty; Between 30 000 hectolitres and 60 000 hectolitres = annual production – (2500-8033% of annual production in excess of 30 000)/annual production × standard rate of duty. No further reduction of the Lower Strength Beer Duty rate can be claimed by a small brewer.

United States. The weighted average Federal and State excise tax rate is USD 22 per hectolitre of product. The Federal tax is USD 18.00 per barrel (31 gallons). 1 barrel = 1.1735 hectolitres. Small domestic brewers who produce less than 2 million barrels of beer per calendar year pay USD 7.00 in federal tax per barrel on the first 60 000 barrels. There is no progressive rate structure based on alcohol content and no Federal VAT.

Table 5.2. **Taxation of wine**

	Still wine			Sparkling wine			Low-alcohol (still) wine (< 8.5% alc.)		
	Excise per hectolitre of product		VAT rate (%)	Excise per hectolitre of product		VAT rate (%)	Excise per hectolitre of product		VAT (%)
	National currency	USD		National currency	USD		National currency	USD	
Australia	See note	–	10.0	See note	–	10.0	See note	–	10.00
Austria	0.00	0.00	20.0	0.00	0.00	20.0	0.00	0.00	20.00
Belgium	47.10	54.39	21.0	161.13	186.06	21.0	14.87	17.17	21.00
Canada	62.00	50.43	5.0, 12.0, 13.0 or 15.0	62.00	50.43	5.0, 12.0, 13.0 or 15.0	See note	–	5.0, 12.0, 13.0 or 15.0
Chile	See note	–	19.0	See note	–	19.0	See note	–	19.00
Czech Republic	0.00	0.00	20.0	2 340.00	168.11	20.0	0.00	0.00	20.00
Denmark	614.00	78.57	25.0	920.00	117.73	25.0	390.00	49.91	25.00
Estonia	73.11	137.43	20.0	73.11	137.43	20.0	31.70	59.59	20.00
Finland	312.00	329.71	23.0	312.00	329.71	23.0	See note	–	23.00
France	3.60	4.15	19.6	8.91	10.28	19.6	3.60	4.15	19.60
Germany	0.00	0.00	19.0	136.00	170.40	19.0	0.00	0.00	19.00
Greece	0.00	0.00	23.0	0.00	0.00	23.0	0.00	0.00	23.00
Hungary	0.00	0.00	27.0	14 960.00	115.17	27.0	0.00	0.00	27.00
Iceland	See note	–	25.5	See note	–	25.5	See note	–	25.50
Ireland	262.24	313.22	23.0	524.48	626.43	23.0	87.39	104.38	23.00
Israel[1]	0.00	0.00	16.0	See note	–	16.0	0.00	0.00	16.00
Italy	0.00	0.00	21.0	0.00	0.00	21.0	0.00	0.00	21.00
Japan	8 000.00	74.85	5.0	8 000.00	74.85	5.0	8 000.00	74.85	5.00
Korea	See note	–	10.0	See note	–	10.0	See note	–	10.00
Luxembourg	0.00	0.00	12 or 15	0.00	0.00	15.0	0.00	0.00	12.00
Mexico	25%/30%	–	16.0	25%/30%	–	16.0	25%	–	16.00
Netherlands	70.56	84.80	19.0	240.58	289.12	19.0	35.28	42.40	6 or 19
New Zealand	See note	–	15.0	See note	–	15.0	See note	–	15.00
Norway	5 256.00	546.22	25.0	5 256.00	546.22	25.0	See note	–	25.00
Poland	158.00	84.28	23.0	158.00	84.28	23.0	158.00	84.28	23.00
Portugal	0.00	0.00	13.0	0.00	0.00	23.0	0.00	0.00	23.00
Slovak Republic	0.00	0.00	20.0	79.66	153.33	20.0	0.00	0.00	20.00
Slovenia	0.00	0.00	20.0	0.00	0.00	20.0	0.00	0.00	20.00
Spain	0.00	0.00	18.0	0.00	0.00	18.0	0.00	0.00	18.00
Sweden	2 158.00	242.09	25.0	2 158.00	242.09	25.0	0.00	0.00	25.00
Switzerland	0.00	0.00	8.0	0.00	0.00	8.0	0.00	0.00	8.00
Turkey	See note	–	18.0	See note	–	18.0	See note	–	18.00
United Kingdom	241.23	365.96	20.0	308.99	468.75	20.0	74.32	112.75	20.0
United States	47.00	47.00	–	115.00	115.00	–	See note	–	–

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

Source: National delegates; position as at 1 January, 2012.

StatLink http://dx.doi.org/10.1787/888932718858

Box 2. **Country notes to Table 5.2**

Australia. All wine (including still, sparkling and low alcohol wine) are taxed at 10 per cent by the goods and services tax (GST) and are liable for the wine equalisation tax (WET). WET applies at 29% of the value of the wine at the last wholesale sale (before adding GST). A rebate of WET applies to eligible producers, up to a maximum of AUD 500 000 each financial year.

Box 2. **Country notes to Table 5.2** *(cont.)*

Canada: 1) A rate of CAD 0.62 per litre applies to wine with more than 7% absolute ethyl alcohol by volume. The rate is CAD 0.295 per litre on wine of more than 1.2% absolute ethyl alcohol by volume, but not more than 7%; and for all wine with 1.2% absolute ethyl alcohol by volume or less the rate is CAD 0.0205 per litre. 2) Fortified wine in excess of 22.9% absolute ethyl alcohol by volume would not be included in the definition of "wine" (and, therefore, fall within the definition of "spirits").

Chile: The sale of alcoholic beverages (including wine, beer and other distilled and non-distilled alcoholic beverages) is subject to 19% VAT and to a surtax of 15% on the sale or import of wine, sparkling wine, champagne, cider and other alcoholic beverages (among others). The tax is applied to the VAT base, that is the sale price (excluding VAT itself), and levies sales made between wholesale dealers. For sales between wholesalers, the tax paid to the vendor is creditable against the tax applied on sales at each stage of the value chain (including imports) until the last sale to the final retailer. The sale from the retailer to the final consumer is not subject to this surtax and the retailer cannot deduct the input tax nor is levied with this tax the sale of wine in bulk made by producers to a VAT taxpayer seller.

Denmark. The rate for wine with more than 15% – maximum 22% volume is DKK 1422. Low-alcohol wine is more than 1.2% – maximum 6% volume. Still and sparkling wine is more than 6% – maximum 15% volume. The rates for sparkling wine correspond to the rates for still wine plus 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 6.52 pr. l of mixture with alcohol content <= 10% in the final product and DKK 10.52 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 11.00; *b)* over 2.8% vol. and up to 5.5% vol. EUR 159.00; *c)* over 5.5% vol. and up to 8.0% vol. EUR 224.00.

France. A reduced rate applies to the following categories of low-alcohol wine: cider, perry, mead, grapes juice lightly sparking.

Germany. Excise rate for low alcohol sparkling wine < 6 % vol. is EUR 51.00. Intermediate products with a volume of alcoholic degree between 1.2 % and 22 % are taxed according to the following rates: > 15 % vol. –22 % vol. = 153 EUR/hl; <= 15 % vol. = 102 EUR/hl; <= 15 % vol. and sparkling = 136 EUR/hl.

Iceland. The duty rate in Iceland is ISK 82.14 per centilitre of alcohol per litre minus 2.25 centilitres for wine up to 15%. For example, one litre of wine that has 15% alc./vol. has 15 centilitres alcohol per litre. So the duty for one litre of wine that contains 6% alc./vol. would be as follows: (15 – 2.25) * 82.14 = ISK 1.047 per litre.

Ireland. The rate for low alcohol wine applies to wine with an alcoholic content of less than 5.5% vol. The rate for still wine with alcoholic content > 15% alcoholic content is EUR 380.52.

Israel. Sparkling wines were taxed at 45 per cent of the wholesale price until 8 May 2007. There has been no tax levied from 9 May 2007.

Korea. The rate of liquor tax on wine is 30% on the manufacturer's price (or imported price). In addition, Education Tax (10% of the amount of Liquor tax levied) is also levied. These rates are applicable to both still and sparkling wine regardless of alcohol content.

Luxembourg. The reduced VAT rate applies to still wine with alcoholic content ≤ 13% alcoholic content.

Table 5.3. **Taxation of alcoholic beverages**

	Tax per hectolitre of absolute alcohol			
	Excise		VAT rate (%)	Small distillery rate
	National currency	USD		
Australia	6 916.00	4 437.62	10.0	No
Austria	1 000.00	1 176.96	20.0	Yes
Belgium	1 752.24	2 023.29	21.0	No
Canada	1 169.60	951.35	5.0, 12.0, 13.0 or 15.0	No
Chile	See note	–	19.0	No
Czech Republic	28 500.00	2 047.45	20.0	No
Denmark	15 000.00	1 919.56	25.0	No
Estonia	1 418.00	2 665.42	20.0	No
Finland	4 340.00	4 586.37	23.0	No
France	1 660.00	1 914.72	19.6	No
Germany	1 303.00	1 632.62	19.0	Yes
Greece	2 450.00	3 462.62	23.0	No
Hungary	289 900.00	2 231.86	27.0	Yes
Iceland	1 069 300.00	7 766.22	25.5	No
Ireland	3 113.00	3 718.14	23.0	No
Israel[1]	See note	–	16.0	No
Italy	800.00	1 002.00	21.0	No
Japan	See note	–	5.0	No
Korea	See note	–	10.0	No
Luxembourg	1 041.15	1 116.06	15.0	No
Mexico	50%	–	16.0	No
Netherlands	1 504.00	1 807.45	6.0 or 19.0	No
New Zealand	See note	–	15.0	No
Norway	67 200.00	6 983.59	25.0	No
Poland	4 960.00	2 645.79	23.0	No
Portugal	1 108.94	1 755.01	23.0	Yes
Slovak Republic	1 080.00	2 078.73	20.0	No
Slovenia	1 000.00	1 587.41	20.0	No
Spain	830.25	1 169.48	18.0	Yes
Sweden	50 141.00	5 625.03	25.0	No
Switzerland	2 900.00	1 938.13	8.0	Yes
Turkey	6600.00	6 337.68	18.0	No
United Kingdom	2 552.00	3 871.49	20.0	No
United States	974.00	974.00	–	No

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

Source: National delegates; position as at 1 January 2012.

StatLink http://dx.doi.org/10.1787/888932718877

Box 3. **Country notes to Table 5.3**

Australia. The excise duty of AUD 69.16 per litre of alcohol applies to all excisable beverages (but not beer). A lower rate of AUD 64.57 per litre of alcohol applies to brandy (distilled from grape wine). These rates are indexed to inflation in February and August each year.

Austria. For small distilleries producing not more than 4 hl pure alcohol per year the rate EUR 540.

Canada. 1) Spirits are subject to excise duty at the rate of CAD 11.696 per litre of absolute ethyl alcohol by volume. Spirits containing not more than 7% absolute ethyl alcohol by volume are subject to excise duty at the rate of CAD 0.295 per litre. 2) Beer with an alcoholic strength in excess of 11.9% absolute ethyl alcohol by volume is deemed to be Spirits.

Chile. The sale of alcoholic beverages (including wine, beer and other alcoholic beverages) is subject to 19% VAT and to a surtax on the sale or import of alcoholic beverages, including among others distilled alcoholic beverages. The rates are applied for alcoholic beverages at the following: 27% on liquors, brandy, vermouth, pisco, whiskey and other distilled alcoholic beverages; 15% on beer, wine, sparkling wine, champagne, cider and other alcoholic beverages. The tax is applied to the VAT base, that is the sale price (excluding VAT itself) and levies sales made between wholesale dealers. For sales between wholesalers, the tax paid to the vendor is creditable against the tax applied on sales at each stage of the value chain (including imports) until the last sale to the final retailer. The sale from this retailer to the final consumer is not subject to the surtax and the retailer cannot deduct the input tax nor is levied with this tax on the sale of wine in bulk made by producers to a VAT taxpayer seller.

Denmark. An additional duty is placed on products which contain a mixture of spirits and non-alcoholic drinks, Rates: DKK 3.15 per litre of mixture.

Finland. Excise rates are as follows: *a)* CN – code 2208. alcoholic content between 1.2% and 2.8% vol. EUR 400; *b)* Other products EUR 4 340.

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 1 225 per hectolitre of pure alcohol.

Hungary. Reduced rate 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 106.93 per each centilitre of alcohol by volume exceeding 2.25%.

Israel. The excise rates for all kinds of alcoholic beverages composed from specific excise of ILS 20.98 per litre of absolute alcohol and from *ad valorem* excise of 75% of the wholesale price.

Box 3. **Country notes to Table 5.3** *(cont.)*

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

Japan. Excise rates are as follows: *a)* Whisky and brandy (40% vol.) JPY 40 000; *b)* Spirits (37% vol.) JPY 37 000; *c)* Shochu Group A and B (25% vol.) JPY 25 000.

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 rates for alcoholic beverages apply as follows: 25% up to 14° GL; 30% above 14° GL and up to 20° GL; 50% above 20° GL.

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

New Zealand. For alcoholic beverages with 9-14% alcoholic content, the excise rate is NZD 2.7206 per litre. For alcoholic beverages above 14% in alcoholic content, the excise rate is NZD 49.550 per litre of absolute alcohol (with the exception of unfortified wine and vermouth which has the rate of NZD 2.7206 per litre of product).

Portugal. A reduced rate of 50% for small distilleries applies.

Slovak Republic. A reduced rate, not less than 50 % of the national rate of excise duty on ethyl alcohol, applies to ethyl alcohol produced by fruit growers' distilleries. The application of the reduced rate is limited to 43 litres of ethyl alcohol for personal consumption of the fruit growers' household per year.

Slovenia. Tax per hectolitre of absolute alcohol until end of June 2010 was 911.00, since 1 July 2010 it is EUR 1 000.00.

Spain. The excise rate in the Canary Islands is EUR 649.66 per hl of pure alcohol. There is a special regime for small distilleries for which the rate is EUR 726.50 per hl (or EUR 565.66 in the Canary Islands).

Switzerland. Under certain conditions farmers do not pay tax on the first 5 litres of pure alcohol produced per year for their personal consumption. A reduced rate of 30% is applied to the first 30 litres of pure alcohol produced per year by small producers. Normal rate: CHF 2 900 per hectolitre. Special rate for certain types of wines: CHF 1 450 per hectolitre. Special rate for alkopops: CHF 11 600 per hectolitre (Alkopop – also called ready to drink (RTD) or designer drink) is a mix of alcohol and soda.

Turkey. No specific tax element. The element according to the value is the Excise Duty at a rate of 0%. If the tax amount computed according to the tax rate is lower than the minimum tax amount specified in the official table, then the minimum tax amount is paid.

United Kingdom. All drinks over 22 % alcohol by volume are dutied as spirits. Most other mixtures of spirits with other types of alcohol are also 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. A proof gallon is a US gallon (3.785 litres) containing 50% alcohol. There is no Federal VAT.

Table 5.4. **Taxation of mineral oils**

	Premium unleaded gasoline (per litre 94-96 RON)			Automotive diesel for non-commercial use (per litre)			Liquid petroleum gas (LPG) propellant use[1] (per litre)			Light fuel oil for industry (per 1 000 litres)			Light fuel oil for households (per 1 000 litres)		
	Excise		VAT	Excise		VAT	Excise		VAT	Excise		VAT	Excise		VAT
	National currency	USD	Per cent	National currency	USD	Per cent	National currency	USD	Per cent	National currency	USD	Per cent	National currency	USD	Per cent
Australia*	0.381	0.244	10.0	0.381	0.244	10.0	0.250	0.160	10.0	See note		10.0	n.a.		10.0
Austria*	0.525	0.618	20.0	0.437	0.514	20.0	0.131	0.154	20.0	109.18	128.50	20.0	109.18	128.50	20.0
Belgium*	0.614	0.709	21.0	0.430	0.497	21.0	0.000	0.000	21.0	18.49	21.35	21.0	18.49	21.35	21.0
Canada*	0.338	0.275	5 or 13	0.247	0.201	5 or 13	n.a.		5 or 13	37.17	30.23	5 or 13	58.00	47.18	5 or 13
Chile	237.100	0.583	19.0	57.800	0.142	19.0	n.a.		19.0	n.a.		19.0	– 24516.00	–60.30	19.0
Czech Republic	12.840	0.922	20.0	10.95	0.787	20.0	2.160	0.155	20.0	660.00	47.41	20.0	660.00	47.41	20.0
Denmark*	4.253	0.544	25.0	2.911	0.373	25.0	1.900	0.243	25.0	429.00	54.90	25.0	2 522.00	322.74	25.0
Estonia	0.423	0.795	20.0	0.393	0.739	20.0	0.070	0.132	20.0	110.95	208.55	20.0	110.95	208.55	20.0
Finland	0.628	0.664	23.0	0.365	0.386	23.0	0.00	0.000	23.0	160.53	169.64	23.0	160.53	169.64	23.0
France	0.613	0.707	19.6	0.439	0.506	19.6	0.060	0.069	19.6	56.60	65.28	19.6	56.60	65.28	19.6
Germany	0.655	0.821	19.0	0.470	0.589	19.0	0.092	0.115	19.0	61.35	76.87	19.0	61.35	76.87	19.0
Greece	0.670	0.947	23.0	0.412	0.582	23.0	0.101	0.143	23.0	412.00	582.29	23.0	60.00	84.80	23.0
Hungary	123.300	0.949	27.0	113.56	0.874	27.0	24.131	0.186	27.0	385.59	2.97	27.0	385.59	2.97	27.0
Iceland*	62.410	0.453	25.5	54.88	0.399	25.5	n.a.		25.5	n.a.		25.5	n.a.		25.5
Ireland	0.547	0.653	23.0	0.454	0.542	23.0	0.089	0.106	23.0	47.36	56.57	23.0	88.66	105.89	23.0
Israel*	2.81	0.758	16.0	2.790	0.752	16.0	n.a.		16.0	n.a.		16.0	2 794.00	753.52	16.0
Italy	0.641	0.803	21.0	0.508	0.636	21.0	0.131	0.164	21.0	403.21	505.02	21.0	403.21	505.02	21.0
Japan*	55.800	0.522	5.0	34.100	0.319	5.0	9.800	0.092	5.0	2 040.00	19.09	5.0	2 040.00	19.09	5.0
Korea*	745.890	0.907	10.0	518.18	0.630	10.0	221.060	0.269	10.0	103 500.00	125.79	10.0	103 500.00	125.79	10.0
Luxembourg*	0.462	0.495	15.0	0.320	0.343	15.0	0.054	0.058	15.0	21.00	22.51	15.0	10.00	10.72	12.0
Mexico*	0.000	0.000	16.0	0.000	0.000	16.0	0.000	0.000	16.0	0.000	0.00	16.0	0.000	0.000	16.0
Netherlands*	0.724	0.870	19.0	0.430	0.517	19.0	0.087	0.105	19.0	258.86	311.09	19.0	258.86	311.09	19.0
New Zealand*	0.591	0.388	15.0	0.004	0.003	15.0	n.a.		15.0	0.00	0.00	15.0	See note		15.0
Norway*	5.500	0.572	25.0	4.210	0.438	25.0	n.a.		25.0	1 573.00	163.47	25.0	1 573.00	163.47	25.0
Poland	1.660	0.885	23.0	1.288	0.687	23.0	0.459	0.245	23.0	232.00	123.75	23.0	232.00	123.75	23.0
Portugal*	0.583	0.923	23.0	0.364	0.576	23.0	0.054	0.085	23.0	292.46	462.85	13.0	292.46	462.85	13.0
Slovak Republic*	0.515	0.991	20.0	0.368	0.708	20.0	0.09	0.177	20.0	0.00	0.00	20.0	386.40	743.72	20.0
Slovenia	0.485	0.770	20.0	0.427	0.678	20.0	0.125	0.198	20.0	213.50	338.91	20.0	117.90	187.16	20.0
Spain	0.446	0.628	18.0	0.350	0.493	18.0	0.032	0.045	18.0	86.30	121.56	18.0	86.30	121.56	18.0
Sweden	5.225	0.586	25.0	4.314	0.484	25.0	1.150	0.129	25.0	1 144.00	128.34	25.0	3 814.00	427.87	25.0
Switzerland	0.735	0.491	8.0	0.774	0.517	8.0	0.215	0.144	8.0	99.60	66.56	8.0	99.60	66.56	8.0
Turkey	1.492	1.433	18.0	0.935	0.898	18.0	0.561	0.539	18.0	760.50	730.27	18.0	760.50	730.27	18.0
United Kingdom*	0.580	0.880	20.0	0.580	0.880	20.0	0.016	0.024	20.0	111.40	169.00	5.0	111.40	169.00	5.0
United States*	0.109	0.106	–	0.126	0.125	–	n.a.		–	0.00	0.00	–	0.00	0.00	–

n.a. = Not available in IEA or EU statistics.
VAT on fuel oil for industry is normally refunded to taxpayers.
Excise taxes do not include Emergency Stock Fee.
1. LPG: Directive 2003/96/EC sets minimal excise rates for LPG per 1000kg. The rates are converted into tax per litre in the table. The conversion rate is 1 kg = 1.985 litre.
* Country notes: see Box 4
Source: International Energy Agency, Energy Prices and Taxes 2nd quarter 2012 and European Commission Doc Ref 1035 Excise Duty Tables Part II July 2012.

Box 4. **Country notes to Table 5.4**

Australia. 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. For excise on LPG: source Australian Taxation Office.

Austria. Excise tax on light fuel oil for industry is partially refunded to certain large industrial consumers.

Belgium. Vehicles equipped for LPG are subject to an additional annual tax of EUR 89.16 to EUR 208.20 to compensate the absence of excise taxes on LPG according to European legislation.

Canada. The rates shown in the table include both federal and provincial/urban taxes.

Chile. The Taxpayer Production System (*Protection al Contribuyente del Impuesto Especifico a los Conbustibles – SIPCO)* introduced in 2011 acte either a tax or a subsidy to stabilise consumer price compared to international market price variations. When correction is negative, the VAT amount is reduced by the correction, which explains negative amounts in the table.

Denmark. The specific excise on light fuel oil (DKK 2 093) is refunded to industrial consumers and is not included in the table.

Iceland is not member of the IEA. Figures for automotive diesel and gasoline are taken from the *IMF Country Report* No. 11/138 of June 2011.

Japan. Excise rate is given for Regular Unleaded (91 RON) instead of Premium Unleaded.

Korea. Excise rate is given for Regular Unleaded (92 RON) instead of Premium Unleaded.

Mexico. No excise duties on volume (except on Premium Unleaded). Impuesto Especial de Productos y Servicios is charged as a percentage on the value of the product.

New Zealand. Excise tax includes Petroleum Excise Tax and Local Authority Tax. The excise rate on Light Fuel Oil for Households is not available because the product is not consumed in significant quantities.

Portugal. Automotive diesel oil used for agriculture is taxed at a lower VAT rate of 12%.

Slovak Republic. Excise tax on Light Fuel Oil is refunded for industry. The excise rate on Light Fuel Oil for Households is not available because the product is not consumed in significant quantities.

United States. Average Federal and State taxes. There is no VAT.

European Union. Directive 2003/96/EC sets minimal excise rates for energy products and electricity.

Table 5.5. **Taxation of tobacco**

	Currency	Cigarettes			Cigars[2]			Tax on rolling tobacco for cigarettes			VAT %
		Specific excise per 1 000		Excise on value	Specific excise per 1 000		Excise on value	Specific excise per 1 000 grams		Excise on value	
		National currency	USD	(% of RSP)[1]	National currency	USD	(% of RSP)	National currency	USD	(% of RSP)	
Australia*	AUD	344.74	221.20	0.00	See note	–	0.00	321.00	205.97	0.00	10.00
Austria*	EUR	35.00	41.19	42.00	0.00	0.00	13.00	0.00	0.00	54.00	20.00
Belgium	EUR	15.93	18.39	52.41	0.00	0.00	10.00	7.96	9.19	31.50	21.00
Canada*	CAD	85.00	69.14	See note	18.50	15.05	See Note	57.85	47.06	See note	5.0, 12.0, 13.0 or 15.0
Chile	CLP	See note	–	62.30	See note	–	52.60	See note	–	59.70	19.00
Czech Republic	CZK	1 120.00	80.46	28.00	1 250.00	89.80	–	1 400.00	100.58	–	20.00
Denmark*	DKK	636.60	81.47	13.61	198.00	25.34	10.00	452.50	57.91	0.00	25.00
Estonia	EUR	42.18	79.29	34.72	191.73	360.40	0.00	55.79	104.87	0.00	20.00
Finland*	EUR	22.50	23.78	52.00	0.00	0.00	27.00	16.50	17.44	52.00	23.00
France	EUR	27.66	31.90	64.25	0.00	0.00	27.57	0.00	0.00	58.57	19.60
Germany	EUR	92.60	116.03	21.87	14.00	17.54	1.47	43.31	54.27	14.41	19.00
Greece	EUR	19.66	27.79	52.45	0.00	0.00	34.00	0.00	0.00	67.00	23.00
Hungary	HUF	10 550.00	81.22	28.40	0.00	0.00	28.50	0.00	0.00	52.00	27.00
Iceland	ISK	18 282.00	132.78	36.50	See note	–	36.50	1 308.00	9.50	37.60	25.50
Ireland	EUR	192.44	229.85	18.03	271.34	324.08	0.00	228.97	273.48	0.00	23.00
Israel	ILS	224.99	60.68	See note	0.00	0.00	See note	286.69	77.32	0.00	16.00
Italy	EUR	9.08	11.37	58.50	0.00	0.00	23.00	0.00	0.00	56.00	21.00
Japan*	JPY	12 244.00	114.56	0.00	12 244.00	114.56	0.00	12 244.00	114.56	0.00	5.00
Korea*	KRW	32 050.00	38.95	0.00	See note	–	0.00	23 000.00	27.95	0.00	10.00
Luxembourg	EUR	16.89	18.11	47.84	0.00	0.00	10.00	5.60	6.00	31.50	15.00
Mexico	MXN	0.00	0.00	53.05	0.00	0.00	20.1/53.05	0.00	0.00	20.1/53.05	16.00
Netherlands	EUR	135.66	163.03	8.59	0.00	0.00	5.00	50.45	60.63	13.00	19.00
New Zealand*	NZD	See note	–	0.00	See note	–	0.00	386.14	253.49	0.00	15.00
Norway	NOK	2 310.00	240.06	0.00	2 310.00	240.06	0.00	2 310.00	240.06	0.00	25.00
Poland	PLN	170.97	91.20	31.41	254.20	135.60	–	115.86	61.80	31.41	23.00
Portugal*	EUR	78.37	124.03	20.00	0.00	0.00	15.00	0.00	0.00	61.40	23.00
Slovak Republic*	EUR	58.00	111.64	23.00	75.56	145.43	–	69.44	133.65	0.00	20.00
Slovenia	EUR	21.15	33.57	45.31	0.00	0.00	5.00	40.00	63.50	0.00	20.00
Spain	EUR	12.70	17.89	57.00	0.00	0.00	15.80	8.00	11.27	41.50	18.00
Sweden	SEK	1 270.00	142.47	1.00	1 120.00	125.65	0.00	1 560.00	175.01	0.00	25.00
Switzerland*	CHF	114.94	76.82	25.00	3.60	2.41	1.00	30.00	20.05	25.00	8.00
Turkey*	TRY	132.50	127.23	63.00	132.50	127.23	30.00	132.50	127.23	63.00	18.00
United Kingdom*	GBP	154.95	235.07	16.50	193.29	293.23	0.00	151.90	230.44	0.00	20.0
United States*	USD	129.00	129.00	See note	See note	–	–	See note	–	–	–

Notes:
1. RSP: Retail selling price.
2. Cigars: Denmark and Japan tax cigars at a rate per 1 000 pieces and not according to weight. In Denmark it is assumed that a cigar weighs 3 grams and in Japan 1 gram.
3. Israel: The statistical data for Israel are supplied by and under the responsibility of the relevant Israeli authorities. The use of such data by the OECD is without prejudice to the status of the Golan Heights, East Jerusalem and Israeli settlements in the West Bank under the terms of international law.

Source: National delegates; position as at 1 January, 2012.

StatLink http://dx.doi.org/10.1787/888932718896

Box 5. **Country notes to Table 5.5**

Australia. The excise rate of AUD 0.33474 per stick applies to cigarettes or cigars (in stick form) not exceeding in weight 0.8 grams per stick actual tobacco content. Other tobacco products are subject to an excise rate of AUD 430.94 per kilogram of tobacco content.

Austria. The excise duty on cigars is 13% of RSP, at least EUR 40.0 for 1 000 pieces.

Canada. Canada. The excise duty on cigars is $18.50 per 1 000 cigars plus an additional excise duty based on the greater of $0.67 per cigar and 67% of the sale price. Each Province and Territory also levies a tobacco tax at varying rates on all tobacco products. Retail sales prices are then subject to GST/HST and, when the HST is not applicable, to a provincial sales tax (excepting Alberta).

Chile: The sale of tobacco products are subject to 19% VAT and to a tax on the sale or import of processed tobacco, cigarettes and cigars. The tax applied to processed tobacco is of 59,7% on the sale price. Cigarettes are taxed at a rate of 62.3% over the of the pack' sales price and with an additional rate of 0.0000675 of a Monthly Tax Unit per cigarette contained in the pack (a Monthly Tax Unit equals approximately CLP 31.138 or USD 64.276). Cigars are taxed at a rate of 52.6%. The tax base of the excise tax is the sale` price to the final consumer, including VAT and the tax levied on tobacco, cigarettes and cigars.

Denmark. The excise tax for other smoking tobaccos is DKK 722.5/1 000 g for coarse-cut tobacco.

Finland. Cigarette paper: excise 60% of RSP. Other smoking tobacco: EUR 13.50 /kg and 48 % of RSP. Minimun excise tax is 146 per 1 000 pieces for cigarettes and EUR 87.50 /kg for fine cut rolling tobacco for cigarettes.

Hungary. The excise tax for other smoking tobacco is 32.5%. Minimum excise tax is HUF 19 530 15 175 per 1 000 pieces for cigarettes, HUF 8 790 6 070 per kg on rolling and other tobacco. VAT as % of tax included retail selling price is 21.26%.

Iceland. There is no specific excise rate for a piece of cigars. The rate is ISK 1 308 per 1 000 grams of cigars (*i.e.* the same rate as for rolling tobacco).

Israel. The Excises on value for cigarettes and for cigars are 260.6% and 65% of the wholesale price, respectively. The statistical data for Israel are supplied by and under the responsibility of the relevant Israeli authorities. The use of such data by the OECD is without prejudice to the status of the Golan Heights, East Jerusalem and Israeli settlements in the West Bank under the terms of international law.

Japan. The tax consists of a national element, a prefectural element and a municipal element.

Korea. The excise tax on cigars is KRW 65 400/1 000 g and taxation of tobacco is local government excise tax.

Mexico: A rate of 30.4% (20.1% of the RSP) for cigars or rolling tobacco applies as long as these products are handmade; otherwise a 160% rate applies (53.05% of the RSP).

New Zealand. The excise rate for 1 000 cigarettes with actual tobacco content not exceeding in weight of 0.8 kg is NZD 442.10. The excise rate for cigarettes exceeding 0.8 kg in actual tobacco content per 1 000 cigarettes is NZD 629.99. The excise rate per kilo of tobacco content for other tobacco products, such as snuff, cigars, cheroots and cigarillos is NZD 552.62.

Portugal. Excise tax on cigarettes is reduced to EUR 8.36 and 36.5% for small producers in the Azores and Madeira.

Box 5. **Country notes to Table 5.5** *(cont.)*

Slovenia. If the Retail Selling Price for 1 000 cigarettes is EUR 136.50 or less, minimum excise duty (specific + on value) yields EUR 83.00 for 1 000 pieces.

Slovak Republic. Tax on rolling tobacco for cigarettes includes other smoking tobacco.

Switzerland: If the Retail Selling Price for 1 000 cigarettes is CHF 350.00 or less, minimum excise duty (specific + on value) yields CHF 202.45 for 1 000 pieces "Specific excise per 1 000 g for rolling tobacco for cigarettes": the minimum excise duty (specific + on value) yields CHF 50.00 per 1 000 g.

Turkey. Specific excise duty per 1 000 cigarettes is YTL 60. Tax amount for 1 packet of cigarettes is YTL 1.2. Tax on cigarettes and other tobacco products computed according to proportional basis can not be less than the tax computed according to minimum specific tax amounts. Excise rate for cigars is YTL 60 for 1 000 grams.

United Kingdom. Specific excise rate for cigars is given per kilogramme and not for 1 000 units. Specific rates exist for "other smoking tobacco" and "other chewing tobacco" which are currently both set at GBP 84.98 per kilo.

United States. State taxes vary widely. The weighted average of Federal and State taxes per thousand cigarettes is USD 129.00. Federal specific excise tax rates on tobacco are: USD 50.33 per thousand for small cigarettes (no more than 3 pounds per thousand); USD 105.69 per thousand for large cigarettes; USD 50.33 per thousand for small cigars weighing no more than 3 pounds per thousand; 52.75% of the manufacturers price but not more than USD 402.60 per thousand for large cigars; and USD 24.78 per pound (54.63 per kg) for roll-your-own tobacco. Some states also tax on an *ad valorem* basis. There is no Federal VAT.

Notes

1. VAT is referred to as goods and services tax – GST – in some countries.
2. NO_x is a generic term for the various nitrogen oxides produced during combustion. These are considered to be important air pollutants.

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Chapter 6

Taxing vehicles

This chapter describes the main features of vehicle taxes and their use for influencing customer behaviour over the last decades, in particular within the context of environmental policies. It looks in more detail at the taxes on sale and registration of vehicles and recurrent taxes on use of motor vehicles and their components and provides comparative statistics on the level of these taxes.

Introduction

Taxes on vehicles were introduced in most countries in the first half of the 20th century and have become an important source of tax revenue for most governments. 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 including VAT, specific and *ad valorem* taxes. For more than fifteen years, these taxes have been adapted to influence consumer behaviour, mainly to achieve environmental objectives.

Taxes and charges on vehicles include:

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

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

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

This Chapter focuses on taxes on use and registration of vehicles as they are (with fuel taxes) by far the most important motor vehicles related taxes. The sale and use of motor vehicles also generates considerable VAT or sales tax revenue. These taxes are levied on the import and sale of vehicles (in the latter case by application to the full selling price or, for used cars, only in respect of the margin between the buying and the selling price). VAT or sales tax will also apply to general maintenance and running costs. In addition, they are levied in most cases on the final duty-paid value (*e.g.* VAT on fuel is levied on the excise-inclusive price see Table 5.4.).

Car taxation and polluting emissions

Governments have developed policies for reducing motor vehicle pollution for about forty years by imposing technical norms to the car industry. For example, in the European Union polluting emissions have originally been regulated since 1970 and a whole series of amendments have been issued since then to stepwise tighten the limit values. The current norms set maximum emissions of carbon monoxide (CO), Volatile Organic Compounds (VOC), nitrogen oxides (NO_x) and particles. It resulted in the Euro 3 and Euro 4 stages for light-duty vehicles (Directive 98/70/EC) and in the Euro III and IV standards for heavy duty vehicles (Directive 1999/96/EC). Emissions of carbon dioxide (CO_2) are also targeted by the European Commission since 2007 and the EU has put in place a comprehensive legal framework to reduce CO_2 emissions from new light duty vehicles as part of efforts to ensure it meets its greenhouse gas emission reduction targets under the Kyoto Protocol and beyond. Norms for heavy-duty vehicles (busses, trucks, etc.) will in principle also be developed as part of a comprehensive strategy to reduce CO_2 emissions.

Taxation is increasingly considered as an efficient tool to influence customer behaviour and encourage the purchase of low polluting vehicles. In 2012, more than two thirds (24 of 34) of OECD member countries apply rate differentiation or rebates for one-off registration taxes and/or annual/recurrent taxes according to environmental criteria (see Tables 6.1 and 6.2). Amongst them, 19 rely directly on polluting emissions (CO, CO_2, NO_x or particulates) to assess the tax rate or provide specific rebates (Austria, Belgium, Finland, France, Germany, Italy, Greece, Israel, Luxembourg, Netherlands, Norway, Portugal, Slovak Republic, Slovenia, Spain, Sweden, Switzerland, and the United Kingdom). A number of EU member states use the polluting emission norms set by the European Directives (see paragraph above) as a benchmark for their vehicle taxes although there is currently no European rule regarding car taxation.

Sixteen countries provide rebates or exemptions for electrically propelled or hybrid vehicles (Czech Republic, France, Greece, Hungary, Iceland, Ireland, Israel, Korea, Luxembourg, Mexico, Netherlands, Norway, Slovenia, Sweden, Switzerland and the United Kingdom). A number of countries also take the fuel efficiency in consideration (Austria, Canada, Denmark, and United States). An alternative (or additional) policy option consists in making vehicles very expensive to reduce the overall traffic on the roads (*e.g.* in Denmark).

Differentiating motor vehicle purchase taxes according to the fuel-efficiency or the polluting emissions can give potential vehicle purchasers an immediate incentive to buy a vehicle that causes relatively few emissions. Differentiation in recurrent (annual) taxes on motor vehicle use may also provide such an incentive, but somewhat less directly. Very high registration taxes are also likely to limit the number of new motor vehicles on the road. However, while this would at first appear to favour environmental policy, these higher taxes mean that there is a greater population of older, more polluting, cars. To combat this, some countries have introduced bonus schemes to scrap old cars and encourage the purchase of new cars. By making assumptions regarding how far a vehicle is driven over its lifetime, one can also calculate tax rates expressed per tonne CO_2 each vehicle will emit over its lifetime. Comparisons make it clear that the tax rates applied per tonne CO_2 emitted over a vehicle's lifetime vary significantly between countries (for an in-depth study on this topic see OECD, 2009).

In most countries total taxes on vehicles result from a combination of one-off (on sale or import) and recurrent (on use) taxes as well as from a mix between *ad valorem* (on the price) and specific taxes (taking into account polluting emissions, weight, engine power, number of axles, age, fuel efficiency, equipment, suspension, cylinder capacity, number of seats, type of fuel, electric propulsion and distance covered).

Place of taxation

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

Taxes on sale and registration of motor vehicles

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

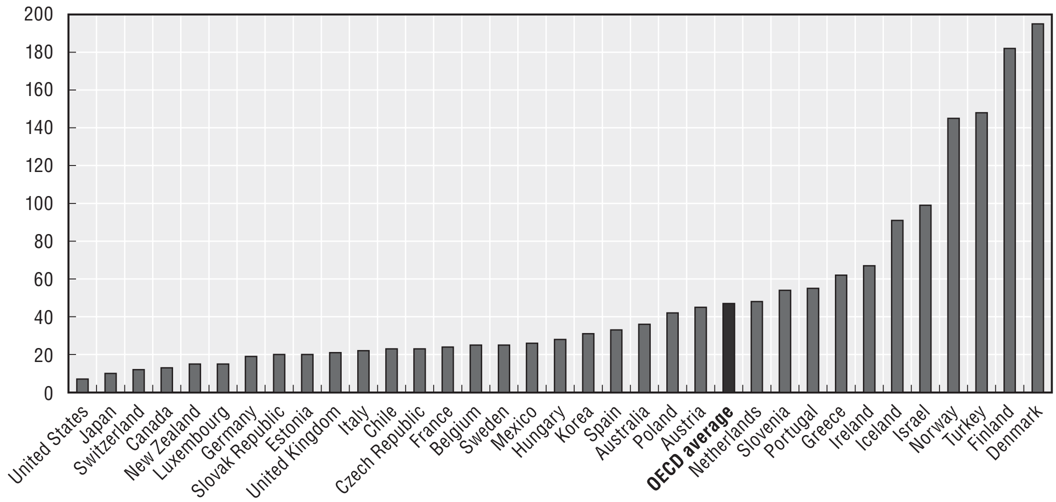
Taxes on the acquisition or registration of motor vehicles are based on a wide diversity of criteria or a combination of these criteria. They can be divided into four main categories:

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

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

The burden of these taxes may vary considerably from one country to another (see Table 6.3 and Figure 6.1) and, sometimes between states, provinces, cities or regions in several countries (this is why Table 6.3 displays data for the capital of each country). The maximum taxes and fees on sale and registration of passenger cars may vary widely across OECD countries from 7% in the United States to 195% in Denmark. In 16 countries such taxes vary from 20% to 50% (Australia, Austria, Belgium, Chile, Czech Republic, Estonia, France, Hungary, Italy, Korea, Mexico, Netherlands, Poland, Slovak Republic, Spain, Sweden

Figure 6.1. **Maximum overall tax rate applied upon sale and registration of passenger cars**



StatLink http://dx.doi.org/10.1787/888932718592

and United Kingdom). In four countries, the total taxes paid upon the sale and registration of the vehicle can exceed the builder's price itself (*i.e.* the total tax is over 100% of the selling price before tax in Norway, Turkey, Finland and Denmark). Of course, the VAT rate applied has a significant impact on those rates, but to a lesser extent for those countries far above average.

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

Unlike many other products, the international differences in taxation of sale and registration of motor vehicles do not give rise to cross-border shopping as motor vehicles need to be registered with a unique identification number in the principal country of use. Even in the integrated market of the European Union there has been no harmonisation or even approximation of taxes or tax rates on motor vehicles.

Nevertheless, high registration taxes may affect the functioning of the motor vehicle market. Generally, registration tax paid in the country of first registration is not paid back when a car is transferred from one country to another (*e.g.* when the owner moves from one country to another). When 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. 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. Also pre-tax prices appear to be influenced by tax considerations. Significant tax differentials may encourage consumers in some cases to buy cars in countries where registration taxes are very high (and, where car manufacturers tend to offer lower prices net of taxes by compensation) and import and register them in their own country. This may undermine the benefits that should derive from a competitive market for both consumer and industry. To remove those obstacles to competition within the Internal Market, the

European Commission has made a proposal to restructure car taxation systems in the European Union (European Commission, 2005). This proposal includes the abolition or reduction of car registration taxes over a transitional period of 5 to 10 years, compensated by an increase of annual taxes on use of vehicles (see next section below). However, it has yet to be approved by the member states (such approval requires unanimity amongst the 27 member states).

Taxes on use of motor vehicles

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

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

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

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

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

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

	Taxes	Criteria	Rebates/exemptions
Australia	**GST**: 10% Luxury Car Tax: 33% per cent calculated on the value of the car that exceeds the luxury car tax threshold. The luxury car tax threshold is currently AUD 57 466, tax inclusive (including GST). Registration fee calculated on the tare weight of the vehicle Stamp duty calculated on the value of the vehicle.	Value. Weight.	Emergency vehicles such as ambulances and fire engines Vehicles modified to suit the transportation of eligible people with disabilities. Luxury Car Tax: Eligible fuel efficient cars are subject to a higher threshold known as the “fuel efficient car limit”, AUD 75 375, tax inclusive for the 2011-12 financial year. Exemptions apply for emergency vehicles, vehicles modified to transport a person in a wheelchair (provided it is not GST-free), commercial vehicles primarily used for carrying goods in business or trade. Eligible tourism operators and primary producers are eligible to claim a refund of LCT paid up to AUD 3 000 for certain cars. GST: exemption is provided to veterans and persons with a disability that fulfil legal requirements.

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

	Taxes	Criteria	Rebates/exemptions
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 i.e. – Petrol cars: 2% of the purchase price x (fuel consumption in litres – 3 litres) – Diesel cars: 2% of the purchase price x (fuel consumption in litres – 2 litres)	Value. Fuel efficiency. CO_2 emissions. NO_x emissions. Bonus-malus.	Cars emitting less than 120 g CO_2/km receive a maximum bonus of EUR 300. Cars emitting more than 160 g CO_2/km pay a penalty of EUR 25 for each gram of CO_2 emitted in excess of 160 g CO_2/km. Cars emitting more than 180 g CO_2/km pay a further penalty of EUR 25 for each gram of CO_2 emitted in excess of 180 g CO_2/km. Cars emitting more than 220 g CO_2/km pay a penalty of EUR 25 for each gram of CO_2 emitted in excess of 220 g CO_2/km. Alternative fuel vehicles attract a bonus of maximum EUR 500. Diesel cars emitting more than 5 mg of particulate matter per km pay a penalty of maximum EUR 300. Conversely, diesel cars emitting less than 5 mg of particulate matter per km and less than 80 g NO_x/km attract a bonus of maximum EUR 200. The same applies to petrol cars emitting less than 60 g NO_x/km
Belgium	**VAT**: 21% **Entry into Service Tax** : depends on engine power and vehicle age (the tax is set according to a progressive scale from EUR 61.50 to EUR 4 957.00) The company car tax is based on CO_2 emissions. The deductibility of expenses, except for fuel costs, related to the use of the car (50 to 120%) is linked to CO_2 emissions.	Value. Age. Engine power. CO_2 emissions. Bonus-malus. Type of fuel/gas.	Exemption for disabled people and war invalids; rescue vehicles. Rebate (EUR 298.00) for cars running with Liquefied Gas Petroleum or other Gas A bonus/penalty system is operated in the Walloon Region. The bonus is from EUR 500 for vehicles emitting less than 90g CO_2/km up to a maximum of EUR 3 500 for cars emitting 0g CO_2/km. A complement is assigned when the beneficiary has at least 3 dependent children or if the beneficiary has at least one disabled child or when the beneficiary is a disabled person. Cars emitting 146g CO_2/km and more pay a penalty with a maximum of EUR 2 500 for cars emitting more than 255g CO_2/km. The penalty is reduced when the beneficiary has at least 3 dependent children, for cars with gas-powered engines and for old-timers.
Canada	**GST**: 5%, 12%, 13% or 15% HST for sales in the participating provinces. The following provinces have harmonized their provincial sales taxes with the federal Goods and Services Tax and therefore levy a rate of GST/HST of: British Columbia: 12%; New Brunswick, Newfoundland and Labrador, Ontario: 13%; Nova Scotia 15%, Québec applies GST at a rate of 5% and Québec Sales Tax at a rate of 9.5% (applied on a tax base that includes GST). **Provincial tax rates** are applicable for sales made in provinces not applying HST **Automotive Air Conditioning Tax:** CAD 100 per unit. **Fuel Consumption Tax:** vehicles with a weighted average fuel consumption of 13 or more litres per 100 kilometres are subject to an excise tax at the following rates: ● at least 13 but less than 14 litres per 100 kilometres, $1 000; ● at least 14 but less than 15 litres per 100 kilometres, $2 000; ● at least 15 but less than 16 litres per 100 kilometres, $3 000; and ● 16 or more litres per 100 kilometres, $4 000.	Value. Fuel efficiency. Air conditioning.	To end-users of specially equipped motor vehicles for handicapped persons. The rebate is only available on the GST/HST paid on the portion of the purchase price that is attributable to the special features.
Chile	**VAT**: 19% **First registration fee**: fixed fee **New vehicle plate fee**: fixed fee payable upon the first registration of the vehicle.	Value. Age. Type of vehicle.	–

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

	Taxes	Criteria	Rebates/exemptions
Czech Republic	**VAT**: 20% **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 vehicles	Value. Cylinder capacity.	
Denmark	**VAT**: 25% **Vehicle registration tax:** payable on first registration of the vehicle. Graduated tax rates according to the value of the vehicle (with lower rates for commercial vehicles) from 105% to 180% (on the remainder above DKK 65 900) for private vehicles and from 0% to 20% (on the remainder above DKK 12 100) for commercial vehicles.	Value. Utilisation. Safety equipment. Anti-pollution equipment.	**Rebate for low fuel consumption vehicles**: Registration tax is reduced by DKK 4 000 for every kilometre the vehicle can run in excess of 16 km with 1 litre of petrol or in excess of 18 km with 1 litre of diesel. A supplement of DKK 1 000 is payable for cars for every kilometre less than 16 km (petrol) or 18 km (diesel) they can run on one litre of fuel. **Traffic Safety Equipment:** Motor vehicles with major traffic safety equipment receive a deduction in the value liable to registration duty up to DKK 11 585. Motor vehicles with minor traffic safety equipment receive a deduction between DKK 100 and DKK 1200. **Particle Filters.** Diesel powered motor vehicles with particle filters receive a deduction of DKK 4 000.
Estonia	**VAT:** 20% **Vehicle registration fee (State fee):** Vehicle – 121.43 EUR; Temporarily imported vehicle – 319.55 EUR.	Value. Type of vehicle.	
Finland	**VAT**: 23% **Vehicle Registration Tax** is based on CO_2 emissions. Rates vary from 12.2% of the general consumer price of the vehicle for cars emitting 60g/km or less to 48.8% for cars emitting 360g/km or more. **For delivery vans** there is a deduction based on maximum laden weight of the vehicle for vans over 2 500 kg. **For motor cycles** varies according to the cylinder capacity, between 8 - 20 %, and the base is consumer price including all taxes.	Value. CO_2 emissions. Utilisation. Cylinder capacity. Type.	**Exemption** for disabled people, taxis, motor homes, cars used for veterinary purposes, rescue vehicles and funeral cars.
France	**VAT**: 19.6% **Tax on Registration Certificates** or regional tax on certificates **i**s based on engine power and CO_2 emissions. Rates vary between EUR 27 and EUR 46 per horsepower according to the region. CO_2 Emission component of the tax varies from EUR 0 for vehicles emitting less than 160 g CO_2/km to EUR 2 600 for vehicles emitting more than 250 g CO_2/ km. The rate is reduced by half for some vehicles depending on their nature (trucks weighing more than 3.5 tons, motorcycles) or age (more than 10 years old) **Additional Lorries Tax** is levied on the regional certificate tax for lorries according to their weight (from EUR 38 for less than 3.5 tons to EUR 305 for more than 11 tons or trailers and buses for public transport of passengers); **Company car tax** is based on CO_2 emissions. Tax rates vary from EUR 2 for each gram emitted for cars emitting 100 g CO_2/km or less to EUR 19 for each gram emitted for cars emitting more than 250 g CO_2/km.	Value. Engine power. Weight. Utilisation. Age. CO_2 emissions. Type of fuel. Electric propulsion. Bonus-malus.	**Exemption for new demonstration models** weighing less than 3.5 tons, state vehicles, certain motorcycles **Rebate for electricity or gas propelled cars:** from 50% to 100% of the Tax on Registration Certificates. **Rebate for Ethanol propelled cars:** the Tax on Registration Certificates is reduced by 50%for cars that run with E85 fuel (super ethanol). **Bonus-malus system:** a premium is granted for the purchase of a new car when its CO_2 emissions are 125 g/km or less**.** The maximum premium is EUR 5 000 (below 60 g/km). A malus is payable for the purchase of a car emitting more than 155 g CO_2/km. The maximum tax amounts to EUR 2 600 (above 245 g/km).
Germany	**VAT**: 19% **Registration charge**: EUR 18 to 25;	Value.	

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

	Taxes	Criteria	Rebates/exemptions
Greece	**VAT:** 23% **Registration tax:** rate varies – From 5% to 346% of the taxable value (wholesale price) for passenger cars according to cylinder capacity and anti-polluting technology (polluting emissions). – From 5% - 26% of the taxable value for lorries – trucks etc. according to cylinder capacity and mass (less or more than 3.5 tons). Rates are increased by 30% for vehicles that do not meet EU Directives'/ Regulations' emissions requirements. – From 0% to 25% of the taxable value for motorcycles according to cylinder capacity. **Registration tax for buses** depends on the number of seats. **Luxury tax**: rate varies from 10% to 40% according to taxable value	Value. Weight. Cylinder capacity. Polluting emissions. Number of seats. Electric propulsion.	**Exemptions from registration tax:** – Cars used by public authorities. – Cars with hybrid motor technology or those with electric motors. – Cars used by disabled persons. – Cars used by parents having at least three (3) children. – Ambulances used by public hospitals. – Cars used by people who have moved their normal residence to Greece. **Exemptions from luxury tax:** ● Taxis, caravans, ambulances, hearses etc. ● Cars used by disabled persons having complete paralysis of the lower limbs with disability percentage of 80% or 100% and disabled persons having ambilateral amputation of their lower limbs.
Hungary	**VAT**: 27% **Registration Tax**: from HUF 45 000 to HUF 400 000 on new passenger cars according to engine type (diesel or petrol) and engine cylinder capacity, and from HUF 20 000 to HUF 230 000 on motorcycles according to engine cylinder capacity. For cars with lower environmental category of engine higher rates are levied (400, 600, 800 or 1 200% higher), but rate is reduced according to a scale based on age (until 90%). Reduced rate is levied to hybrid cars and HUF 0 is levied to electric cars.	Engine type. Cylinder capacity. Polluting emissions. Type of fuel. Age. Electric propulsion.	**Reduced registration tax** for cars with hybrid engines or with gas-powered engines (HUF 76 000) and for cars with electric engines (HUF 0).
Iceland	**VAT**: 25.5% **Vehicle Registration Fee** of ISK 15 000 on initial registration and ISK 2 500 for subsequent changes. **Motor vehicle excise duty:** based on CO_2 emissions ranging from 0-65%. **Excise duties on motor vehicles other than private automobiles** Large goods vehicles, large special purpose vehicles, tractors, agriculture trailers, large snow-mobiles, amphibious vehicles, competition cars and motorbikes, vehicles for transport of disabled persons, rescue vehicles and large coaches is none. Small goods vehicles, small special purpose vehicles, vehicles over 40 years old, motor vehicle bodies 13%. Small coaches, motorbikes, other vehicles 30%.	Value. CO_2 emissions. Electric propulsion.	**Temporary VAT exemption** at import and domestic sales of electric-, hydrogen or plug-in hybrid vehicles.

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

	Taxes	Criteria	Rebates/exemptions
Ireland	**VAT**: 23% **Registration Tax**: The registration tax is based on CO_2 emissions. Rates vary from 14% of the value of the car for cars with CO_2 emissions of up to 120 g/km to 36% for cars with CO_2 emissions above 225 g/km. Specific rate applies to commercial car-derived vans, "jeep" type vehicles and certain motor caravans and crew cabs (13.30% of the value with a minimum of EUR 125); for new motorcycles (EUR 2 per cc up to and EUR 1 per cc above 350 cc). Reduced rates apply for used motorcycles.	Value. CO_2 emissions. Type. Age. Type of fuel. Electric propulsion.	**Relief for hybrid and flexible fuel vehicles:** with a maximum tax relief of EUR 1 500 **Relief for plug-in hybrid electric vehicle:** with a maximum tax relief of EUR 2 500 **Rebate for disabled people:** 100% relief under disabled driver scheme subject to a maximum of EUR 9 525 for Driver and EUR 15 875 for passenger.
Israel[1]	**VAT**:16% **Purchase Tax**: Private and commercial vehicle weight not exceeding 3 500 kg are taxed at 83% of the value. **Commercial Vehicles Tax.** Commercial vehicles over 3500 kg are taxed at 72% of their value but not eligible for a grant.	Weight. Polluting emissions. Power.	**Rebates according to the polluting emissions:** vehicles weighing up to 3 500 kg benefit of a rebate on the Purchase Tax according to their degree of pollution. There are 15 levels of polluting emissions that are set by a "Green Score" (weighting the emission of five major pollutants). Rebate is up to the amount of 15 000 NIS. **Hybrid vehicles** – Pollution level 2 – are taxed at a rate of 30%. **Electricity powered vehicles** are taxed a rate of 10% of their value depending on the customs and purchase tax rate.
Italy	**VAT**: 21% **Registration Tax** (IPT): EUR 151 for cars < 53 kw , EUR 3.5 per kw for cars > 53 kW. For other vehicles, such as, for instance, buses, tractors and lorries with trailer, the tax is determined on the basis of their engine power, weight, number of seats or other criteria.	Vehicle. Type. Engine power. Weight. Number of seats.	**Rebate for disabled people:** 100% relief of the Registration Tax.
Japan	**VAT:** 5% **Automobile Acquisition Tax:** 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**: 2-7% of the retail price excluding VAT.	Value. Cylinder capacity. Electricity propulsion.	**Exemptions from special excise tax and education tax** Cars used by disabled persons. Ambulances used by hospitals. Cars used for transportation business (public passenger transportation only). Cars used for car-rental business. **Exemptions from acquisition tax** Cars used by disabled persons. Cars used by parents having at least 3 children. **Rebate for hybrid and electricity powered vehicles :** relief of the Special excise tax (not exceed KRW 1 000 000 (hybrid), KRW 2 000 000 (electricity powered)).
Luxembourg	**VAT**: 15% Registration Tax: EUR 50	Value. CO_2 emissions.	**Bonus system**: purchasers of new cars receive incentives as follows: Cars emitting maximum 100 g CO_2/km: EUR 750 Cars emitting maximum 90g CO_2/km): EUR 1 500 Cars emitting less than 60g CO_2/km EUR 5 000 Electricity powered vehicles EUR 5 000
Mexico	**VAT**: 16% (11% in border regions) **New vehicles tax**: from 2% to 17% plus a no movable fee according to vehicle value	Value.	Exemption of 100% in New Vehicles Tax to vehicles with value up to MXN 193 231.20 Exemption of 50% in New Vehicles Tax to vehicles with value from MXN 193 231.20 to MXN 244 759.53

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

	Taxes	Criteria	Rebates/exemptions
Netherlands	**VAT**: 19% **Registration Tax** is based on price + CO_2 emissions. *Net list component:* for cars, the tax is 11,1% of the net list price of the car less EUR 450 (petrol engines) or increased by EUR 1900 (diesel engines). The CO_2 emissions component: for petrol cars each gram of CO_2 per km a certain amount of tax is added. This amount is progressive and varies from EUR 0 tax per g/km (up to 110 CO_2), EUR 94 tax per g/km (from 110 up to 180 CO_2), EUR 280 tax per g/km + affixed surcharge of EUR 6 580 (from 180 up to 270 CO_2), ending with EUR 654 tax per g/km + a fixed surcharge of EUR 31 780 (from 270 CO_2).For diesel cars the tax amount is EUR 0 tax per g/km (from 0 up to 95 CO_2), EUR 94 (from 95 up to 155 CO_2), EUR 280 + a fixed surcharge of EUR 5 640 (from 155 up to 232 CO_2), EUR 654 + a fixed surcharge of EUR 27 200 (from 232 CO_2). Motorcycles are taxed at 19,4% of the net list price (for the value above EUR 2133). The resulting amount is reduced by EUR 210.	Value. Motor fuel. CO_2 emissions. Electric propulsion.	**Diesel cars** with Euro 5 or Euro 6 engine benefit from a rebate of EUR 1 000. **Electricity powered vehicles** are exempt from Registration Tax. **Low CO_2 emission cars:** cars emitting maximum 95g CO_2/km (diesel) and 110g CO_2/km (petrol) respectively are exempt from the registration tax. **Exemptions:** vehicles used by fire brigades, ambulances, police and defence; funerary vehicles, delivery vans owned by entrepreneurs etc.
New Zealand	**GST**: 15% **Registration Fee** on initial registration: rates vary depending on the cylinder capacity and type of vehicle. For private passenger, petrol driven cars this ranges from NZD 85 to NZD 300	Value. Cylinder capacity.	
Norway	**VAT**: 25% **Registration Tax**: rates vary according to weight, engine performance (KW), CO_2-emissions and NO_x- emissions. When CO_2-emissions information is not stated, the tax is calculated based on cylinder capacity instead of CO_2-emissions.	Weight. Engine performance. CO_2 emissions. NO_x emissions. Type of fuel. Electric propulsion.	**Electricity powered vehicles** are exempt from Registration Tax **Hybrid vehicles** (both electric and combustion engine) have a rebate. The engine performance of the electric engine and 10 pct. of the total weight are not included in the tax base. **Flexifuel vehicles** (can use fuel with at least 85 pct. ethanol) have a rebate of 10 000 NOK per vehicle.
Poland	**VAT**: 23% **Excise-Duty** is levied on passenger cars prior to their first registration due to their sale, intra-community acquisition and import. The excise tax rates for personal cars depend on engine capacity and amount to: – for passenger cars with engine cubic capacity over 2 000 cm^2 – 18,6 %, – for others – 3,1%.	Value. Cylinder capacity.	

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

	Taxes	Criteria	Rebates/exemptions
Portugal	**VAT**: 23% **Vehicle excise duty** varies according to the following formula and rates, Cylinder capacity × rate – fixed rebate Vehicles up to 1 250 cc = number of cc x EUR 0.97 - EUR 718,98 Vehicles above 1 250 cc = number of cc x EUR 4.56 - EUR 5. 212.59 There are other rate brackets for light commercial vehicles and some segments of combined (passenger and freight) vehicles.	Value. Cylinder capacity. CO_2 emissions.	**Rebates according to CO_2 Emissions** Rebate is calculated according to the formula (grams CO_2/km) × rate – fixed rebate. **Petrol Vehicles** EUR EUR Up to 115 ……………….4.03 378.98 From 116 to 145 ………..36.81 4. 156.95 From 146 to 175 ………..42.72 5. 010.87 From 176 to 195 ………..108.59 16. 550.52 More than 195 ………….143.39 23. 321.94 **Diesel Vehicles*** Up to 95 ………………...19.39 1. 540.30 From 96 to 120 …………55.49 5.023.11 From 121 to 140 ………..123.06 13. 245.34 From 141 to 160 ………..136.85 15. 227.57 More than 160 ………….187.97 23.434.67 *Light passengers diesel vehicles with particle emissions equal or above 0,003 grams/km have a penalization of 500€ on the amount of tax.
Slovak Republic	**VAT**: 20% **Administrative fees:** – registration fee payable by the first and any other owner of a motor vehicle: EUR 33 – registration fee for assigning and releasing of a licence plate number: EUR 16.50 per one plate number (*i.e.* EUR 33 for 1 vehicle)	Value.	**Disabled persons**: rebates in administration fees are applied for disabled persons.
Slovenia	**VAT**: 20% **Motor vehicle tax** is paid for passenger motor vehicles, motorcycles and camper vans, which are put into circulation in Slovenia for the first time; imports and acquisitions from other EU Member States are also taxed. The tax base is the selling price of an individual motor vehicle, excluding VAT and this tax. The tax rate is determined according to environmental criteria (CO_2, Euro emission standards) and the rates are determined from 0.5% to 28% for petrol cars and from 1% to 31% for diesel cars. For diesel cars particulate matter (PM) emissions are also considered. Tax rates for motorcycles and camper vans are set upon engine power in the range from 1.5% to 5% for motorcycles and 6% to 18% for camper vans. There is no motor vehicle tax on supply of used motor vehicles that are already registered in the Republic of Slovenia.	Value. Selling price. CO_2 emissions. Particulate matter emissions. EURO emissions standards. Power engine.	**Tax exemptions (motor vehicle tax):** – vehicles acquired for transport of families with three or more children – vehicles purchased for carrying disabled people – vehicles intended for: 1. Official use by diplomatic and consular representations accredited to Slovenia; 2. Official use by international organisations, if so stipulated by international treaties binding on Slovenia; 3. Personal use by foreign staff of diplomatic and consular missions, accredited to Slovenia, including their family members; 4. Personal use by foreign staff of international organisations, including their family members, if so stipulated by international treaties binding on Slovenia; – used vehicles (vintage cars) – vehicles imported on a temporary basis (the temporary change of residence of the vehicle's proprietor who does not maintain his permanent residence in Slovenia) – sports vehicles that have not been adapted for road use and are intended only for driving on circuits – transfer of vehicles in the case of reorganizations of vehicle's proprietor. – emergency rescue motor vehicles used for transport of victims and patients – leasing of the vehicles.
Spain	**VAT**: 18% **Vehicle Registration Tax (VRT)** is based on CO_2 emissions. Rates vary from 0% (up to 120 g CO_2/km) to 14.75% (200 gCO_2/km and more).	Value. CO_2 emissions.	**VRT exemptions:** Taxis, driving school vehicles, rental service vehicles. Vehicles acquired and used by disabled people. Vehicles with special diplomatic registration. Transfer of vehicles in the case of change of residence of vehicle's proprietor.
Sweden	**VAT**: 25%	Value.	
Switzerland	**VAT**: 8% **Acquisition Tax** on new vehicles (up to 1 600 kg and all passenger cars up to 3 500 kg): 4% of purchase price. No registration tax (but small fees for number plates and registration papers).	Value. Electric propulsion.	**Electrically powered vehicles** are exempt from acquisition tax.

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

	Taxes	Criteria	Rebates/exemptions
Turkey	**VAT**: 18%. **Special Consumption Tax** (SCT) is payable on first acquisition of vehicles (importation, acquisition by public auction, acquisition from those who carry out motor vehicle trade, inception of use, capitalisation or registration in the name of those who carry out motor vehicle trading). **Motor vehicles:** proportional duty is applied. For motor vehicles under CN Code 87.02 and designed for transport of passengers, tax rate is 9% for minibuses, 4% for minibuses and 1% for buses. Passenger cars and other motor vehicles: designed for transport of passengers excluding those under CN Code 87.02 and placed under CN Code 87.03 and having a max. weight of 3,5 tons and passenger carrying capacity less than 50% of max. load capacity. Vehicles with a max. loading capacity not over 850 kg and having an engine capacity below 2 000 cm^3 are subject to the SCT at a rate of 10% and the ones with a max. loading capacity over 850 kg and having an engine capacity below 2 800 cm^3 are subject to the SCT at a rate of 10% and SCT rates for others vary from 37% to 84% according to their engine capacity. **For motor vehicles designed for transport of goods** and placed under CN Code 87.04 and have a max. loaded weight not over 4 700 kg and have a seat other than the driver's seat or have side windows other than those besides the driver's seat, SCT rate is 10% for the ones with an engine capacity not over 3 000 cm^3, 52% for those with an engine capacity over 3 000 cm^3 but not over 4 000 cm^3 and 75% for those with an engine capacity over 4 000 cm^3. Tax rate for those provided with a covered body and have a max. loading capacity under 620 kg is 10%. For others 4%. **The tax on motor cycles** varies from 22% to 37% according to the cylinder capacity.	Value. Cylinder capacity. Weight. CN Code.	**Rebate for disabled people:** Disabled people are exempt from the Special Consumption Tax
United Kingdom	**VAT**: 20% **Vehicle First Registration Fee** A flat rate fee of GBP 85.0 is payable on the first registration or licensing of a motor vehicle in the United Kingdom.	Value.	**Rebate for disabled people:** disabled people are exempt from the Vehicle First Registration Fee. **Other exemptions:** Vehicles previously registered in Northern Ireland. Vehicles registered for off road use. Crown Exempt Vehicles.

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

	Taxes	Criteria	Rebates/exemptions
United States	**Gas guzzler excise**: levied on the sale of autos whose fuel efficiency is less than 22.5 miles per gallon. The tax varies from USD 1 000 to USD 7 700 depending on the fuel efficiency. **A tax is imposed on the first sale of heavy trucks** in an amount equal to 12% of the sales price. **A tax is imposed on the sale of tyres for highway vehicles**. A tax is imposed on taxable tyres sold by the manufacturer, producer, or importer at the rate of 9.45 cents (4.725 cents in the case of a biasply tyre or super single tyre) for each 10 pounds of the maximum rated load capacity over 3 500 pounds. State and local governments impose a one-time sales tax and/or title fee.	Value. Fuel efficiency. Weight. tyres.	

1. Israel: The statistical data for Israel are supplied by and under the responsibility of the relevant Israeli authorities. The use of such data by the OECD is without prejudice to the status of the Golan Heights, East Jerusalem and Israeli settlements in the West Bank under the terms of international law.
2. This table does not include customs duties; specific regimes for second-hand cars (e.g. margin scheme, old timers); diplomatic sales; export/import and transit schemes and insurance premium tax.

Source: National delegates; position as at 1 January 2012.

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

	Taxes	Criteria	Rebates/exemptions
Australia	The States and Territories levy fees for annual registration, third party compulsory insurance and drivers' licenses. Fees for commercial vehicles are generally higher than the fees for private vehicles. In most States, fees for trucks vary depending on the type of vehicle and the gross vehicle mass.	Commercial/private use. Gross vehicle mass.	
Austria	Motor Vehicle Tax based on the engine power of motor vehicles up to a total weight of 3.5 tonnes and on the total weight of motor vehicles above 3.5 tonnes. The Toll Regulations determine the rates for the mileage-based toll payable by multi-track motor vehicles whose weight is more than 3,5 tonnes.	Engine power. Weight. Number of axles.	
Belgium	**Annual Road Tax**: progressive rates apply from EUR 67.08 up to EUR 1 714.20 depending fiscal horsepower (CV). For vehicles above 20 CV (more than 4l cylinder capacity) an additional amount of EUR 93.48 by CV is levied. **Compensation Tax** for vehicles fuelled with LPG or by other liquefied gaseous hydrocarbons is levied from EUR 89.16 up to EUR 208.20 according to CV with progressive scales. **The "Eurovignette"** is levied on vehicles or vehicle combinations used for the carriage of goods by road and having a maximum permissible load weight of not less than 12 tons. Rates depend on the number of axles and euro emission standards. It can be paid on a daily, weekly, monthly or annual basis. It ranges from EUR 8 per day to EUR 1 550 per year.	Engine power. Cylinder capacity. Fuel used. Number of axles for lorries. Polluting emissions (trucks).	Exemption for: cars used by public authorities, vehicles for disabled people and war invalids, agricultural vehicles, rescue vehicles, trial moving vehicles, ships and little boats, taxi services, mopeds and motorcycles with a cylinder capacity of maximum 250 CC. Rebates for the salaried transport of persons; vehicles used for road haulage in the ports. Concerning the eurovignette the exemptions are regulated by the European directive 1999/62/EC.
Canada	All provinces impose annual fees for the use of motor vehicles. In general, the fees depend on the type of vehicles and in most cases on the weight of the vehicle	Type. Weight.	
Chile	Annual vehicle registration fee depending on the commercial value of the vehicle. This fee is payable although the vehicle is not in use.	Commercial/private use. Age. Gross weight of trucks.	

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

	Taxes	Criteria	Rebates/exemptions
Czech Republic	The road tax is imposed on all road motor vehicles and their trailers registered and operated in the Czech Republic if they are used for a business activity. Irrespective whether such vehicles are or are not used for business activities, the subject to the tax are also all vehicles with the maximum permitted weight above 3,5 tons, determined exclusively for transport of cargo and registered in the Czech Republic. The annual tax rate of passenger cars varies from CZK 1 200 to CZK 4 200 and in the case of other vehicles vary from CZK 1 800 to CZK 44 100.	Cylinder capacity. Electric propulsion. Total permitted weight on axles and number of axles. Total weight.	Tax exemptions: motorcycles; vehicles used by diplomatic missions and consular offices; armed forces; civil defence; mobilization reserve or emergency supply; police; fire protection; ambulances; mining and mountain rescue; gas emergency service and power engineering emergency service. Special road sweeping vehicles; special single-purpose vehicles (*e.g.* vehicles used in road marking) and vehicles belonging to road authorities or to persons authorized by road authorities exclusively used to maintain land communications, except for passenger cars, electrically propelled vehicles, hybrid driven vehicles, vehicles using as fuel either LPG or, CNG or vehicles equipped with an engine determined by his producer for combustion of E85. Tax reduction (25% to 100%) for vehicle used in multimodal transport. The tax rate is reduced for the period of 108 months from the date of the first registration of vehicle (for the first 36 months by 48%, for the next 36 months by 40% a for the next 36 months by 25%.
Denmark	Passenger cars semi-annual tax: the tax is based on fuel consumption, with different rates for petrol/diesel. Rates range from DKK 280 (≥ 20km/l) up to DKK 9 660 (≤ 4.5km/l) for petrol cars, and from DKK 80 (≥ 32.1km/l) up to 12 960 (≤ 5.1km/l) for diesel cars. Lorries' annual tax: Cars registered for the first time until 24th of April 2007: the charge for private use is DKK 900 annually for cars with total permissible weight (tpw) up to 2 000 kg and DKK 5 040 annually for cars with tpw between 2 000 and 4 000 kg. Cars registered on April 25th 2007 or after: the charge for private use is DKK 5 040 annually for cars with total permissible weight (tpw) up to 3 000 kg and DKK 15 000 annually for cars with tpw between 3 000 and 4 000 kg. For cars used for both private and commercial purposes the rates are 50%. Cars used exclusively for commercial purposes are free of charge.	Fuel efficiency. Weight (for lorries).	
Estonia	Heavy goods vehicle tax. Varies from 0 to 232,60 (per quarter) EUR depending on the combination of following factors: weight range (12 tonnes to 40 and more tonnes), axel combination (2, 3, 4, 2 +1, 2 + 2, 2 + 3, 3 + 2, 3 + 3), type of suspension (air, other).	Weight range. Axle combination, type of suspension.	Exemptions apply for Defence Force, Defence League, Enforcement Force and Rescue Service Heavy goods vehicles and Local Authority, NGO, Foundation and Business vehicles intended for rescue operations.
Finland	The annual tax for passenger cars and delivery vans is based on CO_2 emissions. Tax rates vary from EUR 19.35 for vehicles emitting less than 67 g CO_2/km up to EUR 605.90 for vehicles emitting 400 g CO_2/km or more. For diesel passenger cars and vans there is a driving force tax based on gross weight of a vehicle. This is applied on other cars and vans using less taxed driving force than petrol as well. For lorries there is an annual tax based on maximum gross weight, number of axles and use of trailer.	CO_2 emissions. Weight. Number of axles (lorries).	
France	Tax on business passenger cars: Up to 7 HP: EUR 1 130; More than 7 HP: EUR 2 440.	Engine power. Fuel/electricity power.	Exemptions: • Cars more than 10 years old. • Cars used for public passenger transport, cars used for leasing or sale. • Electrically or gas propelled cars (for mixed oil and gas propelled vehicles exemption is reduced by half). Vehicles that can use both petrol and GPL are exempt at rate of 50%.
Germany	The Motor Vehicle Tax is based on CO_2 emissions. It consists of a base tax and a CO_2 tax. The rates of the base tax are EUR 2 per 100 cc (petrol) and EUR 9.50 per 100 cc (diesel) respectively. The CO_2 tax is linear at EUR 2 per g CO_2/km.	Polluting emissions. Cylinder capacity. CO_2 emissions.	Cars with CO_2 emissions below 110 g/km are exempt from the CO_2-element. Only the base tax is due.

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

	Taxes	Criteria	Rebates/exemptions
Greece	Annual road tax on private passenger cars registered for the first time in Greece until 31.10.2010 (as well as those with international initial registration before 2002), and also motorcycles regardless of their date of registration: based on cylinder capacity from EUR 22 to EUR 1 320. Private passenger cars and TAXI's registered for the first time in Greece, after 1.11.2010: based on CO_2 emissions from EUR 0 to EUR 3.40 per gram of CO_2. Annual road tax on trucks based on gross weight and on buses on the number of seats.	Cylinder capacity CO_2 emissions Gross weight (trucks) Number of seats (buses)	The main exemptions are: ● Cars used by public authorities, municipalities, ambulances etc, Cars used by disabled persons and members of foreign diplomatic services; ● Electric cars ● Hybrid cars, registered until 31.10.2010, with engine displacement under 1 929 cc ● Private passenger cars, registered after 1.11.2011 with CO_2 emissions under 100 g/km ● Motorcycles up to 300 cc cylinder capacity used in order to replace old technology ones (replacement should take place up to 31.12.2009) For motorcycles with cylinder capacity over 300 cc used in order to replace old technology motorcycles exemption applies for 5 years only following the date of first registration of the new motorcycle (replacement should have taken place until 31.12.2009). ● Cars and motorcycles, registered with a valid permission of circulation, may be imported for a limited period up to six months per year, by the customs procedure of temporary importation.[u3]
Hungary	Motor vehicle tax levied according to capacity of engine (in Kw) of passenger cars and motorcycles. The tax base for busses, semi-trailers and caravans is the unladen weight of the vehicle. For lorries the tax is based on net weight plus 50 % of cargo weight. The tax rate for passenger cars and motorcycles is from HUF 140/kW to HUF 345/kW depending on the age of the vehicle (the older the vehicle, the less is due). For lorries, busses, semi-trailers the tax rate is HUF 1 200/100 kg of the tax base, if the vehicle is equipped with road-saving axles. The tax rate for other lorries, trailers is HUF 1 380/100 kg.	Engine capacity. Weight (for lorries). Fuel/electricity power.	Exemption for vehicles: ● owned by budgetary agencies, religious organisations, ● owned by social organisations, foundations if this organisations do not have to pay tax on profit, ● used for public transport or fire service, ● owned by a person who is seriously handicapped, or used for transporting seriously handicapped person under age 18, or used for transporting seriously handicapped person who is under guardianship because of his/her legal incapacity, ● passenger car, equipped with electric engine.
Iceland	A disposal charge of ISK 350 is levied on each vehicle for each six-month period. This charge is payable for fifteen years from the date of the first registration of the vehicle in Iceland, except when the vehicle is already 25 years old at the beginning of the payment year. The charge is an environmental tax that is intended to finance the disposal of the vehicle at the end of its useful life. Once the vehicle is delivered for scrap, a ISK 15 000 refund will be paid to the owner. Motor vehicles fuelled with diesel in excess of 10 tonnes are subject to a special weight/distance tax, calculated on the basis of the weight of the vehicle and the number of kilometers driven. Owners of diesel vehicles that weigh less than 10 tonnes do not pay a weight/distance tax. A semiannual road tax on passenger cars is levied based on the vehicle's carbon dioxide emissions declared by the car manufacturer for combination of city and road driving. Where emission data are not available, the tax rate is based on the weight of the vehicle. The semiannual road tax is 120 ISK for each gram of carbon dioxide emission for emission above 121 grams, in addition to the minimum fee which is 5 000 ISK.	Weight. Distance. CO_2 emissions.	
Ireland	Road Tax on private cars based on CO_2 emissions. Rates vary from EUR 104 (up to 120 g CO_2/km) to EUR 2100 (above 225 g CO_2/km). Tax on commercial vehicles based on net weight: from EUR 253 (< 3 000 kg) up to EUR 3 948 (< 20 000 kg)	CO_2 emissions. Weight (commercial vehicles). Fuel/electricity power.	Electrically propelled vehicles: EUR 146 flat rate – private and EUR 80 flat rate – commercial not over 1 500kg.

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

	Taxes	Criteria	Rebates/exemptions
Israel*	Annual licensing fees: Private and commercial vehicles weighing up to 3500 kg total:the vehicles are sorted into seven groups (generally the price). The annual licensing fees are reliant upon the year of vehicle production, and the group the vehicle belongs to. The annual licensing fees range between NIS 687 to NIS 4 341. Commercial vehicles above 3 500 kg, motorized by diesel, have a different tariff.	Price. Age. Category.	Vehicles for disabled person, diplomats, United Nations Organisations, specific charity institutions.
Italy	Yearly Ownership Tax: From EUR 2.58 per kW to EUR 4.95 per kW according to engine cylinder capacity and environmental category of engine. Regions are entitled to vary the national rate.	Engine power. Environmental category.	Exemption for historical vehicles over 30 years old; vehicles over 20 years old are exempt only if recognised as being of special historical or collectors' interest; flat rate road tax on vehicles over 30 or 20 years old if still running on public roads. 100% exemption for disabled persons.
Japan	National Motor Vehicle Tonnage Tax (N.B. * Commercial vehicles) : levied according to weight, the rates are for passenger vehicles JPY 5 000 per 0.5 ton (*JPY 2 700); for lorries from JPY 3 800 per ton up to JPY 5 000 per ton (*JPY 2 700). 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 (40-50 passengers capacity): JPY 49 000 (*JPY 17 500) Light vehicle tax (local) levied on motorcycles and light vehicles according to cylinder capacity.	Cylinder capacity. Weight (commercial vehicles).	
Korea	Automobile Tax: rates are applicable according to cylinder capacity from KRW 80 per cc up to KRW 220 per cc for non-commercial vehicles; and from KRW 18 per cc to KRW 24 per cc for commercial vehicles.	Cylinder capacity.	Full exemption for disabled persons.
Luxemburg	Automobile Tax : the annual circulation tax is based on CO_2 emissions. Tax rates are calculated by multiplying the CO_2 emissions in g/km with 0.9 for diesel cars and 0.6 for cars using other fuels respectively and with an exponential factor (0.5 below 90 g/km and increased by 0.1 for each additional 10 g of CO_2 /km).	CO_2 emissions.	Exemptions: vehicles for disabled people; historical vehicles; cars used by public authorities; electrically propelled cars.
Mexico	Starting 2012, the tax on ownership was eliminated as a Federal Tax. State governments may impose a tax on ownership and/or periodic registration. Registration fee is near to MXN 400 in most states and Tax on ownership goes from 3% to 19% based on value, type of vehicle and number of passengers. Some states exempt vehicles with value ≤ MXN 350 000, electric vehicles and public passenger transport vehicles.	Value. Type of vehicle. Number of passengers. Fuel/electricity power.	Electric vehicles used for public passenger transport.
Netherlands	Motor vehicle tax is based on the dead-weight, the type fuel used, the region (province) and the CO_2 emission. Tax on heavy vehicles (also known as "Eurovignette") is levied on vehicles (lorries) with a gross weight of 12 tons or more for the use of motor ways in the Netherlands. Tax also varies according to Euro norms (diesel category).	For motor vehicle tax: Fuel used. Weight. Region (province). CO_2 emissions. For tax on heavy vehicles: Number of axles. Polluting emissions.	Exemptions: Ambulances, fire brigades, police, defence and funerary vehicles, vehicles older than 25 years, delivery vans owned by entrepreneurs.
New Zealand	Annual licensing fees: vary depending on the type of vehicle. The licensing fee for private passenger, petrol driven cars is NZD 287.75.	Vehicle type.	
Norway	Annual fee: NOK 3 360 for diesel cars without factory-fitted particle filter and NOK 2 885 for other cars; NOK 1 765 for motorbikes; NOK 1 080 for caravans and NOK 405 for moped, tractors, electric vehicles, etc.	Vehicle type.	

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

	Taxes	Criteria	Rebates/exemptions
Poland	Annual Motor Vehicles Tax levied at municipal level on heavy goods vehicles of maximum permissible gross laden weight over 3.5 tons, road and ballast tractors, trailers and semi-trailers and busses.	Weight. Type of vehicle. Number of passengers for busses.	Vehicles under possession of diplomatic representations, consular offices and other foreign missions. Transport vehicles constituting mobilisation supply. Special vehicles and vehicles used for special purposes. Historic vehicles.
Portugal	Annual State and municipal tax due by the ownership of the vehicle, it was reformed on 1st of July of 2007 for passengers vehicles and mixed use cars with gross weight not exceeding 2 500 Kg, if registered after the reform, tax rate is based on motor capacity and CO_2 emissions and for vehicles registered since 1981 up to the reform rates vary depending on motor capacity or voltage, date of registration and fuel type. Vehicle excise duty on lorries above 2.5 tonnes used in public and private transport of merchandise.	Motor capacity. CO_2 emissions. Weight. Number of axels. Vehicle type and fuel.	Vehicles owned by the State (central, regional or local administration), fire brigades, foreign States, diplomatic and consular missions, international organizations, specialized European agencies and disabled persons. Are also exempt ambulances, passengers vehicles destined to rental or taxi services, tractors, funerary vehicles, non-motorized vehicles that are purely electric or moved by renewable energies.
Slovak Republic	Motor Vehicle Tax – a kind of local tax (levied by higher territorial units) is imposed only on vehicles used for business purposes. Rates vary depending on type, weight, cylinder capacity and number of axles (for utility vehicles and buses) of the vehicle. Rates differ between higher territorial units.	Usage. Vehicle type. Weight. Cylinder capacity. Number of axles. Polluting emissions.	1. The vehicles exempt from the motor vehicle tax are the following: *a)* vehicles the documents of which name as the vehicle holder the higher territorial unit to the budget of which the motor vehicle tax is transferred; *b)* vehicles of diplomatic missions and consular corps, provided that reciprocity is guaranteed. 2. By a generally binding regulation based on the local conditions, a higher territorial unit may reduce tax on a vehicle used: *a)* as a vehicle of ambulance, mining rescue service, mountain rescue service, air rescue service and fire brigade service; *b)* as a vehicle of a regular bus service to the extent the service is provided in public interest; *c)* as a vehicle used solely in agricultural production and forestry; *d)* for business purposes, if the vehicle meets the polluting emissions limits of EURO 3, EURO 4 and EURO 5.
Slovenia	**Circulation tax** – an annual fee is paid once a year for the use of motor vehicles and trailers in Slovenia by vehicle owners. Tax is set in the amount depending of different categories of vehicles, and the outstanding amount is calculated in proportion to the duration of the registration period in a certain year.	Engine capacity. Engine power. Weight. Polluting emissions. Electric propulsion (trucks). Number of seats.	Tax exemptions: Vehicles exclusively using electricity for power, tractors and tractor trailers, motorcycles, three-wheeled cycles with engine capacity up to 50 cc and light four-wheeled cycles, light trailers with maximum permissible weight up to 750 kg, motor vehicles registered to the Slovenian Army, Civil Protection, Mountain Rescue Service, Ecological Laboratory with mobile unit, police and fire-fighting vehicles, ambulances, motor vehicles and trailers registered for diplomatic and consular missions, vehicles owned by certain international organizations, and vehicles used for the transport of disabled persons. Tax reduction for low polluting trucks • Trucks of category N1: tax reduction for EURO IV (–12, 5%) and EURO V (–25%) and tax increase for EURO II (+ 5%), EURO I (+ 20%) and EURO 0 or lower (+ 30%); • Trucks of category N2, N3 and buses (M2, M3): tax reduction for EURO IV (–12, 5%) and EURO V (–25%) and tax increase for EURO II (+ 5%), EURO I (+ 20%) and EURO 0 or lower (+ 30%); A lower tax rate applies to used vehicles (old-timers) (20%) and vehicles acquired for transport of families with four or more children (50%).

Table 6.2. **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.	Vehicle type. Engine power. Cylinder capacity.	Tax exemptions: Official vehicles belonging to public bodies of diplomatic offices, ambulances, vehicles adapted to disabled people, public transport vehicles over nine seats, tractors and other vehicles of agricultural use; historic vehicles.
Sweden	The annual circulation tax for cars meeting at least Euro 4 exhaust emission standards is based on CO_2 emissions. The tax consists of a basic rate of SEK 360 plus SEK 20 for each gram of CO_2 emitted above 120 g/km. This sum is multiplied by 2.55 for diesel cars. For alternative fuel vehicles, the tax is SEK 10 for every gram emitted above 120 g/km.	Weight. CO_2 emissions. Type of fuel.	A five-year exemption from annual circulation tax applies for "environmentally-friendly cars": Petrol/diesel/hybrid cars with CO_2 emissions up to 120 g/km; Alternative fuel/flexible fuel cars with a maximum consumption of 9.2 l (petrol)/8.4 l (diesel)/9.7cm/100 km (CNG, biogas); Electric cars with a maximum consumption of 37 kwh/100 km.
Switzerland	The annual motor vehicle tax is levied on cantonal (provincial) level. The tax depends on the weight or engine volume of the vehicle. At the federal level, a motorway tax of CHF 40 per year is levied on all vehicles below 3.5 tons. For vehicles weighing more than 3.5 tons that are used for transportation of persons, the tax ranges from CHF 650 up to CHF 5 000 (depending on the weight and kind of vehicle). For vehicles weighing more than 3.5 tons that are used for the transport of goods (lorries, tractors and their trailers), a heavy vehicle fee (HVF) is levied on the basis of the kilometres driven, the weight as well as the emission values of the towing vehicle.	Weight. Engine volume. Kilometres driven. Emission values Fuel/electricity power.	A reduced rate of the motor vehicle tax usually applies to electric and agricultural vehicles.
Turkey	Motor Vehicle Tax levied on all motor vehicles – based on weight, type and cylinder capacity. Paid twice annually by registered owner.	Weight. Vehicle type. Cylinder capacity.	
United Kingdom	VED on lorries is set according to the number of axles, weight and type of vehicle. Cars that are presented for registration in the UK on or after 1 March 2001, on the basis of a type approval certificate specifying a carbon dioxide (CO_2) emission figure, attract a rate of Vehicle Excise Duty (VED) according to the amount of CO_2 emitted and the type of fuel used. These cars fall within a 13-banded graduated VED system. The bands are labelled A-M, with band A containing the least polluting vehicles and band M comprising of vehicles that have high CO_2 emissions. Full details can be found at *www.direct.gov.uk/Motoring.* For private cars which do not fall into the above graduated VED system there is a two-tier threshold: vehicles not over 1 549 cc pay an annual rate of duty of GBP 130, and those over 1 549 cc pay a rate of duty of GBP 15.	Vehicle type. CO_2 emissions. Type of fuel. Fuel/electricity power.	Vehicles for disabled people, historic vehicles constructed before 1.1.1973, limited use vehicles, agricultural machines, mowing machines, steam powered vehicles, electrically propelled vehicles, electrically assisted pedal cycles.
United States	A tax is imposed on the use of trucks weighing at least 55 000 pounds. For those trucks weighing no more than 75 000 pounds, the tax is USD 100 per year plus USD 22 for each 1 000 pounds in excess of 55 000 pounds. For those trucks weighing more than 75 000 pounds the tax is USD 550. State and local governments may impose a periodic registration, operators' license, parking and inspection fees as well as property taxes.	Weight (for trucks).	

Source: National delegates; position as at 1 January 2012.
* Israel: The statistical data for Israel are supplied by and under the responsibility of the relevant Israeli authorities. The use of such data by the OECD is without prejudice to the status of the Golan Heights, East Jerusalem and Israeli settlements in the West Bank under the terms of international law.
1. Excluding insurance premium tax.

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

	City car	Family car	Hybrid	4X4	Luxury car
Australia (Canberra)					
Selling price	15 000	25 000	30 000	50 000	130 000
GST 10%	1 500	2 500	3 000	5 000	13 000
Luxury tax	–	–	–	–	25 660
Stamp duty	330	550	0	1 850	7 531
Registration fee	907	907	907	1 036	1 036
Price (all taxes included)	**17 737**	**28 957**	**33 907**	**57 886**	**177 227**
Austria (Vienna)					
Selling price	15 000	25 000	30 000	50 000	130 000
VAT 20%	3 000	5 000	6 000	10 000	26 000
New Car Registration Tax	990	900	360	7200	24960
Bonus-Malus	–240	–600	–360	3720	7800
Price (all taxes included)	**18 750**	**30 300**	**36 000**	**70 920**	**188 760**
Belgium (Brussels)					
Selling price	15 000	25 000	30 000	50 000	130 000
VAT 21%	2 730	5 250	6 300	10 500	27 300
Registration Tax	62	123	495	1 239	4 957
Price (all taxes included)	**17 792**	**30 373**	**36 795**	**61 739**	**162 257**
Canada (Ottawa)					
Selling price	15 000	25 000	30 000	50 000	130 000
GST / HST 13%	1 950	3 250	3 900	6 500	16 900
Automotive Air Conditioning Tax	100	100	100	100	100
Fuel Consumption Tax	–	–	–	–	–
Price (all taxes included)	**17 050**	**28 350**	**34 000**	**56 600**	**147 000**
Chile (Santiago)					
Selling price	15 000	25 000	30 000	50 000	130 000
VAT 19%	2 850	4 750	5 700	9 500	24 700
Registration fee	64	64	64	64	64
Plate´s fee	38	38	38	38	38
Mandatory insurance fee	20	20	20	20	20
Annual vehicle registration fee	302	650	850	1 740	5 352
Price (all taxes included)	**18 274**	**30 522**	**36 672**	**61 362**	**160 174**
Czech Republic (Prague)					
Selling price	15 000	25 000	30 000	50 000	130 000
VAT 20%	3 000	5 000	6 000	10 000	26 000
Registration fee	800	800	800	800	800
Price (all taxes included)	**18 800**	**25 800**	**36 800**	**60 800**	**156 800**
Denmark (Copenhagen)					
Selling price	15 000	25 000	30 000	50 000	130 000
VAT 25%	3 750	6 250	7 500	12 500	32 500
Registration Tax base deduction for major safety equipment.	(2 419)	(2 419)	(2 419)	(2 082)	(2 082)
Registration Tax 105% (on the first USD 13 300)	13 210	13 965	13 965	13 965	13 965
Additional Registration Tax (180% on the remainder above USD 13 300)	0	16 706	25 706	62 312	206 312
Tax deduction for minor safety equipment	(101)	(101)	(101)	(101)	(101)
Tax deduction for fuel efficient cars	(1 347)	(673)	(6 061)	1 010	1 347
Price (all taxes included)	**30 512**	**61 147**	**71 009**	**139 686**	**384 023**
Estonia (Tallinn)					
Selling price	15 000	25 000	30 000	50 000	130 000
VAT 20%	3 000	5 000	6 000	10 000	26 000
Registration Fee	154	154	154	154	154
Price (all taxes included)	**18 154**	**30 154**	**36 154**	**60 154**	**156 154**

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

	City car	Family car	Hybrid	4X4	Luxury car
Finland (Helsinki)					
Selling price	15 000	25 000	30 000	50 000	130 000
VAT 23%	3 450	5 750	6 900	11 500	29 900
Car tax	4 300	8300	6 400	26 600	89 700
Price (all taxes included)	**22 750**	**39 050**	**43 300**	**88 100**	**249 600**
France (Paris)					
Selling price	15 000	25 000	30 000	50 000	130 000
VAT 19.6%	2 940	4 900	5 880	9 800	25 480
Tax on registration certificates	185	231	185	554	1 246
Additional special tax on registration certificates	0	0	0	436	1 064
Bonus Malus	0	0	(bonus)– 400	(malus) 2300	(malus) 3 600
Price (all taxes included)	**18 125**	**30 131**	**35 665**	**63 090**	**161 390**
Germany (Berlin)					
Selling price	15 000	25 000	30 000	50 000	130 000
VAT 19%	2 850	4 750	5 700	9 500	24 700
Registration tax	18	25	18	25	25
Price (all taxes included)	**17 868**	**29 775**	**35 718**	**59 525**	**154 725**
Greece (Athens)					
Selling price	15 000	25 000	30 000	50 000	130 000
VAT 23%	2 470	4 750	5 130	18 430	29 900
Registration tax (see note)	1 385	7 692	0	19 230	50 000
Price (all taxes included)	**18 855**	**37 442**	**42 053**	**103 044**	**209 900**
Hungary (Budapest)					
Selling price	15 000	25 000	30 000	50 000	130 000
VAT 27%	4 050	6 750	8 100	13 500	35 100
Registration tax	270	770	315	1 100	1 660
Price (all taxes included)	**19 320**	**32 520**	**38 415**	**64 600**	166 760
Iceland (Reykjavik)					
Selling price	15 000	25 000	30 000	50 000	130 000
VAT 25.5%	3 825	6 375	7 650	12 750	33 150
Registration tax	3 000	3 750	3 000	27 500	84 500
Price (all taxes included)	**21 825**	**35 125**	**40 650**	**90 250**	**247 650**
Ireland (Dublin)					
Selling price	15 000	25 000	30 000	50 000	130 000
VAT 23%	3 450	5 750	6 900	11 500	29 900
Vehicle Registration Tax	2 952	4 305	3 666	19 680	57 564
Price (all taxes included)	**21 402**	**35 055**	**40 566**	**81 180**	217464
Israel (Jerusalem)*					
Selling price	15 000	25 000	30 000	50 000	130 000
VAT 16%	2 400	4 000	4 800	8 000	20 800
Gross sales tax 83% (30% for hybrid vehicles)	12 450	20 750	9 000	41 500	107 900
Credit for safety equipment	–210	–210	–210	–105	–210
Credit for cleaner cars	–2933	–2 025	–0	–0	–0
Price (all taxes included)	**26 707**	47515	**43 590**	**99 395**	**258 490**
Italy (Rome)					
Selling price	15 000	25 000	30 000	50 000	130 000
VAT 21%	2 730	5 250	6 300	10 500	27 300
Registration Tax	210	364	255	490	945
Price (all taxes included)	**17 940**	**30 614**	**36 555**	**60 990**	**158 245**
Japan (Tokyo)					
Selling price	15 000	25 000	30 000	50 000	130 000
VAT 5%	750	1 250	1 500	2 500	6 500
Automobile Acquisition Tax (5%)	750	1 250	0	2 500	6 500
Price (all taxes included)	**16 500**	**27 500**	**31 500**	**55 000**	**143 000**

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

	City car	Family car	Hybrid	4X4	Luxury car
Korea (Seoul)					
Selling price	15 000	25 000	30 000	50 000	130 000
VAT 10%	1 500	2 500	3 000	5 000	13 000
Special Excise Tax	750	2 500	634	5 000	13 000
Education Tax	225	750	190	1 500	3 900
Acquisition Tax	1 118	1 977	0	3 955	10 283
Price (all taxes included)	**18 593**	**32 727**	**33 824**	**65 455**	**170 183**
Luxembourg (Luxembourg)					
Selling price	15 000	25 000	30 000	50 000	130 000
VAT 15%	2 250	3 750	4 500	7 500	19 500
Registration Tax	50	50	50	50	50
Bonus	0	0	–1 500		
Price (all taxes included)	**17 300**	**28 800**	**33 050**	**57 550**	**149 550**
Mexico (Mexico)					
Selling price	15 000	25 000	30 000	50 000	130 000
VAT 16%	2 400	4 000	4 800	8 000	20 800
New vehicles tax	153	1 381	0	4 960	12 960
Price (all taxes included)	**17 553**	**30 381**	**34 800**	**62 960**	**163 760**
Netherlands (The Hague)					
Selling price	15 000	25 000	30 000	50 000	130 000
VAT 19%	2 850	4 750	5 700	9 500	24 700
Registration Tax	3 000	2 610	0	30 730	38 060
Price (all taxes included)	**20 850**	**32 360**	**35 700**	**90 230**	**192 760**
New Zealand (Wellington)					
Selling price	15 000	25 000	30 000	50 000	130 000
VAT 15%	2 250	3 750	4 500	7 500	19 500
Registration Fee	222	222	322	322	222
Price (all taxes included)	**17 472**	**28 972**	**34 822**	**57 822**	**149 722**
Norway (Oslo)					
Selling price	15 000	25 000	30 000	50 000	130 000
VAT 25%	3 750	6 250	7 500	12 500	32 500
Weight tax	8 748	13 627	8 511	36 326	52 540
KW tax	0	9 0495	437	11 420	61 449
CO^2 Emissions tax	2 470	5 090	–2 730	22 512	41 987
NOx Emissions tax	114	114	114	572	114
Price (all taxes included)	**30 082**	**59 576**	**43 832**	**133 330**	**318 590**
Poland (Warsaw)					
Selling price	15 000	25 000	30 000	50 000	130 000
VAT 23%	3 450	5 750	6 900	11 500	29 900
Excise tax	465	775	930	9300	24180
Price (all taxes included)	**18 915**	**31 525**	**37 830**	**70 800**	**184 080**
Portugal (Lisbon)					
Selling price	15 000	25 000	30 000	50 000	130 000
VAT 23%	3 450	5 750	6 900	11 500	29 900
Car tax	1 431	5 254	1 976	34 962	41 537
Vehicle Registration fee	80	80	80	80	80
Plates Fee	60	60	60	60	60
Price (all taxes included)	**20 021**	**31 144**	**39 016**	**96 602**	**201 577**
Slovak Republic (Bratislava)					
Selling price	15 000	25 000	30 000	50 000	130 000
VAT 20%	3 000	5 000	6 000	10 000	26 000
Plates fee	33	33	33	33	33
Price (all taxes included)	**18 033**	**30 033**	**36 033**	**60 033**	**156 033**

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

	City car	Family car	Hybrid	4X4	Luxury car
Slovenia (Ljubljana)					
Selling price	15 000	25 000	30 000	50 000	130 000
VAT 20%	3 045	5 050	6 030	12 200	33 280
Motor Vehicle Tax	225	250	150	11 000	36 400
Price (all taxes included)	**18 270**	**30 300**	**36 180**	**73 200**	**199 680**
Spain (Madrid)					
Selling price	15 000	25 000	30 000	50 000	130 000
VAT 18%	2 700	4 500	5 400	9 000	23 400
Registration Tax	712	0	0	7 375	19 175
Price (all taxes included)	**18 412**	**29 500**	**35 400**	**66 375**	**172 575**
Sweden (Stockholm)					
Selling price	15 000	25 000	30 000	50 000	130 000
VAT 25%	3 750	6 250	7 500	12 500	32 500
Price (all taxes included)	**18 750**	**31 250**	**37 500**	**62 500**	**162 500**
Switzerland (Bern)					
Selling price	15 000	25 000	30 000	50 000	130 000
VAT 8%	1 248	2 080	2 496	4 160	10 816
Acquisition tax 4%	600	1000	1200	2000	5200
Price (all taxes included)	**16 848**	**28 080**	**33 696**	**56 160**	**146 016**
Turkey (Ankara)					
Selling price	15 000	25 000	30 000	50 000	130 000
VAT 18%	2 700	4 500	5 400	9 000	23 400
Special Consumption Tax	5 550	20 000	24 000	65 000	169 000
Price (all taxes included)	**23 250**	**49 500**	**59 400**	**124 000**	**322 400**
United Kingdom (London)					
Selling price	15 000	25 000	30 000	50 000	130 000
VAT 20%	3 000	5 000	6 000	10 000	26 000
Vehicle duty	147	47	0	404	714
Registration fee	85	85	85	85	85
Price (all taxes included)	**18 232**	**30 132**	**36 085**	**60 489**	**156 799**
United States (Washington DC)					
Selling price	15000	25000	30000	50000	130000
Sales tax (6% to 8% depending upon weight)	900	1500	0	3500	9100
Registration fee	72	72	36	115	115
Title fee	26	26	26	26	26
Inspection fee	10	10	10	10	10
Vehicle tags	10	10	10	10	10
Price (all taxes included)	**16 018**	**26 618**	**30 082**	**53 661**	**139 261**

Source: National delegations; situation as at 1st January 2012.
* This table reflects table 6.1 and includes all taxes, fees and duties that must be paid to allow the vehicle for circulation on public roads at first registration (except insurance taxes and annual taxes). The purpose of this table is to allow for a broad practical comparison of the level of taxation across member countries for four typical vehicles. It is not intended to reflect all specificities that may occur in the calculation of the taxes (e.g. specific tax base calculation rules such as possible inclusion of registration taxes in the VAT/GST base). It does not reflect the price (without tax) differences that may occur between countries because of local market constraints. In addition, relatively low registration taxes or an absence of such taxes do not necessarily reflect a general low taxation of vehicles as a whole. In some countries, low registration taxes can be compensated by higher annual taxes
Country notes:
Greece: The tax base for the registration tax is the wholesale price of the official dealer (and not the selling price of the car). For simplification purposes, the wholesale price is estimated 30% lower than the selling price.
*Israel: The statistical data for Israel are supplied by and under the responsibility of the relevant Israeli authorities. The use of such data by the OECD is without prejudice to the status of the Golan Heights, East Jerusalem and Israeli settlements in the West Bank under the terms of international law.

Box 6. **Notes to Table 6.3. Taxes* on sale and registration of selected new vehicles**

How to read this table?

1. Vehicle categories

When reading Table 6.1 it is not very easy to understand the impact of the various taxes on cars in countries and to assess the differences in final consumer price they involve.

In order to make the information more readable, Table 6.3 shows the practical impact of the taxes on sale and registration on a series of typical vehicles. To allow for an internal comparison, taxes are applied to vehicles where technical characteristics are described with precision. A specific "real life" vehicle is associated with each category.

The categories are as follows:

City cars: car with 1 250 cc; 60 kw; gasoline, 1 250 kg; 129 g CO_2/km; Selling price (free of tax): USD 15 000 (any vehicle technically comparable with *e.g.* Ford Fiesta Duratec 60 PS)

Family cars: car with 1 700 cc; 135 kw; gasoline, 1 500 kg; 149 g CO_2/km; Selling price (free of tax): USD 25 000 (any vehicle technically comparable with *e.g.* Kia K5 Optima)

Hybrid cars: car with 1 800 cc; 73 kw; gasoline; 1 370 kg; 89 g CO_2/km; Selling price (free of tax) 30 000 (any vehicle technically comparable with *e.g.* Toyota Prius)

Four wheel drive cars: 3 000 cc/140 kw; diesel; 2 200 kg; 218 g CO_2/km; Selling price (free of tax): USD 50 000 (any vehicle technically comparable with *e.g.* Jeep Grand Cherokee)

Luxury car 4 800 cc; 270 kw; gasoline, 2 700 kg; 266 g CO_2/km Selling price (free of tax) USD 130 000 (any vehicle technically comparable with *e.g.* BMW 7 Series 750i).

For the purpose of this table, the words "technically comparable" mean comparable in terms of cylinder capacity, weight, engine power, polluting emissions etc.

2. Carve outs

The purpose of this table is to allow for a broad practical comparison of the level of taxation across member countries for five typical vehicles. It is not intended to reflect all specificities that may occur in the calculation of the taxes (*e.g.* specific tax base calculation rules such as possible inclusion of registration taxes in the VAT/GST base). It does not reflect the price (without tax) differences that may occur between countries because of local market constraints. In addition, relatively low registration taxes or an absence of such taxes do not necessarily reflect a general low taxation of vehicles as a whole. In some countries, low registration taxes can be compensated by higher annual taxes.

For simplification purposes, all vehicles are supposed to have air conditioning and are used for private purposes.

When local taxes, fees or duties apply, the table shows data for the capital of the country.

3. Exchange rates

The amounts of taxes presented in this table result from a conversion into USD at market price as at 1 January 2012.

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Chapter 7

VAT and GST systems in federal countries

This chapter was written by Alain Charlet and Luc Godbout. This chapter describes VAT/GST systems currently in place in a selection of federal states (Brazil, Canada and India). It describes the dual VAT/GST system where the federal and state levels of governments levy a destination-based federal and state VAT/GST on a common tax base and discusses how to make a VAT/GST reform happen. It shows that a dual VAT/GST system might be appropriate in some countries because it might prevent tax cascading between overlapping taxes and states' tax competition but would not necessarily apply to other jurisdictions with a different political and legal tradition.

*This work has been made possible thanks to the financial support of the Chair in Taxation and Public Finance of the Université de Sherbrooke (*www.usherbrooke.ca/chaire-fiscalite/en/*). The authors would like to give pecial thanks to Stéphane Buydens, Carol Felepchuck, Tanisia Martini Vilarino and Fannie Chicoine for their help and their suggestions.*

The views expressed in this chapter are those of the authors and should not be taken as representing the position of the OECD.

Introduction[1]

In a speech given during his 1936 bid for re-election, Franklin D. Roosevelt reminded Americans that "[t]axes, after all, are the dues that we pay for the privileges of membership in an organized society". This chapter looks at one of the ways taxes are levied, namely value-added tax (or VAT/GST). It describes the current VAT/GST systems in Brazil, Canada and India, all federal states,[2] examines the dual system in which the federal and state levels of governments levy a destination-based federal and state VAT/GST on a common tax base, and discusses how to make a VAT/GST reform happen.

It shows that a dual VAT/GST system might be appropriate in some countries because it might prevent tax cascading between overlapping taxes and states' tax competition but would not necessarily apply to other jurisdictions with a different political and legal tradition.

VAT is a widely accepted indirect taxation system prevalent in more than 150 countries across the globe. Globally, VAT has been structured as a destination based comprehensive tax levied at a single or standard rate on supplies of goods and services within a country.

The success of VAT has raised the question of whether it might be used as a subnational tax in federal countries, with lower levels of government having some autonomy in the design of the tax. Inter-jurisdictional trade at the subnational level in federal countries, where there are no customs borders, poses significant challenges to the implementation of subnational VATs.

Some authors advised that a VAT should not be implemented at subnational level because of a lack of internal borders and problems with cross-jurisdiction crediting (Bird, 1993). It was thought that the only feasible approach would be an origin-based VAT with a form of clearinghouse mechanism in which input tax credits and VAT outputs on cross-border trade would be netted against each other, with any remaining balance settled by interstate payments.[3]

However, the European Union system seems to show in the contrary that implementing a destination based VAT at a subnational level is possible although it suffers from recurrent carrousel fraud attacks due to the lack of any border control.[4]

Another reason of the difficulty of implementing VAT at subnational level might be that central governments and sub-national states are traditionally jealous of their tax prerogatives and reluctant to share any tax base.

Experience seems to show that these traditional views were wrong. Canada, for instance, replaced its Federal Sales Tax by a federal VAT, the Good and Services Tax (GST), on January 1, 1991, at a time where Canadian Provinces had their own retail sales tax.

Therefore, Canada's experience of more than twenty years – and to some extent, the later European Union's experience as from 1993 as well – seems to demonstrate that a federal VAT can work in combination with subnational retail sales taxes or VATs.

The Canadian model may well serve as a source of inspiration for other big federal countries. India might be the first one on the list to implement a dual GST but Brazil may join at one point as current federal indirect tax systems suffer from a number of deficiencies in the number of which is the overlap of tax bases, tax cascading, and indirect tax wars between the states.

The economic weight of VAT

Why is VAT such a big issue in federal states compared to other taxes?

VAT revenues are generally quite substantial and thus particularly attractive. They also represent a significant part of the revenues of the subnational states. In terms of figures, revenues generated by taxes on general consumption (that is, VAT, sales taxes and other general taxes on goods or services) represented 20.0% of the total tax revenues of OECD countries in 2009 (compared with 11.9% in 1965 and 15.8% in 1985 [OECD, 2011]). The part of taxes on general consumption as a percentage of GDP more than doubled between 1965 and 2009 (3.3% in 1965, 5.2% in 1985 compared with 6.7% in 2009 for OECD countries [OECD, 2011]). The share of VAT/GST as a percentage of total taxation has grown by more than 70%, from 11.2% on average in 1985 to 19.2% in 2009 (see Chapter 3).

In **Brazil**, the share of consumption taxes as a percentage of total revenues represented 46%[5] in 2003[6] (40% for the Union,[7] 71% for the States[8] and 22% for the Municipalities[9]).

In **Canada**, the Share of VAT/GST represented 8.5% of total taxation and 2.7% of GDP in 2009. However, this figure is somehow misleading since it is unclear whether the OECD statistics only accounts for the share of the federal part of the Harmonized Sales Tax (HST) whose rate is only 5% or accounts for the total amount of the HST (federal and provincial component of the tax). The total HST rate is on average equal to 13% (federal plus provincial rates). Therefore, and although this is difficult to check in practice, it might be that the total part of the HST as percentage to total taxation is substantially higher in the Provinces that have harmonised their sales taxes or Provincial VATs with the HST (that is at least 6 over 10 Provinces and 3 Territories) since the tax base in these Provinces is almost totally harmonised.

In **India**, indirect taxes constitute the primary source of revenues for both the Central Government and the States and should represent with the Custom duties around 47% of India's total tax revenues (30% without the Custom duties) of the 2012/2013 budget.[10]

VAT systems in federal states often present different layers of taxes superposed one on the top of each other's and applying to the same tax base. This may create a competition between the federal government and the states, or between the States themselves, to reach the biggest share of the tax base. To the contrary, another form of tax competition, which is often referred as a race to the bottom, may consist in states reducing their tax base by granting exemptions in order to attract investment or businesses previously located in other states.

In some jurisdictions, however, the tax powers of each level of governments are clearly defined and do not necessarily apply to the same base. In Brazil for instance the Union is entitled to tax industrialised products whereas the States tax the goods and some services and the Municipalities the rest of the services. In India, the production and manufacture of goods and services are taxed by the Central Government while supplies of goods are taxed by the States. However, Canada's experience suggests that sharing the tax base does not necessarily generate a fight over the tax base provided that rules are sufficiently harmonised.

Table 7.1. **Taxes levied at national and subnational levels in Brazil, Canada and India**

		Industrial products	Supplies of services	Supplies of goods	Inter-State trade	Other indirect taxes
Brazil	Union	IPI				PIS/COFINS
	States		ICMS	ICMS	ICMS	
	Municipalities		ISS			
Canada	Federal government	HST/GST	HST/GST	HST/GST	HST/GST	
	Provinces	HST/PST	HST/PST	HST/PST	HST/PST	
India	Central Government	CENVAT	Service Tax		CST[11]	
	States			State VAT		
	Local bodies					Entry taxes, etc.

Source: Authors' own work.

Federal or state jurisdiction

Brazil is a federation, called the Union, of 26 States, one Federal district that contains the capital city, Brasilia, and municipalities. Canada is composed of 10 provinces and 3 territories. India has 28 states and 6 Union Territories.

A Good and Services Tax (GST) was introduced in **Canada** at the federal level on January 1, 1991. It replaced a Federal Sales Tax who existed since 1924. In Canada, both the federal and the provincial governments have been granted the power to levy consumption and sales taxes. Since 1992, six over ten Canadian provinces have harmonised their retail sales tax with the federal GST. The new Harmonised Sales Tax (**HST**) includes the federal GST and the provincial sales tax and applies normally to the same tax base. The HST is normally levied at 13% – although there are some exceptions – and includes a 5% federal tax (the GST). The remaining percentage is the provincial tax. GST only applies in the four other provinces and three northern territories.

In **Brazil**, although the Union, the States and the Federal District have the power to legislate on tax, financial and budgetary laws, the scope of the taxing powers varies between the Union, the States and the Federal District and the Municipalities. A VAT on industrial products (**IPI** – *Imposto sobre Produtos Industrializados*) is levied by the Union. A VAT on goods, telecommunication, transport services and electricity (**ICMS** – *Imposto sobre Circulação de Mercadorias e Serviços*) is levied at the state level. A tax on services (**ISS** – *Imposto Sobre Serviços*) is levied at the municipality level. Furthermore, the Union is also levying two other taxes that are not VAT per se but social contributions: the **COFINS** (*Contribuição para o Financiamento da Seguridade Social* – Contribution to Social Security Financing) and the **PIS** (*Programa de Integração Social* – Contribution to the Social Integration Program). The IPI was introduced in 1964, the ICMS in 1989, the ISS in 1968, the COFINS in 1991 and the PIS in 1970.

India, like Brazil, does not have a central VAT regime but has a series of indirect taxes levied at the Federal and State level that do not apply normally on a common tax base.

Under the Indian Constitution, the Central Government is empowered to impose taxes on the production and manufacture of goods, on the provision of services and on inter-State sales and purchases of goods. The Central Government is also empowered to impose customs duties on the imports of goods. The Central Government levies a Central Value Added Tax (CENVAT), a Service Tax and the Central Sales Tax (CST). The **CENVAT** is an excise duty, introduced in 1944, on the manufacture or production of goods in India. **The Service Tax**, which was introduced in 1994, is, as the name suggests, a tax on the supply of certain services. It works as an invoice-credit VAT, with the Service Tax paid on input services being creditable against the output Service Tax. The Service Tax and the CENVAT are integrated: both taxes on inputs are creditable against the CENVAT or Service Tax charged on the outputs. The **CST** that is a tax on inter-state sale of goods was introduced in 1956. Although the CST is levied by the Central Government, the revenues of the CST accrue entirely to the States. It is an origin-based tax, collected and retained by the origin State (the State from where the movement of goods commences). This tax is not creditable against itself or any other taxes.

States, on the other hand, are empowered to tax intra-State supplies of goods. The States are also authorised to levy certain other local taxes such as entertainment tax and entry tax. States levy **State VATs** on sale of goods. These were progressively introduced as from 2005 according to a framework agreed among all States. Unlike sales tax, the State VAT is a real VAT that relies on a staged collection mechanism in which successive taxpayers are entitled to deduct input tax on purchases and have to account for output tax on sales. The VAT paid by registered persons on goods (including capital goods) purchased from within the state is therefore available for input tax credit. However, since the State VAT is a tax levied and collected by each State separately, no input tax credit is granted on VAT paid in other States.

To summarize, the Central Government cannot tax goods beyond the point of manufacturing and the States are not empowered to tax services that are the preserve of the Central Government.

The Central Government proposed to introduce a nationwide VAT to replace all existing indirect taxes levied at the state and national levels. A Constitution Amendment Bill (115th) has been introduced on 22nd March 2011 to give to the Parliament and Legislatures of every State the power to make laws with respect to goods and sales taxes.

The new VAT should follow the Canadian model and be a dual GST consisting of a Central GST (CGST) and State GSTs (SGST). It would allow the two levels of government to tax both goods and services at each stage in the value chain.

Relations between the Federal and the State level

In some federal countries, there is a clear relation of trust – or maybe of understanding of common interests – while in some other federal states, the tax system and sharing of the tax base reflects the level of political mistrust between the federation and the subnational entities.

In **Canada**, the implementation of a dual GST, called the Harmonised Sales Tax (HST), that is a GST that includes a federal and a provincial tax rate that apply to almost the same tax base (with the exception of 5% of the tax base that may slightly vary between the States) was a long and progressive process that started in 1992 with Québec. Québec was the first Canadian Province to introduce a provincial VAT, the Québec Sales Tax (QST), and to partly harmonise it with the federal GST. Since then, six over ten Canadian provinces have harmonised their retail sales tax with the federal GST: Nova Scotia, New Brunswick and Newfoundland and Labrador on April 1997, Ontario and British Columbia on July 2010. As from January 2013, the QST will be fully harmonised with the HST: for instance financial institutions providing exempt services will not be allowed anymore to recover the QST on their inputs.

However, this process is not without turning back. While Prince Edward Island is currently entering into formal negotiations with the federal government to implement a HST as from 1st April 2013, British Columbia decided by a 2011 referendum to abolish the HST and return to its retail sales tax as from April 2013. It will have therefore a federal GST of 5% and a retail sales tax of 7%. Referendum was won by 55% but television and movie industries, an important sector in British Columbia, already mentioned that this change will affect negatively the business climate.

In order to create an incentive for the Provinces to abandon their existing sales tax, the Federal government compensates the Provinces for introducing the HST. Nova Scotia, New Brunswick and Newfoundland and Labrador, who harmonised their retail sales tax with the HST in 1997, received a compensation of 961 millions of Canadian Dollars. Ontario, who harmonised with the HST in 2010, received 4,3 billions of Canadian Dollars. British Columbia, who harmonised in 2010 as well, received a compensation of 1,6 billions of Canadian Dollars although these will be refunded to the Federal government since British Columbia decided to return to its retail sales tax. Under an agreement between the federal and Québec governments, Québec will receive 2,2 billions of Canadian Dollars for fully harmonising its QST with the federal GST.

India, as well, is a country that developed over the years a VAT/GST culture of consensus between the States and the Central Government to progressively harmonise the legislation between the States in order to stop any harmful tax practices and tax competition between the States.

Before the implementation of the State VATs as from 2005, States were often in a sales tax war between each other's competing to attract certain industries. There was also no harmony in the sales tax rates on different commodities among the States: the rates were numerous (often more than ten in several States), and different from one State to another. This unhealthy competition between the States called the "rate war" was counter-productive in terms of revenues raised.

In 1999, further to a meeting of all Chief Ministers, it was decided to stop this "rate war" among the states by implementing sales tax floor rates for different categories of commodities and to discontinue sales tax incentive schemes as from 2000.

An Empowered Committee of State Finance Ministers was set up in 2000 to implement these decisions. Since then, this Committee has met regularly, bringing together the Government of India and the State Finance Ministers. Decisions are consensus based. The Empowered Committee has been monitoring closely the process of implementation of State VATs, and deviations from the agreed VAT rates have been contained. As a result, all the States and Union Territories have now implemented State VATs, which rates are relatively harmonised. State VATs are destination based thus preventing tax competition between the States. Positive effects are tangible: the rate of growth of tax revenue has nearly doubled after the introduction of VAT.

It is interesting to see that, because VAT is a State subject, the Central Government has voluntarily limited its role to the one of a facilitator helping the successful implementation of State VATs. In addition, a compensation package for any revenue loss further to the introduction of VAT was implemented[12] and, technical and financial supports were provided to the States.

As mentioned before, the medium-term objective of the Indian reform is to introduce a nationwide VAT to replace all existing indirect taxes levied at the state and national levels. The new VAT should follow to some extent the Canadian model and be a dual GST consisting of a Central GST (CGST) and State GSTs (SGST). The Central Government will collect the CGST and the States will collect the SGTs. The Central Government and States will set their rates separately. This rationalisation may simplify tax administration and compliance, harmonise tax base, laws and administration procedure across the country. This may neutralise the cascading effect, boost exports and increase the competitiveness of Indians goods and services. Originally the tax was planned to be introduced on April 2010 and then on April 2012. The reform has been further delayed to a later date given the political context and the difficulty to amend the Constitution.

The States fear a loss of revenue as the proposed national GST would encroach on the State VATs. Certain states also expressed their apprehension that if GST is implemented, all the power and control to levy tax would vest with the Central Government. Nonetheless, the GST is now expected to be introduced by April 2013 although this may be further delayed. It is envisaged as well that the Central Government should compensate deficit-revenue States for the first five years following the implementation of the GST. Any compensation should be paid on a monthly basis.

Compared to Canada and India, the situation in **Brazil** is different. This is partly due to Brazil's history as the country went out of a military dictatorship in 1985. There is a level of mistrust of strong central power. The return to democracy since the fall of the military dictatorship and the new constitution in 1988 were marked by the strengthening of regional political forces, as important tax bases were devolved to sub-national governments. It is felt that a strong division of powers between the federal government and the sub federal levels is a guarantee of Brazilian democracy. The fall of the military dictatorship in the mid-1980s was partly caused by strong pressures from rich states. The three levels of governments and of the corresponding fiscal resources (Union, States and Municipalities) ensure that the federal powers are sufficiently balanced.

In Brazil, typically, a reform harmonising the three different levels of VAT and tax on services may not receive a strong support at the State or Municipality levels. Fiscal autonomy allows States and Municipalities to implement their own policies and a reform may transfer resources from the states to the Union thus leading to a loss of power at the sub-national level. Especially, the reform may face opposition from the richest States (*i.e.* Southern and South-East States, like Rio Grande do Sul or São Paulo). A broad federal VAT would allow the Union to have more control over resources and to reallocate them to the poorer States (although it may happen as well that States would only be compensated for the exact amount of resources "lost" due to the reform).

Relations between the States with respect to inter-State trade

The relations between the States in a federal State depend to a large extent on the territoriality rules in place that govern the place of taxation of inter-State transactions. The mechanics of these rules could well favour or discourage inter-State tax competition.

With respect to cross-border international trade of goods, there is generally an international consensus that supplies of goods should be taxed at import in the State of destination of the goods and zero-rated in the State of origin.[13] However, implementing territoriality rules with respect to inter-State transactions is more difficult than with respect to international trade as there are no custom borders to control the flow of goods between the States.

As mentioned in the introduction, some authors advised that a VAT should not be implemented at subnational level because of a lack of internal borders and problems with cross-jurisdiction crediting. It was thought that the only feasible approach would be an origin-based VAT with a form of clearinghouse mechanism in which input tax credits and

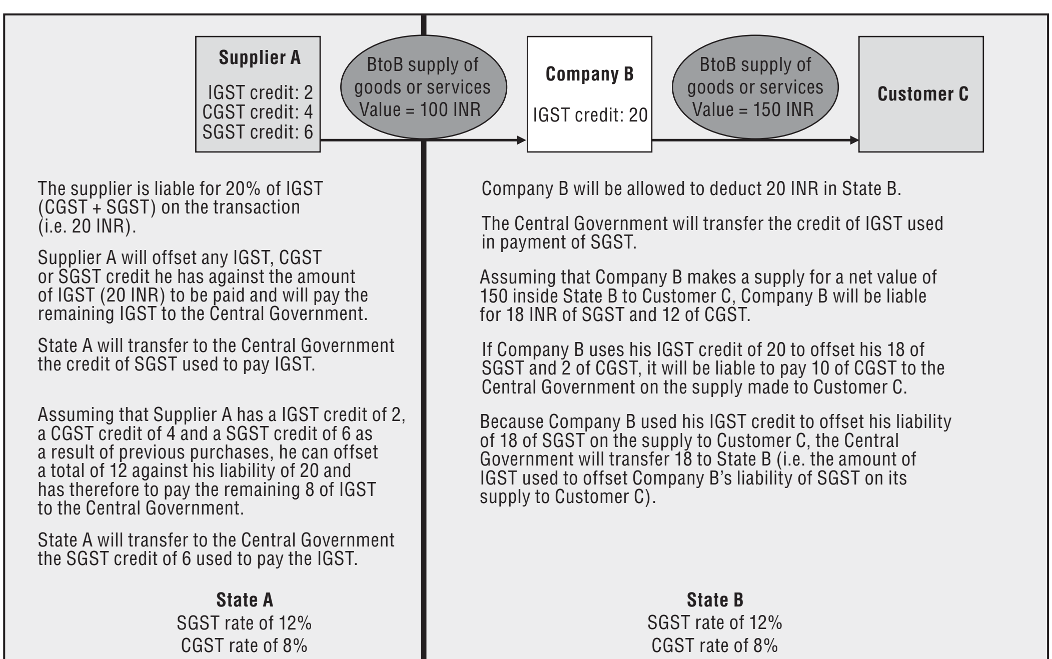
VAT outputs on cross-border trade would be netted against each other, with any remaining balance settled by inter-state payments.

In **India**, the proposed reform would follow this recommendation.

Currently, the State VATs are destination-based taxes whereas the CST[14] is an origin-based tax.[15] Under the proposed reform that would implement a dual GST consisting of a Central GST (CGST) and State GSTs (SGST), the destination principle would normally apply to internationally traded supplies of goods and services: exports would be zero-rated and imports would be subject to both CGST and SGST. SGST would accrue to the State where the imported goods or services are consumed. The CGST or SGST paid on imports would be fully creditable. However, cross utilisation of input tax credit between CGST and SGST would not be allowed.

Inter-state supplies of goods or services would be subject as well to a unified GST aggregating the CGST and SGST that is called the Integrated GST (IGST). However the IGST would be an origin-based tax. Therefore, IGST would apply in the state of the supplier although credit will be given to the consumer in the other State. Thus, the Central Government will operate like a clearinghouse and compensate the consuming State according to the destination principle. The mechanism that is envisaged is relatively complex and should work as follows: the inter-State seller will pay IGST by compensating it with its available credits of IGST, CGST and SGST. The exporting State will then transfer to the Central Government the amount of the credit of SGST used to offset the IGST. The importer in the other State will be allowed to credit the amount of IGST paid on the purchase. The Central Government, acting as a clearinghouse, will transfer to the importing State the credit of IGST used by the importer to offset his liability of SGST (see the diagram below – Figure 7.1. – for additional explanations).

Figure 7.1. **Inter-State transactions in India**



Note: INR = Indian Rupee.

Source: Authors' own work.

This mechanism is ensuring that the exporting State cannot keep any net amount of SGST paid on the export – and thus make a budgetary gain on the export – and that the importing State does not incur any SGST loss as a result of the IGST credit granted on the import. Therefore, although the supply is taxed at the origin, the clearinghouse mechanism ensures that IGST is in effect destination based.

The question that remains is how this system will work in practice and if it would increase the compliance burden of companies that will have to monitor three different types of GST credits (IGST, CGST and SGST credits).

From a budgetary point of view, the result is fully neutral for State A and State B and the system ensures that the full amount of IGST (of 20) is reversed to the Central Government (*via* a direct payment or the use of existing IGST or CGST credits):

Table 7.2. **Inter-State transactions in India**

	State A	Central Government	State B
IGST credit used		2	–18 against the SGST liability
CGST credit used		4	
SGST credit used	–6		
IGST Payment		8	
Transfer from State A to the Central Government	+6	6	
Transfer from the Central Government to State B			+18
TOTAL	0	20	0

Source: Author's own work.

Canada has chosen however a totally different approach based on the destination principle both for inter-Provinces and international trade of goods and services. International supplies of goods or services are taxed according to the destination principle: supplies consumed in Canada at subject to GST in Canada whereas supplies exported are zero-rated.

However, at the Provincial level, many of the existing place-of-supply rules for property and services relied on the location of the supplier. Since 2010, however, the rules that relate to supplies made within Canada have changed so that there is greater reliance on the location of the customer, especially for most services. Therefore, although the place of supply rules with respect to international cross-border supplies remain the same, when a supply is made within Canada, the place of supply is generally based on the destination principle.

This interestingly shows that the decision to tax inter-State transactions according to the origin or destination principle may be the result of a long process, partly influenced by the evolution at an international level, such as the OECD Guidelines on the application of VAT/GST to the international trade in services and intangibles, released in February 2010 for public consultation.

In the European Union, as well, only very recently was the origin principle fully abandoned. Since 1967,[16] a commitment was taken for the introduction of a VAT system tailored to the single market and operated across Member States in the same way as within a single country. With the implementation of the single market in 1993 and the resulting abolition of borders, the initial proposal was to tax inter-State supplies of goods at the origin based system, with full crediting of those taxes in the Member State of destination.

Receipts in the exporting country would be transferred to the importing country, financing the payment of credits.

This was, however, not acceptable to Member States because a close harmonisation of VAT rates would have been needed to prevent rate differences from influencing decisions on where to buy. This issue could have been solved by the implementation of a clearinghouse system to redistribute VAT receipts to the Member State of consumption. However, this would have required that Member States rely on each other to collect a substantial part of their VAT revenue. Therefore, because of all these difficulties, it was decided to maintain for a transitional period a destination based VAT system for supplies between taxable persons, but without frontier controls.[17] This transitional arrangement was supposed to be replaced by definitive arrangements based on the taxation of goods and services in the Member State of origin.

In 2007, the Council of the European Union, that is the meeting of national ministers from each Member State to adopt laws and coordinate policies, invited the Commission to explore again a VAT system based on taxation at departure of the goods, in the context of a debate on combating VAT fraud and especially carrousel fraud. To overcome the issue of differences in VAT rates, the Commission proposed a model in which intra-Member States supplies to taxable persons would be taxed at 15% with the Member State of destination either collecting the additional VAT from the customer to reach the applicable rate or refunding the VAT paid in excess.

This model was never adopted. In the meantime, the European Commission Green (European Commission, 2010) and White Papers (European Commission, 2011) on the future of VAT acknowledged that the origin principle remains politically unachievable and proposed that it should be abandoned.

It is interesting to note that the system proposed in 2007 by the European Commission is to some extent similar to the system currently in place in **Brazil** with respect to inter-State trade of goods. Brazil has indeed a kind of a hybrid between the Indian and Canadian system that treat inter-state transactions according to a mix of the origin and destination principle.[18]

Inter-State supplies are taxed at a fixed ICSMS rate in the State of the supplier and then, in some circumstances, are taxed again in the State of destination at the difference between this fixed rate and the applicable rate in the State of destination.

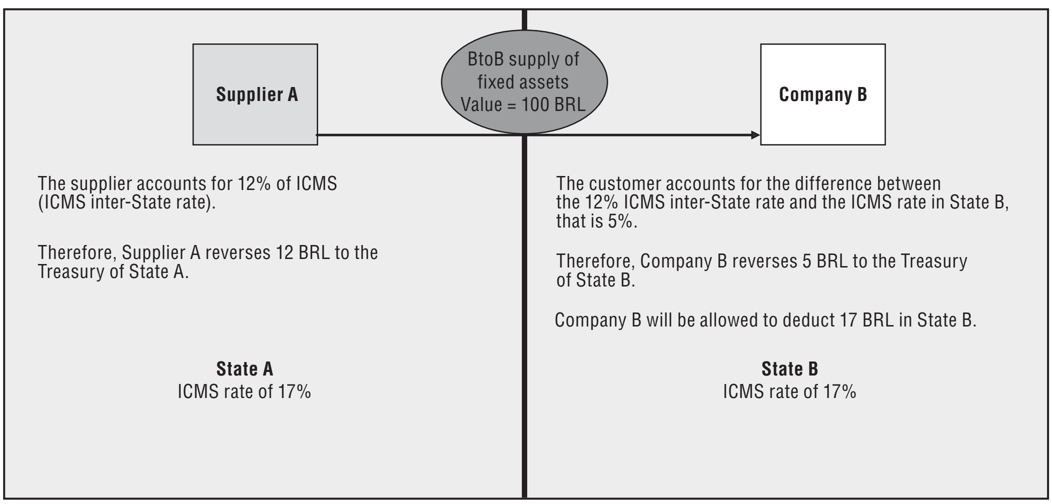
In practice, inter-state transactions are normally taxed at a standard ICMS rate of 12% in the State of the supplier.[19] The 12% output tax is accounted for by the supplier in the State of the supplier. That rate is applied irrespective of the rates applied in the State of the supplier and in the State the customer. Hence, a supply from a State A to a State B is subject in State A to a standard ICMS rate of 12%. If the customer, in State B, is using those goods or services for the purpose of its business activity, then he will be entitled to offset the 12% accounted for by the supplier in the State A as input tax against the output tax he will collect on his supplies in State B.

In some circumstances, the customer may be liable to the ICMS rate difference in the State of destination of the goods (if that rate is above the standard 12% ICMS inter-State rate). The rules are relatively complex (for additional explanation, see Annex 7.A3). For instance:

- If the goods or services consist of fixed assets and if the state of the customer has a VAT rate higher than 12%, then the customer will be liable for the difference in the VAT rates. The customer will be entitled to offset the 12% and the difference in the VAT rate against his output tax (for an illustration, please see the diagram – Figure 7.2. – below).
- However, if the supplies are consumed by the customer as a final consumer, he will be liable for the difference between the ICMS inter-State rate and the State of destination's ICMS rate but will not be entitled to offset this input tax.

The treatment of inter-state transactions is a major concern in Brazil since ICMS represents most of the tax resources of the States and this may be one of the reasons of the complexity of the system.

Figure 7.2. **Inter-State transaction in Brazil**



Note: BRL = Brazilian Real.
Source: Authors' own work.

The main drawback of that system is that an exporting state collects 12% of ICMS whereas an importing state grants an ICMS credit of 12%. This may in practice penalise the resources of poorer states that are net importers of taxable goods or services while increasing the resources of exporting states.

This is partly solved by the use of a lower ICMS inter-state standard rate of 7% when taxable goods or services are exported from a richer state to a poorer state. Moreover, one of the big advantages of this system is that it does avoid carousel fraud by taxing inter-state transactions.

Carrousel fraud is one of the elements that should be seriously taken into consideration when designing inter-State place of supply rules. The destination principle, combined with the reverse-charge mechanism, and the lack of customs borders do indeed render possible Carrousel fraud. Carrousel fraud happens when a person making an inter-State supply of good then makes a domestic supply of this good and does not remit to the tax authorities the VAT collected on the domestic sale of goods.

The fraud happens because the person performing the inter-State supply reverse-charges[20] all the VAT on his purchase (*i.e.* offsets his input tax against his output tax directly on his tax return) and is not therefore in a credit position. Because this person is not in credit position, this creates an incentive not to remit the VAT on the following domestic sale of the products. Carousel fraud is thus made possible because the fraudster does not have to make any real payment of VAT when acquiring the good. Carousel fraud, which is often carried out by criminal organisations, usually happens in regional entities, such as the European Union, with respect to inter-state trade due to the lack of customs borders. It spectacularly expanded in June 2009 to international supplies of services such as tradable permits and therefore should be a concern for most regional entities or federal structures.

How to implement a reform towards a common VAT base?

The first question to be answered is why there is a need for a tax reform. A reform may be needed because of the tax cascading between the different layers of taxes that affect negatively the economy of the country and especially its competitiveness and ability to export. It might be needed because the extent of tax competition between States initiates a race to the bottom and thus a decrease of tax revenues. Or it might be required because there is a need for a better equalisation between the different States, some being significantly richer than others and having differing interests, which may in the long run, affect the viability of the federation itself. Another concern is that various taxes levied at multiple levels and governed by different rules significantly increase the compliance burden of businesses and affect their competitiveness.

Then the second question to be answered is what are the requirements for a successful tax reform? Although it is impossible to reply to that question in this paper, it seems feasible to list the technical requirements that must be met to make the reform viable. First, the key for implementing a dual VAT/GST system is of course the political consent and support of the population, which implies that the population must be carefully informed and educated about the objectives and consequences of the reform (Charlet and Owens, 2010).[21] Second, a relatively common tax base between the federal and state levels of governments is essential. Tax rates may be different – and maybe should be different when it is the privilege of the States to set the tax rates – but it seems important that the tax base remains essentially identical in order to ease the administration of the tax, facilitate compliance for businesses and ensure that the VAT is deductible according to standard rules. Third, place of supply rules adapted to the legal tradition of the country must prevent rate competition between the States. This concern is particularly relevant when rate differences between States are significant. Finally, the profits of the reform, as a result of a better administration and increased collection of the tax, should be shared between the States, which implies that a tax equalisation mechanism should redistribute part of the revenues from the richer states to the poorer states. This may however be relatively difficult to achieve politically.

In **Canada**, one of the objectives of the HST reform was to replace former sales taxes existing in a number of Provinces. Retail sales taxes can entail a cascading effect because they are very rarely applied at the retail stage only. Frequently, many sales to consumers are exempt and more importantly many sales to business are taxed which results in a cascading effect and embedded tax cost for consumers. VAT, on the other hand, is perceived as the best way to eliminate taxation of business inputs and to treat neutrally exports and imports. Although this might be debatable in developing countries for various reasons due the lack of capacity of the tax administrations and difficulty to manage the domestic VAT refunds, this assumption seems to be generally true in modern developed countries, such as Canada, that do not face such problems.

In principle, the tax base to which is applied the Federal and Provincial part of the HST is common. The list of exemptions and of zero-rated supplies is common. The Federal government must normally require the agreement of Provinces if it proposes to reduce the common tax base and if this change reduces by more than 1% the revenues of a Province. As mentioned before, a slight difference between the tax base of the Federal and Provincial part of the GST is tolerated but cannot exceed 5%. In effect, this means that Provinces can exempt of the Provincial part of the HST only certain goods and services as long as these exemptions do not reduce the Provincial tax base of the tax by more than 5% when compared to the Federal tax base of the tax. In Canadian terminology, this is referred to as a "point-of-sale rebate", which means that only the federal component of the HST is collected by the vendor.

The HST (that is, the GST and the provincial portion of the HST) is administered and collected by the Canada Revenue Agency. Each participating province's share is then determined as per formulae based on economic indicators and is passed to it accordingly.[22] The Federal government may pay instalments based on the estimate for the tax entitlement year. Québec however, who is responsible for administering the QST and the GST in Québec, collects and remits the GST and the QST separately.

Since the destination principle applies both to supplies made inside Canada (between Provinces) or outside Canada, exports of goods and cross-border supplies of services are treated neutrally and normally taxed at the VAT rate of the country or province of deemed consumption irrespective of whether the VAT rate in the country of origin is higher or not. This does not prevent however Provinces that have not fully harmonised their VAT from playing with their tax base in order to provide a particular benefit to a specific sector of industry. However, the expansion of the HST to now six Provinces provides for a common tax base and common exemptions (except for 5% of the tax base as mentioned before) and should normally prevent tax competition.

In **India**, there is currently no common tax base. The Central Government and the States operate at the federal and state levels different types of VAT either on goods or services and thus on a different tax base.

These taxes, although they generally share the characteristics of a VAT, are not necessarily creditable against each other. This may create a cascading effect. For instance, if the CENVAT and the Service Tax are creditable, including between themselves, the CST on inter-state sales of goods, to the contrary, is not creditable against any other taxes and is not eligible for input tax credit in the destination state. The State VAT, levied and collected on sale of goods by each State separately, is a real VAT and is therefore creditable against itself, but no credit is allowed for the inputs of the sectors subject to the CENVAT or Service Tax. Furthermore, since the State VAT is specific to each State, no input tax credit is granted on State VAT paid in other States.

There is a multiplicity of standard rates and reduced rates. Currently up to four different rates apply to the CENVAT (12%, 6% and 0%) and to the State VATs (12,5% to 15%, 4% to 5%, 1% and 0% depending on the legislations of the States) while a unique rate applies to the Service Tax (12%) and to the CST (2%).

The multiple levies of several indirect taxes (CENVAT, Service Tax, CST and State VAT), create uncertainties, tax cascading and increase the compliance burden on businesses.

Classification uncertainties have been the matters of significant disputes: what counts as manufacturing (and is subject to CENVAT) or as a service (and is subject to the Service Tax and can escape State VAT) is sometimes unclear. Moreover, the selective taxation of specified services is a source of definitional ambiguities and classification disputes. The partial coverage of CENVAT and State VATs leads to significant tax cascading (the CENVAT is included in the value of the goods that are taxed under the State VAT). VAT compliance obligations may vary from one State to another.

In order to address the deficiencies of the current system, the Central Government proposed to replace the various Central, State and Local levies by a nationwide VAT. As we mentioned before, the new Indian VAT should follow the Canadian model and be a dual GST. The two levels of government would be allowed to tax both goods and services at each stage of the supply chain. The Central Government would levy a CGST and the States would levy a SGST and each level will set their rates separately. As a result, the CST will be phased out while the other indirect taxes will be subsumed into the CGST or SGST. Being two different taxes, the CGST and SGSTs should not be creditable against each other. However, the basic features of the CGST and SGSTs, such as the provisions regarding the chargeability, taxable event of the tax or valuation and classification, would be harmonised. The destination principle would apply to international trade: exports would be zero-rated and imports would be subject to the dual GST (*i.e.* both to the CGST and SGST). The list of exemptions should be common and a uniform registration threshold should be applied.

The Empowered Committee of State Finance Ministers has decided to adopt a three rates structure. There will be a lower rate for necessary items and goods of basic importance, a standard rate and a special rate for precious metals. There will be also a list of exempted items. Rules and procedures should be uniform as well.

Replacing pre-existing Federal, State and Local indirect taxes by the CGST/SGST scheme promises a number of benefits. This may simplify tax administration and compliance, laws and administration procedure across the country. This may neutralise the cascading effect – that is, taxes being levied on top of taxes. This will provide a more comprehensive tax base for both supplies of goods and services and allow offsetting more easily GST credits (since cross utilisation of credit between goods and services will be allowed). It is expected that this will reduce the cost of locally manufactured goods and services, increase competitiveness and boost Indian exports.

In **Brazil**, although the Union, States and Municipalities do not co-occupy the same tax base, there can be some overlap in practice between the IPI and ICMS. Also, the ISS, which is levied by the Municipalities on a limited list of services, has a cascading effect because it is not a VAT: no credit is granted to businesses that purchase services for the purposes of their activities. This could impede competitiveness and therefore growth and economic development.

Each government level responsible for administering the tax under its jurisdiction is collecting the corresponding tax revenues. The Union is thus collecting the IPI, PIS and COFINS revenues and so do the States with respect to the ICMS revenues and the Municipalities with respect to the ISS revenues. However, the Constitution determines federal and State fund transfers aimed at correcting regional unbalances. The proportion of these transfers is determined by the Constitution and they are automatic.

Because the States do not have the autonomy to tax income, which is the privilege of the Union, they have used the ICMS as a policy instrument granting tax exemptions and holidays to attract economic activity. This predatory behaviour resulted in an erosion of the tax base and was referred to as the fiscal war. As a matter of principle, States can implement VAT cuts only (for instance, new exemptions or reductions of the tax base, etc.) provided that they obtain unanimity of the finance ministers of each State in a council called the CONFAZ (*Conselho Nacional de Política Fazendária*). States can also alter ICMS rates but only within certain limits (they cannot be lowered below 12 or 7%, depending whether the state is a "rich" or "poor" state). They can however define the tax base and some States have thus halved the tax base, a similar effect to halving the rates.

A reform harmonising the three different levels of VAT and tax on services (Union, State and Municipality level) by having either one federal VAT and resources being allocated to the sub-governmental levels or a dual VAT like in Canada would prevent such behaviours and ensure some measure of harmonisation between the 26 States of Brazil.

However, given Brazil's lack of confidence in a strong central power, it is difficult to say if a reform would receive support at the State or Municipality levels. It is felt that a strong division of powers between the federal government and the sub federal levels is a guarantee of Brazilian democracy. A broad federal VAT would allow the Union to have more control over resources and to reallocate them to the poorer and, thus, may face opposition from the richest States. The fall of the military dictatorship in the mid-1980s was partly caused by strong pressures from rich states.

However, a federal or dual VAT with new place of supply rules may stop the tax competition that currently exists between states. As a result, States' resources may increase.

Conclusion

The Canadian experience – and to some extent the European Union experience – shows that it is possible to implement a destination-based VAT/GST at a subnational level. A dual VAT/GST system allows both levels of government applying their own federal or state VAT/GST rate on a common tax base and therefore to share on an equal footing this tax base. Furthermore, applying the destination principle on inter-States trade prevents – to some extent – harmful tax competition between the states.

The success of this model is now spreading to India, which is in the course of implementing a dual VAT/GST reform where the CGST will be levied by the Central Government and SGSTs by the States. This should prevent the overlapping of indirect taxes that currently exists between the CENVAT, the CST and the State VATs and the cascading effect resulting from the impossibility to credit the CST and State VATs against the CENVAT and Service Tax.

Brazil's example is showing, however, that there is not one size fits all approach. A tax model that is performing extremely well in one or several countries may not be relevant in other jurisdictions because of its historical, political and legal traditions. It might be required, as in Brazil, to have taxing powers being shared between different levels of government with no federal harmonisation of the tax base because this would grant too much control to the federal government. This might be perceived as a blessing in disguise: the sake of democracy.

Notes

1. This chapter was written by Alain Charlet and Luc Godbout. Alain Charlet is an attorney-at-law, working as an independent expert for the IMF drafting VAT and mining codes in West African and Caribbean countries. He also teaches at the Catholic University of Lyon (France) and is working on tax policy issues in collaboration with the Université de Sherbrooke (Canada). He is a member of the OECD Technical Advisory Group on Consumption Taxes and of the BIAC (Business and Industry Advisory Committee to the OECD). Prior to that, he worked two and a half years in the Consumptions taxes Unit of the OECD Centre for Tax Policy and Administration. From 2002 to 2008 he worked as a tax lawyer for Arthur Andersen International and Landwell & Associés, the correspondent law firm of PricewaterhouseCoopers. Luc Godbout is a Professor at Université de Sherbrooke and a senior researcher at the Chair in Taxation and Public Finance of the Université de Sherbrooke. In addition to his interests in comparative taxation, his recent researches focused on the impact of taxes on the economic growth, the consequences of population aging on public finances and the weight of consumption taxes on households in Canada. He is frequently advising the government of Québec and actively participates to Provincial working groups on tax issues and incentives. He also works as an independent expert for the IMF, the World Bank and the Canadian International Development Agency on Africa (Guinea, Madagascar, Mali, Senegal and Tunisia). The authors would like to give special thanks to Stéphane Buydens for his help in reviewing this Chapter, to Carol Felepchuck for her invaluable help and her suggestions, to Fannie Chicoine for her help in reviewing Annex 7A.1 (Canada), to Tanisia Martini Vilarino for her invaluable help in reviewing Annex 7A.3 (Brazil) and her suggestions and to the Chair in Taxation and Public Finance for the financial support which made possible the realisation of this study *www.usherbrooke.ca/chaire-fiscalite/en/*.
2. For additional information and further references with respect to the three countries that are the object of this study, that is Brazil, Canada and India, please refer to the separate articles with respect to each country that are published in Annexes 7A.1, 7A.2 and 7A.3. Please note that, for the convenience of the reader, we have on purpose limited the number of references in this study, as all relevant information is cross-referenced in the separate country studies.
3. A clearinghouse mechanism exists between Israel and Gaza (Bird and Gendron, 2011, page 144). For more information, see Article VI (Indirect Taxes on Local Production) of the Annex IV (Protocol on Economic Relations between the Government of the State of Israel and the P.L.O., representing the Palestinian people) of the Gaza-Jericho Agreement: *www.incore.ulst.ac.uk/services/cds/agreements/pdf/is23.pdf*. According to paragraph 5 of this article VI, "The VAT on purchases by businesses registered for VAT purposes will accrue to the tax administration with which the respective business is registered".
4. The realisation of the single market in 1993 resulted in the abolition of controls at fiscal frontiers inside the European Union. To achieve this, the European Commission proposed moving from the destination based system, where VAT is effectively charged at the rate of VAT applicable where the buyer is established, to an origin based system, with VAT being charged at the rate in force where the supplier is established. This was, however, not acceptable to Member States as VAT rates were too different and there was no adequate mechanism to redistribute VAT receipts to mirror actual consumption. Therefore the current system maintains different fiscal systems but without frontier controls. For supplies between taxable persons, it is still a destination based VAT system. However, the system is an origin-based system for supplies to private persons (with some exceptions, such as the purchase of new means of transport and distance selling).
5. Tabela 1.27 – Receita consolidada, da União, Estados e Municípios, segundo a natureza – Brasil – 2003. According to the 2003 table: IPI = 17 947 291 000 real (BRL), ICMS = 118 784 635 000 BRL, ISS = 10 073 222 000, COFINS = 57 522 166 000, Contribuições ao INSS, PIS/PASEP e FGTS = 122 341 681 000 BRL, total revenues = 708 695 823 000 BRL which represents a percentage of consumption taxes per total revenues of 46%. *www.ibge.gov.br/home/estatistica/economia/despesaspublicas/financaspublicas_2003/tab127.pdf*.
6. Latest statistics from the national statistic institute of Brazil (Instituto Brasileiro de Geografia e Estatística) with respect to the public finances of Brazil are only available with respect to 2003: *www.ibge.gov.br/english/estatistica/economia/despesaspublicas/financaspublicas_2003/default.shtm*.
7. Tabela 1.27 – Receita consolidada, da União, Estados e Municípios, segundo a natureza – Brasil – 2003. According to the 2003 table: IPI = 17 947 291 000 BRL, COFINS = 57 522 166 000, Contribuições ao INSS, PIS/PASEP e FGTS = 122 341 681 000 BRL, total revenues for the Union = 496 065 806 000 BRL which represents a percentage of consumption taxes for the Union per total revenues of 40%. *www.ibge.gov.br/home/estatistica/economia/despesaspublicas/financaspublicas_2003/tab127.pdf*.
8. Tabela 1.27 – Receita consolidada, da União, Estados e Municípios, segundo a natureza – Brasil – 2003. According to the 2003 table: ICMS = 118 784 635 000 BRL, ISS = 387 976 000 BRL, total revenues

for the States = 167 942 189 000 BRL which represents a percentage of consumption taxes for the States per total revenues of 71%. *www.ibge.gov.br/home/estatistica/economia/despesaspublicas/financaspublicas_2003/tab127.pdf*.

9. Tabela 1.27 – Receita consolidada, da União, Estados e Municípios, segundo a natureza – Brasil – 2003. According to the 2003 table: ISS = 9 685 246 000, total revenues for the Municipalities = 44 687 828 000 BRL which represents a percentage of consumption taxes for the Municipalities per total revenues of 22%. *www.ibge.gov.br/home/estatistica/economia/despesaspublicas/financaspublicas_2003/tab127.pdf*.
10. Budget of India 2012/2013: *http://indiabudget.nic.in/ub2012-13/afs/afs1.pdf*. See also Table 3.3 of the Economic Survey 2011/2012: *http://indiabudget.nic.in/es2011-12/echap-03.pdf*.
11. The CST in India is levied by the Central government but the revenues accrue to the States.
12. States were compensated for any revenue loss at the rate of 100% of revenue loss during years 2005-2006, 75% during years 2006-2007 and 50% during years 2007-2008.
13. With respect to supplies of services, the rules are not as clear because of the intangible nature of services although the OECD Guidelines on the application of VAT/GST to the international trade in services and intangibles consider that the jurisdiction with the taxing rights is the one in which consumption takes place and propose that, as a Main Rule, the location of the customer is the most appropriate proxy to determine consumption for business-to-business supplies (see Chapter 2).
14. The Central Sales Tax (CST) is levied by the Central Government on inter-state sale of goods. However, the revenues of the CST accrue entirely to the States. It is an origin-based tax. This tax is not creditable against any other taxes including itself. It is not eligible for input tax credit in the destination state as well. The CST is said to cause significant inefficiencies in the supply chain of goods within the common market of India. It may create double taxation when the goods are subject to State VAT in the State of destination.
15. The CENVAT and the Service Tax are federal taxes collected by the Central Government. The CENVAT applies only at the production or manufacturing of goods. The Service Tax is a destination-based tax.
16. First Council Directive 67/227/EEC and Second Council Directive 67/228/EEC of 11 April 1967.
17. The system is an origin-based system for supplies to private persons (with some exceptions, such as the purchase of new means of transport and distance selling).
18. ISS (services tax) normally applies in the municipality where the supplier is established (*i.e.* origin principle: taxation at the location of the supplier) although there are many exceptions. The destination principle (taxation at the location of the customer or recipient) is normally applied to overseas transactions.
19. Please note that the Resolution 13/2012 (Resolução do Senado 13/2012), in force as from 1 January 2013, replaces the current ICMS rates (of 7% or 12%) applicable on interstate sales of some imported goods, after customs clearance procedures, by a single rate of 4%. These new rules were introduced in order to combat the "fiscal war of ports" (guerra fiscal dos portos) between Brazilian states. In order to attract investments and increase business in local ports, some states grant VAT credits on imports. The unified rate of 4% intends to neutralize the VAT credits granted by these states. E&Y T Magazine: *http://tmagazine.ey.com/news/ibfd/brazil-state-vat-rates-on-interstate-sales-involving-imported-goods-unified/*.
20. In principle, under standard VAT rules, this is the supplier of goods or services who is liable to account for the VAT. A reverse-charge mechanism switches the liability to pay for the VAT from the supplier to the customer. The supplier will issue a VAT free invoice and will treat the supply as a zero-rated supply. The customer will be entitled to offset the output VAT that he reverse-charged against the same amount of deductible input VAT as if the VAT would have been charged to him by the supplier.
21. Taxes rarely meet the unanimous consent of the governed but the Canadian GST might be even more unpopular because of its high visibility, a mistake that was not made in Brazil and that

should not be made in India in a near future. Indeed, in Canada, although the law does not tell businesses to quote their prices on a tax exclusive basis, retailers treat GST like the former existing RST: GST is added onto the price at the cash register. Consumers therefore really feel the burden of the tax since the price is increased by around 12-15% at the cash register. Consumer dislike of the HST in British Columbia for instance was due primarily to this high visibility.

22. Tax equalisation systems are not unknown in Federal countries that do not have a dual GST system but have a federal VAT only. In Australia, although the GST is collected at the federal level, all the GST revenues are reversed to the states according to a complex equalisation rule. GST revenues are thus allocated to the state on the basis of their tax capacity and population size. GST acts therefore as an instrument to compensate the horizontal fiscal unbalance between states. An independent body, the Commonwealth Grants Commission (*www.cgc.gov.au/*), recommends how the revenues raised from the GST should be distributed to the states to achieve horizontal fiscal equalisation. According to the Commission "Fiscal equalisation involves the transfer of payments or grants across jurisdictions with the aim of offsetting differences between a jurisdiction's revenue raising capacity and expenditure needs". Each state government should have the fiscal capacity to provide services and infrastructure at the same standard. In some other federal countries such as Germany, VAT revenues are split between the federal government and the states called « Länder ». Equalisation mechanisms are not unknown in Belgium and Spain as well.

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ANNEX 7.A1

Canada[1]

Canada is the second largest country in the word and the thirty-five most populous country with almost 35 million people.[2] Canada is composed of 10 provinces and 3 territories. The Goods and Services Tax (GST) was introduced in Canada at the federal level on January 1, 1991. It replaced a Federal Sales Tax who existed since 1924.

Québec was the first Canadian Province to introduce a provincial VAT and to partly harmonise it with the federal GST. The Québec Sales Tax (QST) was introduced in Québec on July 1, 1992. Since then, six over ten Canadian provinces have harmonised their retail sales tax with the federal GST: Nova Scotia, New Brunswick and Newfoundland and Labrador on April 1997, Ontario and British Columbia on July 2010 and Québec as from January 2013). The new Harmonised Sales Tax (HST) includes the GST and the provincial sales tax and applies normally to the same tax base. As from January 2013, the QST will be fully harmonised with the HST: for instance financial institutions providing exempt services will not be allowed anymore to recover the QST on their inputs.

However, British Columbia decided by a 2011 referendum to abolish the HST and return to its retail sales tax as from April 2013.[3] It will have therefore a federal GST of 5% and a retail sales tax of 7%. Referendum was won by 55% but television and movie industries, an important sector in British Columbia, already mentioned that this change will affect negatively the business climate.

GST only applies in the four other provinces (Alberta, Saskatchewan, Manitoba and Prince Edward Island) and three northern territories (Yukon, Northwest Territories and Nunavut). Alberta and the three northern territories do not have sales taxes. Saskatchewan, Manitoba and Prince Edward Island continue to impose and administer their own retail sales taxes. Prince Edward Island includes the federal GST in its tax base. Prince Edward Island however is entering into formal negotiations with the federal government to implement a HST as from 1st April 2013. The combined HST rate will be 14% (9% for the provincial rate and 5% for the federal rate).[4]

What is the legal basis for taxation in Canada?

In Canada, both the federal and the provincial governments have been granted the power to levy consumption and sales taxes. The HST/GST legislation is found within Part IX of the Excise Tax Act (ETA).

Non-participating Provinces that have not yet harmonised their Provincial Sales Tax with the HST and Québec[5] – although the QST is partly harmonised with the federal GST – have their own legislation.

Is there a common tax base?

As mentioned above, six over ten Canadian provinces have harmonised their retail sales tax with the federal GST (Nova Scotia, New Brunswick and Newfoundland and Labrador on April 1997, Ontario and British Columbia on July 2010 and Québec as from January 2013). Prince Edward Island is entering into formal negotiations with the federal government to implement a HST as from 1st April 2013.

In principle, the tax base to which is applied the Federal and Provincial part of the HST is common. The following are normally exempt without credit (that is without the right to deduct the corresponding input VAT) according to Schedule V of the Excise Tax Act: housing, most of health services, educational services and child care.

The following are zero-rated (that is exempt with credit) according to Schedule VI of the Excise Tax Act: prescribed drugs and biological, medical and assistive devices, basic groceries, some supplies of agriculture and fishing products (supply of farm livestock, grains or seeds for instance), some transport services.

The Federal government must normally require the agreement of Provinces if it proposes to reduce the common tax base and if this change reduces by more than 1% the revenues of this Province.[6]

A slight difference between the tax base of the Federal and Provincial part of the GST is tolerated but cannot exceed 5%. In effect, this means that Provinces can exempt of the Provincial part of the HST only certain goods and services as long as these exemptions do not reduce the Provincial tax base of the tax by more than 5% when compared to the Federal tax base of the tax. For instance, Québec decided to maintain the existing QST exemptions on books and diapers. Books are generally exempt of the Provincial part of the HST in most participating Provinces. Furthermore, Ontario, British Columbia and Nova Scotia, also exempt of the Provincial part of the HST children items (clothing, footwear and diapers) and feminine hygiene products.[7] In practice, this is like applying a zero-rate at the Provincial level and a reduced rate at the HST level.

Who determines the rates?

The rate of the federal GST is 5%. The GST was introduced with a rate of 7% in 1991. The rate was lowered from 7% to 6% on July 1st, 2006 and then from 6% to 5% on January 1st, 2008.

The HST rate is generally 13% – with the exception of British Columbia (12%), Nova Scotia (the HST in Nova Scotia was increased from 13% to 15% on July 2010) and Québec (14,975% as from January 1st, 2013). The HST includes a 5% federal tax (the GST). The remaining percentage is the provincial tax. Each participating Province is free to determine its rate for the Provincial component of the HST. It is normally 8% with the exception of British Columbia (7%), Nova Scotia (10%) and Québec (9, 975% as from January 2013). Prince Edward Island's HST rate is announced to be 14% (the provincial rate would be 9% plus the federal rate of 5%).

The HST applies on a GST exclusive basis. However, in Québec, the QST currently applies at a rate of 9.5% on a GST-inclusive price (the rate was raised from 7.5% to 8.5% in 2011 and then from 8.5% to 9.5% in 2012). The combined application of the federal GST and the QST is therefore 14.975% (and not 14.5%). As from January 2013, the QST will be fully harmonised with the Federal GST and will apply on a GST exclusive price and the QST rate will be raised from 9.5% to 9.975% so that the total rate remains unchanged at 14.975%.

The Provincial Sales Tax rate in the non-Participating Provinces that have not harmonised their sales taxes with the HST is 7% for Manitoba, 10% for Prince Edward's Island and 5% for Saskatchewan (please see the Table 7.A1.1. at the end of the paper). Each non-Participating Province is free to determine its rate of Provincial retail sales tax. It is interesting to note that the Prince Edward's Island 10% PST is applied on a GST-inclusive basis.

Is there a unique rate or a standard rate and reduced rates?

The HST, GST or Provincial taxes normally apply at a single rate and normally to the same tax base. Under the HST, exemptions normally apply to the same supplies of goods or services both for the federal and provincial part of the tax. However, as mentioned before, Provinces can exempt from the Provincial part of the HST 5% of the tax base. This does in effect create a HST reduced rate since the supply is then not subject to the Provincial part of the tax. Furthermore, some goods such as basic food products are exempt with credit, which is similar to applying a zero rate.

Some countries make a general use of reduced rates as a mean to reduce the regressivity of the VAT (Charlet and Godbout, 2011). Canada however has chosen a different path: it provides refundable GST credits based on family income in order to compensate low-income households (Godbout and St-Cerny, 2011). The GST/HST credit is a tax-free quarterly payment that helps individuals and families with low or modest incomes offset all or part of the GST or HST that they pay.

Furthermore, some persons or entities may claim a rebate to recover the GST/HST paid on certain property or services. This mostly concerns legal persons who are outside the scope of VAT such as public bodies (municipality, universities, hospitals, charity institution, non-profit organisations) or private individuals (with respect to new housing) who will not otherwise be allowed under the standard rule to recover any input VAT on their purchases. The allowance of rebates is generally subject to many conditions. Furthermore, the rebate is normally not a full rebate but is based on a percentage that may vary with respect to the federal or provincial part of the HST.[8] Because this rebate reduces the amount of HST paid on the final sale, it has the same effect as a reduced rate. A 50% rebate on a supply taxed at a 13% HST rate is equivalent to a reduced rate of 6,5%.

Who is administering the tax?

The HST (that is, the GST and the provincial portion of the HST) is administered by the Canada Revenue Agency.

However in Quebec, Revenue Québec who is already responsible for administering the QST and the GST in Québec will continue to do so as from January 2013 under an agreement between the federal and Québec governments when the QST will be fully harmonised with the HST.[9] Québec receives a negotiated annual fee for administering the GST in the province (Godbout, 2009). However, the Canada Revenue Agency will administer the GST and QST for all Selected Listed Financial Institutions.[10, 11]

Does the federal government compensate the Provinces for introducing the HST?

In order to create an incentive to replace the old retail sales taxes or harmonise the Provincial taxes, the Federal government compensates the Provinces for harmonising their taxes with the GST. Nova Scotia, New Brunswick and Newfoundland and Labrador received a compensation of 961 millions of Canadian Dollars. Ontario should receive 4,3 billions of Canadian Dollars. British Columbia received a compensation of 1,6 billions of Canadian Dollars although these will be refunded to the Federal government since British Columbia decided by a 2011 referendum to abolish the HST and return to its retail sales tax as from April 2013. Businesses will also undergo a costly transition back to the old RST system.

Under an agreement between the federal and Québec governments (currently the *Protocole d'entente concernant l'harmonisation des taxes de vente en vue de la conclusion d'une entente intégrée globale de coordination fiscale entre le Canada et le Québec*, September 2011), Québec will receive 2.2 billions of Canadian Dollars for harmonising its QST with the federal GST.

How is the tax apportioned between the federal government and the Provinces?

HST is collected by the federal government. Each participating province's share is then determined as per formulae based on economic indicators and is passed to it accordingly. The Federal government may pay instalments based on the estimate for the tax entitlement year.[12] Québec however, who is responsible for administering the QST and the GST in Québec, collects and remits the GST and the QST separately.

What are the place-of-supply rules?

According to subsection 123(1) of the ETA, GST applies to taxable supplies – that is, to all supplies made in Canada by a supplier in the course of a commercial activity. According to subsection 123(1) of the ETA, " 'supply' means, subject to sections 133 and 134, the provision of property or a service in any manner, including sale, transfer, barter, exchange, licence, rental, lease, gift or disposition".

According to section 212 of the ETA and to section 142 of the ETA, supplies of goods or services are taxed according to the destination principle: supplies consumed in Canada are subject to GST in Canada whereas supplies exported are zero-rated. Of course the place of supply rules may vary depending on the nature of the transaction.[13]

At the Provincial level, the supplier was generally required to charge in the Province where it is located HST if the Province is a participating Province – that is a Province where HST is applied – and GST if the Province is a non-participating Province. In particular, many of the existing place of supply rules for property and services relied on the location of the supplier. The supplier had to remit the tax to the Canada Revenue Agency (who remitted to each participating province its share as determined per formulae based on economic indicators).[14] Québec, however, requires Québec suppliers who are accounting for the GST and purchasers in Québec who are reverse-charging the tax to remit it to Revenue Québec.

Since 2010, however, the rules that relate to supplies made within Canada have changed so that there is greater reliance on the location of the customer, especially for most services. Therefore, although the place of supply rules with respect to international cross-border supplies remain the same, when a supply is made within Canada, the place of supply is generally based on the destination principle (Schedule IX of the Excise Tax Act).[15]

Table 7.A1.1. **Federal and provincial taxes**

	Provinces and territories	Federal tax			Provincial tax			Total tax rate	Comments
		Type of tax	Tax rate	Administration of the tax	Type of tax	Tax rate	Administration of the tax		
Provinces	Alberta	GST	5%	Canada Revenue Agency	No sales tax	NA	NA	**5%**	
	British Columbia	HST	5%	Canada Revenue Agency	HST	7%	Canada Revenue Agency	**12%**	British Columbia decided by a referendum in 2011 to abolish the HST and return to its retail sales tax as from April 2013. Therefore, it will have a federal GST of 5% and a Retail Sales Tax of 7%.
	Manitoba	GST	5%	Canada Revenue Agency	Retail Sales Tax	7%	Manitoba Finance – Taxation Division	NA because the RST is not a VAT	The Retail Sales Tax is applied to the retail sale or rental of most goods and certain services in Manitoba. The tax is calculated on the selling price, before the GST is applied.
	New Brunswick	HST	5%	Canada Revenue Agency	HST	8%	Canada Revenue Agency	**13%**	
	Newfoundland and Labrador	HST	5%	Canada Revenue Agency	HST	8%	Canada Revenue Agency	**13%**	
	Nova Scotia	HST	5%	Canada Revenue Agency	HST	10%	Canada Revenue Agency	**15%**	Nova Scotia announced that it will lower the provincial component of the HST rate to 9% effective 1 July 2014, and to 8% effective 1 July 2015.[1]
	Ontario	HST	5%	Canada Revenue Agency	HST	8%	Canada Revenue Agency	**13%**	
	Prince Edward Island	GST	5%	Canada Revenue Agency	Retail Sales Tax (PST)	10%	Prince Edward Island's Department of Finance, Energy and Municipal Affairs	NA because the PST is not a VAT	Prince Edward Island levies a revenue tax (PST) on the purchase, importation, lease or rental of most goods and certain services. The PST is applied to the retail selling price, including GST, of taxable goods. Prince Edward Island is entering into formal negotiations with the federal government to implement a HST as from 1st April 2013.
	Québec	GST	5%	Revenue Québec	Québec Sales Tax	9,5%	Revenue Québec	**14,975%**	As from January 2013, the Québec Sales Tax will be fully harmonised with the Federal GST. It will apply on a GST exclusive price. The QST rate will be raised from 9,5% to 9,975% so that the total tax rate remains unchanged at 14,975%. Revenue Québec is responsible for administering the QST in Québec and will remain responsible as from January 2013 for administering the GST in Québec.
	Saskatchewan	GST	5%	Canada Revenue Agency	Provincial Sales Tax (PST)	5%	Saskatchewan Finance	NA because the PST is not a VAT	The PST applies to taxable goods and services consumed or used in Saskatchewan. It applies to the purchase or rental of new and used tangible personal property. The GST is excluded in calculating the amount of PST payable.

Table 7.A1.1. **Federal and provincial taxes** *(cont.)*

	Provinces and territories	Federal tax			Provincial tax			Total tax rate	Comments
		Type of tax	Tax rate	Administration of the tax	Type of tax	Tax rate	Administration of the tax		
Territories	Northwest territories	GST	5%	Canada Revenue Agency	No sales tax	NA	NA	**5%**	
	Nunavut	GST	5%	Canada Revenue Agency	No sales tax	NA	NA	**5%**	
	Yukon	GST	5%	Canada Revenue Agency	No sales tax	NA	NA	**5%**	

1. Web site of the Government of Nova Scotia, Tax Changes in Budget 2012, *www.novascotia.ca/finance/en/home/taxation/budget2012.aspx*.
Source: Authors' own work.

Is there some degree of tax competition between the Provinces?

Since the destination principle applies both to supplies made inside Canada (between Provinces) or outside Canada, exports of goods and cross-border supplies of services are treated neutrally and normally taxed at the VAT rate of the country or province of deemed consumption irrespective of whether the VAT rate in the country of origin is higher or not.

This does not prevent however Provinces that have not fully harmonised their VAT from playing with their tax base in order to provide a particular benefit to a specific sector of industry. For instance, the favourable treatment granted in Québec to financial services that were zero-rated and not exempt under the QST is an example of a measure designed to attract headquarters of financial institutions in Québec. This was designed to put Québec at a competitive advantage compared to its neighbours, such as Ontario, where financial supplies are exempt without credit under the HST. However, it is important to note that, at the time that the QST was implemented, Québec also introduced a "*taxe compensatoire des institutions financières"* (compensation tax on financial institutions), which was calculated based on a percentage of salaries and capital. This compensation tax was meant to be equivalent to the retail sales tax burden that would have previously been borne by financial institutions prior to the introduction of the QST.[16]

However, the expansion of the HST to now six Provinces provides for a common tax base and common exemptions (except for 5% of the tax base) and should normally prevent tax competition. Québec will for instance have to exempt without credit financial services. As a result, financial institutions providing exempt services will not be allowed anymore to recover the QST on their inputs. The compensation tax on financial transactions which was referenced above will also be partly phased out. [17]

Notes

1. The authors would like to give special thanks to Carol Felepchuck for her invaluable help in reviewing this article and her suggestions.
2. Figures are provided by Statistics Canada: *www.statcan.gc.ca/ig-gi/pop-ca-eng.htm*.
3. Like in any other VAT system, HST paid on inputs is normally creditable against the HST collected on business outputs whereas a Retail Sales Tax (RST) system very often taxes many sales to business. However, HST opponents pretended that removal of embedded RST taxes from business will not pass through consumers. Perception was therefore that the HST operated a shift in tax burden from businesses to consumers. However, academic studies seem to show that businesses have largely passed through to consumers large amounts of their tax saving with the HST and that the HST was less regressive than the RST (see "Consumer impacts of BC's Harmonized Sales Tax" by Jonathan R. Kesselman, Canada Research Chair in Public Finance, School of Public Policy, Simon Fraser University, Vancouver).
4. Prince Edward Island's backgrounder on HST: *www.gov.pe.ca/photos/original/fema_hstback.pdf*.
5. "Loi sur la Taxe de Vente du Québec": *www2.publicationsduquebec.gouv.qc.ca/dynamicSearch/telecharge.php?type=2&file=/T_0_1/T0_1.html*.
6. See for instance the Memorandum of Agreement Concerning a Canada-Ontario Comprehensive Integrated Tax Co-ordination Agreement dated March 2009, available at: *www.fin.gov.on.ca/en/agreements/moa_cita.html*.
7. Furthermore, Ontario and British Columbia also exempt of the Provincial part of the HST car seats and car booster seats. For additional information, please see, among others:
   - the GST/HST Technical Information Bulletin, B-094, "Amendments to the point-sale rebate for printed books", October 2006: *www.cra-arc.gc.ca/E/pub/gm/b-094/b-094-e.pdf*.
   - the GST/HST Info Sheet "GI-065, Harmonized Sales Tax for Ontario and British Columbia – Point-of-Sale Rebate on Books", May 2010: *www.cra-arc.gc.ca/E/pub/gi/gi-065/gi-065-e.pdf*.

- the GST/HST Info Sheet "GI-063, Harmonized Sales Tax for Ontario, British Columbia and Nova Scotia – Point-of-Sale Rebate on Children's Goods", July 2010: *www.cra-arc.gc.ca/E/pub/gi/gi-063/gi-063-e.pdf*.
- the GST/HST Info Sheet "GI-062, Harmonized Sales Tax for Ontario, British Columbia and Nova Scotia – Point-of-Sale Rebate on Feminine Hygiene Products", May 2010: *www.cra-arc.gc.ca/E/pub/gi/gi-062/gi-062-e.pdf*.

Technically speaking, when a participating Province is providing a point-of-sale rebate of the provincial part of the HST, the vendor automatically credits the provincial part of the HST and only collects the 5% federal part of the HST payable on the sale of that item.

8. See Division VI of Part IX of the Excise Tax Act and Guide RC4033, "General Application for GST/HST Rebates" (*www.cra-arc.gc.ca/E/pub/gp/rc4033/rc4033-12e.pdf*). For instance, some of the rebate factors for the GST or federal part of the HST applicable to the public service bodies are as follows (see the Guide RC4034, "GST/HST Public Service Bodies' Rebate": *www.cra-arc.gc.ca/E/pub/gp/rc4034/rc4034-12e.pdf*):
   - Municipality: 100%;
   - University: 67%;
   - School authority: 68%;
   - Public college: 67%;
   - Hospital authority: 83%.

   Please note that, in addition, Provinces may grant further additional rebates with respect to the Provincial part of the HST.
9. Article 17 of the Protocole d'entente concernant l'harmonisation des taxes de vente en vue de la conclusion d'une entente intégrée globale de coordination fiscale entre le Canada et le Québec, September 2011: *www.finances.gouv.qc.ca/documents/Communiques/fr/COMFR_20110930-protocole.pdf*.
10. Article 19 b) of the agreement between Québec and the federal governments that derogate from article 17 of the same agreement ("Protocole d'entente concernant l'harmonisation des taxes de vente en vue de la conclusion d'une entente intégrée globale de coordination fiscale entre le Canada et le Québec, September 2011: *www.finances.gouv.qc.ca/documents/Communiques/fr/COMFR_20110930-protocole.pdf*).
11. A listed financial institution includes, for instance, a person that is a bank, an investment dealer, a trust company, an insurance company, a credit union, an investment plan, a tax discounter, or a person whose principal business is lending money and that has a permanent establishment in a participating province and a permanent establishment in any other province (see RC 4050 "GST/HST Information for Selected Listed Financial Institutions": *www.cra-arc.gc.ca/E/pub/gp/rc4050/rc4050-11e.pdf*, the definition of a listed financial institution is extremely complex).
12. See for instance the Memorandum of Agreement Concerning a Canada-Ontario Comprehensive Integrated Tax Co-ordination Agreement dated March 2009, available at: *www.fin.gov.on.ca/en/agreements/moa_cita.html*.
13. According to subsection 142(a) and (b) of the ETA, a supply of tangible personal property is deemed to be made in Canada when it is "delivered or made available in Canada to the recipient of the supply". According to subsection 142(c) of the ETA, a supply of intangible personal property is deemed to be made in Canada when it "may be used in whole or in part in Canada", or, when "the property relates to real property situated in Canada, to tangible personal property ordinarily situated in Canada or to a service to be performed in Canada". According to subsection 142(d) of the ETA, a supply of real property or of a service in relation to real property is deemed to be made in Canada when "the real property is situated in Canada". According to subsection 142 (g) of the ETA, a supply of any other services is deemed to be made in Canada if the service is "performed in whole or in part in Canada". According to subsection 142.1(2) of the ETA, a supply of a telecommunication service is deemed to be made in Canada if the facilities are located in Canada or if, "in any other case, *i)* the telecommunication is emitted and received in Canada, or *ii)* the telecommunication is emitted or received in Canada and the billing location for the service is in Canada".
14. See the former GST/HST Technical Information Bulletin B-078, Place of supply rules under the HST.
15. For additional information, see the GST/HST Technical Information Bulletin B-103 Harmonized Sales Tax – Place of Supply Rules for Determining Whether a Supply is Made in a Province, available at: *www.cra-arc.gc.ca/E/pub/gm/b-103/b-103-e.pdf*. In the bulletin, the Canadian Revenue Agency

states that this publication replaces GST/HST Technical Information Bulletin B-078, Place of supply rules under the HST.

16. Such compensation tax was adopted to partly compensate Québec for the QST refunds that financial institutions are currently receiving. See Revenu Québec's website information on the taxe compensatoire (*www.revenuquebec.ca/en/entreprise/impot/societes/declaration/compensatoire.aspx*) and the Québec Finance Ministry Information Bulletin 2012-4, "Changes to Québec's tax system pursuant to the undertakings to harmonize it with the federal tax system applicable in 2013", 31 May 2012 (*www.finances.gouv.qc.ca/documents/bulletins/en/BULEN_2012-4-a-b.pdf*).

17. See the Québec Finance Ministry Information Bulletin 2012-4, "Changes to Québec's tax system pursuant to the undertakings to harmonize it with the federal tax system applicable in 2013", 31 May 2012 (www.finances.gouv.qc.ca/documents/bulletins/en/BULEN_2012-4-a-b.pdf). The compensation tax on financial institutions is based on three tax bases: paid-up capital, amount paid as wages and insurance premiums. The rates of the compensation tax applicable to the various tax bases consist, on the one hand, of the base rates put in place to reflect the cost for the government of granting ITRs (Input Tax Refunds in the Canadian terminology) to suppliers of financial services and, on the other, a temporary rate increase announced in the 2010-2011 Budget as part of the Plan to return to budget balance. This temporary rate increase applies for the period beginning March 31, 2010 and ending March 31, 2014. In view of the exemption of financial services in the QST system as of January 1, 2013, the portion of the compensation tax on financial institutions that is attributable to the impact on public finances of granting ITRs to suppliers of financial services will no longer be justified and will therefore be eliminated as of that date. However, the portion of the compensation tax arising from the temporary rate increase introduced as part of the Plan to return to budget balance will continue to apply for the period initially stipulated ending March 31, 2014. Consequently, financial institutions will still have to pay the compensation tax (although based on reduced rates and a smaller tax base) while not being in a position to claim ITRs until March 31, 2014. The compensation tax will be fully eliminated only for taxation years beginning after April 1, 2014.

ANNEX 7.A2

India

India is the seventh largest country in the word and the second most populous country with over 1.2 billion people. It has 28 states and 6 Union Territories.[1] India does not have a central VAT regime but has a series of indirect taxes levied at the Federal and State level. These indirect taxes constitute the primary source of revenues for both the Federal Government and the States and represents with the Custom duties around 47% of India's total tax revenues (30% without the Custom duties).[2]

However, the Federal state of India, also called the Central Government (or Centre), proposed to introduce a nationwide VAT to replace all existing indirect taxes levied at the state and national levels.[3] Currently, the Central Government levies a Central VAT (CENVAT) on the manufacture and production of goods, a Service Tax on a specified list of services, a Central Sales Tax (CST) on inter-state sales of goods whereas the States levy a State VAT on the sales of goods within the state.

The new VAT should follow the Canadian model and be a dual GST consisting of a Central GST (CGST) and State GSTs (SGST). This new VAT would allow the two levels of government to tax both goods and services at each stage of the supply chain. The Central Government and States will set their rates separately. It should be destination-based and should operate a full input credit system. Originally the tax was planned to be introduced on April 2010 and then on April 2012. The reform has been further delayed to a later date given the political context and the difficulty to amend the Constitution. The States fear a loss of revenue as the proposed national GST would encroach on the State VATs. Certain states also expressed their apprehension that if GST is implemented, all the power and control to levy tax would vest with the Central Government.[4] Nonetheless, the Goods and Services Tax (GST) is now expected to be introduced by April 2013 although this may be further delayed.

This rationalisation promises a number of benefits for businesses. This may simplify tax administration and compliance, harmonise tax base, laws and administration procedure across the country. This may neutralise the cascading effect, that is taxes being levied on top of taxes. This may boost exports and increase the competitiveness of Indians goods and services.

What is the legal basis?

Article 265 of the Constitution provides that "No tax shall be levied or collected except by the authority of law".[5]

Schedule VII of the Constitution divides this authority into three categories:[6]

- **An Union list** (according to which only the Central Government has power of legislation);
- **A State list** (according to which only a State Government has power of legislation); and
- **A Concurrent list** (according to which both Central and State Governments can pass legislation).

According to paragraphs 82 to 92B of the **Union list**,[7] the Central Government is notably empowered to enact legislation with respect to:

83. Duties of customs including export duties.

84. <u>Duties of excise on tobacco and other goods manufactured or produced in India</u> except:

- (a) alcoholic liquors for human consumption;
- (b) opium, Indian hemp and other narcotic drugs and narcotics, but including medicinal and toilet preparations containing alcohol or any substance included in sub-paragraph (b) of this entry.

92. Taxes on the sale or purchase of newspapers and on advertisements published therein.

92A. <u>Taxes on the sale or purchase of goods other than newspapers, where such sale or purchase takes place in the course of inter-State trade or commerce</u>.

92B. Taxes on the consignments of goods (whether the consignment is to the person making it or to any other person), where such consignment takes place in the course of inter-State trade or commerce.

92C. <u>Taxes on services</u>.[8]

According to paragraphs 46 to 63 of the **State list**,[9] the Central Government is notably empowered to enact legislation with respect to:

51. Duties of excise on the following goods manufactured or produced in the State and countervailing duties at the same or lower rates on similar goods manufactured or produced elsewhere in India:

- (a) alcoholic liquors for human consumption;
- (b) opium, Indian hemp and other narcotic drugs and narcotics, but not including medicinal and toilet preparations containing alcohol or any substance included in sub-paragraph (b) of this entry.

52. Taxes on the entry of goods into a local area for consumption, use or sale therein.

53. Taxes on the consumption or sale of electricity.

54. <u>Taxes on the sale or purchase of goods other than newspapers, subject to the provisions of entry 92A of List I</u>.

55. Taxes on advertisements other than advertisements published in the newspapers and advertisements broadcast by radio or television.

56. Taxes on goods and passengers carried by road or on inland waterways.

57. Taxes on vehicles, whether mechanically propelled or not, suitable for use on roads, including tramcars subject to the provisions of entry 35 of List III.

58. Taxes on animals and boats.

59. Tolls.

60. Taxes on professions, trades, callings and employments.

61. Capitation taxes.

62. Taxes on luxuries, including taxes on entertainments, amusements, betting and gambling.

Table 7.A2.1. **Taxing powers in India**

	Manufacturing of goods	Supplies of goods	Services	Cross-border taxation	Inter-State taxation	Taxes on land and property	Entry tax
Central Government	✔ (except alcohol and narcotics)		✔	✔	✔		
States		✔ (on intra-State supplies of goods only)	✔ (on specified services only such as entertainment and gambling)			✔	
Local bodies							✔

Source: Authors' own work.

Therefore, under the Constitution, the Central Government is empowered to impose taxes on the production and manufacture of goods, on the provision of services and on inter-State sales and purchases of goods. The Central Government is also empowered to impose customs duties on the imports of goods. States, on the other hand, are empowered to tax intra-State supplies of goods. The States are also authorised to levy certain other local taxes such as entertainment tax and entry tax.

To summarize, the Central Government cannot tax goods beyond the point of manufacturing and the States are not empowered to tax services that are the preserve of the Central Government.

The GST reform, in contrast, would allow the two levels of government to tax both goods and services at each stage in the value chain.

This does require however a revision of the Constitution in order to empower the Central Government to levy tax on the sales of goods and the States to levy tax on services and on imports. A Constitution Amendment Bill has been introduced on 22nd March 2011 to give to the Parliament and Legislatures of every State the power to make laws with respect to goods and sales taxes.[10] Both levels of governments keep their distinct responsibilities and the division of powers is respected.

Is there a common tax base?

There is currently no common tax base. The Central Government and the States operate at the federal and state levels different types of VAT either on goods or services and thus on a different tax base. These taxes, although they generally share the characteristics of a VAT, are not necessarily creditable against each other. This may create a cascading effect. However, the reform proposed by the Central Government would apply a dual GST on a common base of goods and services. The list of exemptions should be common and a uniform registration threshold should be applied.

Table 7.A2.2. **Indirect taxes in India**

	Central Government		State Government		Comments
	Administration of the tax	Rate	Administration of the tax	Rate	
CENVAT	✔	12%/6%/ 0%			The CENVAT and Service tax are creditable against each other.
Service Tax	✔	12%			The CENVAT and Service tax are creditable against each other.
CST	✔	2%			The CST inputs **cannot** be offset against any other taxes. Although the Central Government levies the tax, CST Revenues accrue entirely to the States.
State VAT			✔	12.5% to 15%/ 4% to 5%/1%/ 0%	State VAT inputs can only be offset against State VAT outputs.

Source: Authors' own work.

According to the Central Excise Act, 1944, the **Central Value Added Tax (CENVAT)** is an excise duty that is levied by the Central Government on the manufacture or production of goods in India. The tax is generally levied on an *ad valorem* basis. The rate at which excise duty is applied to these goods depends on the classification of the goods under the Excise Tariff. The rates are 12%, 6% and 0%.[11] A manufacturer or producer of a final product or a provider of a taxable service is normally allowed to take credit of the CENVAT or Service Tax paid on any input used in the manufacture or production of dutiable goods.[12]

The **Service tax** is, as the name suggests, a tax on Services. It is levied by the Central Government on the supply of certain services specified under the Finance Act, 1994.[13, 14] The rate of the Service Tax has been raised from 10% to 12% as from March 2012.[15] It works as an invoice-credit VAT, with the Service Tax paid on input services being creditable against the output Service Tax. Furthermore, as mentioned before, since the implementation of the CENVAT Credit Rules, 2004, the Service Tax and the CENVAT are integrated: both taxes on inputs are creditable against the CENVAT or Service Tax charged on the outputs. The Service Tax initially covered only three services: general insurance other than life insurance, stock brokerage and telecommunications. The list has been expanded in order to cover more than one hundred services including advertising, consultancy, engineers, tour operators, manpower recruitment, architects, accountants, real estate agents, credit rating agencies, online information and database access, broadcasting, banking and financial services and cable operators. As from July 2012, the Service Tax has been further extended to apply on all services, except for those specified in a negative list.[16]

The Central Government also levies a **Central Sales Tax** (CST) on inter-state sale of goods.[17] Although the CST is levied by the Central Government, the revenues of the CST accrue entirely to the States. It is an origin-based tax, collected and retained by the origin State, that is the State from where the movement of goods commences. This tax is not creditable against any other taxes and cannot be offset against itself since it is applied at the origin. It is not eligible for input tax credit in the destination state. The CST is said to cause significant inefficiencies in the supply chain of goods within the common market of India. It may create double taxation when the goods are subject to State VAT in the State of destination. The rate of this tax has already been reduced from 4% to 2% and it will be phased out in a near future.

The **State VAT** is levied on sale of goods within the State. As from April 2005, States started implementing State VAT in order to replace their former sales tax. Unlike sales tax, the State VAT is a real VAT that relies on a staged collection mechanism in which successive taxpayers are entitled to deduct input tax on purchases and have to account for output tax on sales. The VAT paid by registered persons on goods (including capital goods) purchased within the State is therefore available for input tax credit. It is a destination-based VAT: exports of goods outside the State or outside India are zero-rated. Taxpayers have therefore a right of deduction of input tax on goods acquired for production and resale of taxable goods, whether these goods are sold within the State or exported outside the State or outside India. However, since the State VAT is a tax levied and collected by each State separately, no input tax credit is granted on VAT paid in other States. Each State implements a VAT legislation according to a framework agreed among all States.

There are five State VAT rates that apply to a list of commodities common to all States:[18]

- Most basic necessity items, industrial and agricultural inputs and capital goods are taxed at 4% to 5%;
- Gold, silver, other precious metals and articles made of these metals are taxed at 1%;
- States can zero-rate 10 commodities chosen among a list of goods of local social importance. Items that are zero-rated are normally first necessity products marketed by the unorganised sector (such as unprocessed agricultural goods: for instance, fruits and vegetables);[19]
- Items like fuel (petrol, diesel and aviation turbine fuel) and liquor are taxed at a 20% floor rate with no right to deduct. No credit is therefore allowed for taxes paid on inputs used in production or distribution of these items;
- All other items are taxed at 12.5% to 15%.

Who determines the rates?

Currently the Central Government determines the rates of the CENVAT, Service Tax and CST while the States have the sovereignty to determine the rates of the State VATs. However, the States agreed to apply uniform State VAT rates to a common list of commodities, although they may chose a list of 10 items that are zero-rated.[20]

Under the proposed GST reform, the various Central, State and Local levies (*i.e.*, amongst others, the CENVAT, Service Tax, CST, State VATs and various entry or luxury taxes) would be replaced by a dual GST. This GST would allow the two levels of government to tax both goods and services at each stage of the supply chain and the Central Government and States will set their rates separately. The Central Government would levy a Central GST (CGST) and the States would levy a State GST (SGST) and each level would determine the tax rates. Being two different taxes, they should not be creditable against each other. However, the basic features of the CGST and SGSTs, such as the provisions regarding the chargeability, taxable event of the tax or valuation and classification, would be harmonised.[21] Rules and procedures should be uniform as well.

Is there a unique rate or a standard rate and reduced rates?

There are several standard rates and reduced rates. Currently up to four different rates apply to the CENVAT (12%, 6% and 0%) and to the State VATs (12,5% to 15%, 4% to 5%, 1% and 0% depending on the legislations of the States) while a unique rate applies to the Service Tax (12%) and to the CST (2%).

Under the GST reform, the Empowered Committee Of State Finance Ministers has decided to adopt a three rates structure.[22] There will be a lower rate for necessary items and goods of basic importance, a standard rate and a special rate for precious metals. There will be also a list of exempted items.

Who administers the tax?

Currently the Central Government is administering the CENVAT, the Service Tax and the CST while the States are administering the State VATs although there is some degree of coordination between the State VATs as far as the tax base and tax rates are concerned.

Under the reform proposed by the Central Government, the CGST would be levied by the Central Government while the SGSTs would be levied by the States.

Both CGST and SGST would apply on international cross-border supplies of goods and services and SGST would accrue to the State of consumption according to the destination principle.

However, inter-State supplies of goods and services would normally be subject to an aggregate of CGST and SGST called the Integrated GST (IGST) administered by the Central Government. Since inter-State trade should be taxed at the origin, the Central Government would operate like a clearinghouse compensating the State of consumption.

Does the Central Government compensate the States for introducing a dual GST?

Since 2005 onwards, the State VAT has replaced the earlier State Sales Tax systems. State VAT, being a tax on intra-State supplies goods is a State subject by virtue of Entry 54 of the State List of the Seventh Schedule of the Constitution of India. Because VAT is a State subject, the Central Government has limited its role to the one of a facilitator helping its successful implementation.[23] Among other things, a compensation package for any revenue loss further to the introduction of VAT has been implemented.[24] States were compensated for any revenue loss at the rate of 100% of revenue loss during years 2005-2006, 75% during years 2006-2007 and 50% during years 2007-2008. Furthermore, technical and financial supports are provided to the States.

With respect to the GST reform, it is envisaged as well that the Central Government should compensate deficit-revenue States for the first five years following the implementation of the GST. Any compensation should be paid on a monthly basis.[25]

How is the tax apportioned between the Central Government and the States?

The CENVAT, Service Tax and CST are levied by the Central Government. However the revenues of the CST accrue entirely to the States. The States levy the State VAT and the revenues of the State VATs accrue to them insofar as, according to the Constitution, each State is sovereign in levying and collecting State taxes.

What are the place-of-supply rules?

The CENVAT applies only at the production or manufacturing of goods. The Service Tax and the State VATs are destination-based taxes[26] whereas the CST is an origin-based tax.

Under the proposed reform, the destination principle would normally apply to internationally traded supplies of goods and services: exports would be zero-rated and imports would be subject to both CGST and SGST. SGST would accrue to the State where the imported goods or services are consumed. The CGST or SGST paid on imports would be fully creditable. However, cross utilisation of input tax credit between CGST and SGST would not be allowed.

With respect to the inter-State trade, similar principles would apply. Inter-state supplies of goods or services would be subject to a unified GST aggregating the CGST and SGST that is called the Integrated GST (IGST). A big difference however is that IGST would apply in the state of the supplier according to the origin principle although credit will be given to the consumer in the other State. Thus, the Central Government will operate like a clearinghouse and compensate the consuming State according to the destination principle.[27]

Is there some degree of tax competition between the States?

Before the implementation of the State VATs as from 2005, States were often in a sales tax war with other states competing to attract certain industries. There was also no harmony in the sales tax rates on different commodities among the States: the rates were numerous (often more than ten in several States), and different from one State to another. This entailed an unhealthy competition between the States called the "*rate war*" that was counter-productive in terms of revenues raised.[28] In 1999, further to a meeting of all Chief Ministers, it was decided to stop this rate war among the states by implementing sales tax rates for different categories of commodities and to discontinue sales tax incentive schemes as from 2000.[29] In 2000, an Empowered Committee of State Finance Ministers was set up to implement these decisions. This Committee is meeting regularly and gathers the Government of India and the State Finance Ministers.[30] Decisions are consensus based. All the States and Union Territories have now implemented VAT. The State VATs rates are harmonised to some extent. VATs are destination based thus preventing tax competition between the States. The Empowered Committee has been monitoring closely the process of implementation of State VATs, and deviations from the agreed VAT rates have been contained. Positive effects are tangible: the rate of growth of tax revenue has nearly doubled after the introduction of VAT.[31]

However, although the Indian indirect tax system seems to less suffer from tax competition, the multiple levies of several indirect taxes (CENVAT, Service Tax, CST and State VAT) increase the compliance burden on businesses, create uncertainties and tax cascading.

VAT compliance obligations, for example, may vary from one State to another. Classification uncertainties have been the matters of significant disputes: what counts as manufacturing (and is subject to CENVAT) or as a service (and is subject to the Service Tax and can escape State VAT) is sometimes unclear. Moreover, the selective taxation of specified services is a source of definitional ambiguities and classification disputes.

The partial coverage of CENVAT and State VATs leads also to significant tax cascading (the CENVAT is included in the value of the goods that are taxed under the State VAT). Furthermore, under the State VAT, no credits are allowed for the inputs of the exempt sectors, which include the entire service sector subject to the Service Tax. Therefore, a service provider that pays State VAT on his physical inputs and that is subject to the Service Tax levied by the Central Government and not to the State VAT cannot offset the State VAT paid on his inputs. The State VAT is therefore hidden in the price of his services.

The CST on inter-State sales collected by the origin State and for which no credit is allowed by any level of government also contributes significantly to the tax cascading.

Besides that, local importers may be tempted to shift purchases from outside the State to within the State as doing so would enable them to claim tax credits and increase their profit margin.

As mentioned before, in order to address the deficiencies of the current system, the government has proposed to introduce a dual GST that would replace the indirect taxes currently levied by the Central Government and the States. The dual GST will be levied on a common base of goods and services by the Central Government (the CGST) and by the States (the SGSTs). The destination principle would apply to international trade: exports would be zero-rated and imports would be subject to the dual GST (*i.e.* both to the CGST and SGST). However, cross utilisation of input tax credit between CGST and SGST would not be allowed. Nonetheless replacing pre-existing Federal, State and Local indirect taxes (that is, amongst others, the CENVAT, Service Tax, CST, State VATs and various entry or luxury taxes) by the CGST/SGST scheme will provide a more comprehensive tax base for both supplies of goods and services and allow offsetting more easily GST credits (since cross utilisation of credit between goods and services will be allowed). It is expected that this will reduce the cost of locally manufactured goods and services, increase competitiveness and boost Indian exports.

According to an IMF Working Paper (Poirson, 2006), "a tax reform combining lower statutory rates with base broadening could help achieve a pro-growth fiscal adjustment in India".

Notes

1. National Portal of India: *www.india.gov.in/knowindia/profile.php?id=2*.
2. Budget of India 2012/2013: *http://indiabudget.nic.in/ub2012-13/afs/afs1.pdf*. See also Table 3.3 of the Economic Survey 2011/2012: *http://indiabudget.nic.in/es2011-12/echap-03.pdf*.
3. First Discussion Paper On Goods and Services Tax In India, The Empowered Committee Of State Finance Ministers, New Delhi November 10, 2009, available on the Ministry of Finance's website: *http://finmin.nic.in/gst/Empowered%20Committee%20of%20SFM%20%20First%20Discussion%20paper.pdf*.
4. E&Y T Magazine, 30 September 2011: *http://tmagazine.ey.com/insights/india-indirect-tax-system-on-the-verge-of-change/*.
5. Part XII of the Indian Constitution: *http://lawmin.nic.in/olwing/coi/coi-english/Const.Pock%202Pg.Rom8Fsss(17).pdf*.
6. Schedule VII of the Indian Constitution: *http://lawmin.nic.in/olwing/coi/coi-english/Const.Pock%202Pg.Rom8Fsss(35).pdf*.
7. According to paragraphs 82 to 92B of the Union list, the Central Government is empowered to enact legislation with respect to:

   82. Taxes on income other than agricultural income.

   83. Duties of customs including export duties.

   84. Duties of excise on tobacco and other goods manufactured or produced in India except:

   (a) alcoholic liquors for human consumption;

   (b) opium, Indian hemp and other narcotic drugs and narcotics, but including medicinal and toilet preparations containing alcohol or any substance included in sub-paragraph (b) of this entry.

   85. Corporation tax.

   86. Taxes on the capital value of the assets, exclusive of agricultural land, of individuals and companies; taxes on the capital of companies.

   87. Estate duty in respect of property other than agricultural land.

88. Duties in respect of succession to property other than agricultural land.

89. Terminal taxes on goods or passengers, carried by railway, sea or air; taxes on railway fares and freights.

90. Taxes other than stamp duties on transactions in stock exchanges and futures markets.

91. Rates of stamp duty in respect of bills of exchange, cheques, promissory notes, bills of lading, letters of credit, policies of insurance, transfer of shares, debentures, proxies and receipts.

92. Taxes on the sale or purchase of newspapers and on advertisements published therein.

92A. Taxes on the sale or purchase of goods other than newspapers, where such sale or purchase takes place in the course of inter-State trade or commerce.

92B. Taxes on the consignments of goods (whether the consignment is to the person making it or to any other person), where such consignment takes place in the course of inter-State trade or commerce.

92C. Taxes on services.

8. The Constitution has been amended in 2003 (92nd Amendment) and a new article 268 A has been inserted in order to allow the Central Government to levy a Service Tax. A new entry 92C has thus been inserted in Schedule VII for taxes on services.

9. According to paragraphs 46 to 63 of the State list, the Central Government is notably empowered to enact legislation with respect to:

46. Taxes on agricultural income.

47. Duties in respect of succession to agricultural land.

48. Estate duty in respect of agricultural land.

49. Taxes on lands and buildings.

50. Taxes on mineral rights subject to any limitations imposed by Parliament by law relating to mineral development.

51. Duties of excise on the following goods manufactured or produced in the State and countervailing duties at the same or lower rates on similar goods manufactured or produced elsewhere in India:

(a) alcoholic liquors for human consumption;

(b) opium, Indian hemp and other narcotic drugs and narcotics, but not including medicinal and toilet preparations containing alcohol or any substance included in sub-paragraph (b) of this entry.

52. Taxes on the entry of goods into a local area for consumption, use or sale therein.

53. Taxes on the consumption or sale of electricity.

54. Taxes on the sale or purchase of goods other than newspapers, subject to the provisions of entry 92A of List I.

55. Taxes on advertisements other than advertisements published in the newspapers and advertisements broadcast by radio or television.

56. Taxes on goods and passengers carried by road or on inland waterways.

57. Taxes on vehicles, whether mechanically propelled or not, suitable for use on roads, including tramcars subject to the provisions of entry 35 of List III.

58. Taxes on animals and boats.

59. Tolls.

60. Taxes on professions, trades, callings and employments.

61. Capitation taxes.

62. Taxes on luxuries, including taxes on entertainments, amusements, betting and gambling.

63. Rates of stamp duty in respect of documents other than those specified in the provisions of List I with regard to rates of stamp duty.

10. Constitution (115th Amendment) Bill 2011: *http://finmin.nic.in/gst/Constitutional_115th_Amendment_Bill_2011.pdf*.

11. The Central Excise Tariff has been changed as from March 2012: *http://indiabudget.nic.in/cextar.asp*.

12. The Central Government is empowered to impose excise duties by Section 37 of the Central Excise Act, 1944 (*http://cbec.gov.in/excise/cx-act/cx-act-ch7.htm*).

    According to Rule 4 of the Central Excise Rules, 2002 (*www.cbec.gov.in/excise/cxrules/cx-rules-2002.htm*): "(1) Every person who produces or manufactures any excisable goods, or who stores such goods in a warehouse, shall pay the duty leviable on such goods in the manner provided in rule 8 or under any other law, and no excisable goods, on which any duty is payable, shall be removed without payment of duty from any place, where they are produced or manufactured, or from a warehouse, unless otherwise provided."

13. Finance Act, 1994, implementing the Service Tax: *www.servicetax.gov.in/stact-july12.pdf*.

14. FAQ on Service Tax published by the Central Board of Excise and Customs: *www.servicetax.gov.in/faq-29sept11.pdf*.

15. "Budget 2012: Changes in Service Tax", presentation given by the Ministry of Finance on July 13, 2012: *www.servicetax.gov.in/STeducation.pdf*.

16. "Budget 2012: Changes in Service Tax", presentation given by the Ministry of Finance on July 13, 2012: *www.servicetax.gov.in/STeducation.pdf*.

17. Central Sales Tax Act, 1956: *www.helplinelaw.com/docs/THE%20CENTRAL%20SALES%20TAX% 20ACT,%201956*.

18. Many States have recently increased the lower rate from 4% to 5% and the standard rate from 12,5% to 15%. A general link to all States' VAT legislations and to the respective States' schedules of rates can be on found on the Empowered Committee of State Finance Ministers' website: *www.empcom.gov.in/content/22_1_VATAct.aspx*.

19. White Paper on State-Level Value Added Tax by the Empowered Committee of State Finance Ministers, January 17, 2005: *www.empcom.gov.in/WriteReadData/UserFiles/file/white_paper.pdf*.

20. White Paper on State-Level Value Added Tax by the Empowered Committee of State Finance Ministers, January 17, 2005: *www.empcom.gov.in/WriteReadData/UserFiles/file/white_paper.pdf*.

21. First Discussion Paper on Goods and Services Tax in India, The Empowered Committee of State Finance Ministers, New Delhi November 10, 2009, available on the Ministry of Finance's website: *http://finmin.nic.in/gst/Empowered%20Committee%20of%20SFM%20%20First%20Discussion%20paper.pdf*.

22. First Discussion Paper on Goods and Services Tax in India, The Empowered Committee of State Finance Ministers, New Delhi November 10, 2009, available on the Ministry of Finance's website: *http://finmin.nic.in/gst/Empowered%20Committee%20of%20SFM%20%20First%20Discussion%20paper.pdf*.

23. Department of Revenue of India: *http://dor.gov.in/vatintro*.

24. VAT Compensation Guidelines dated 19 July 2005 issued by the Ministry of Finance detail the modalities for calculating the revenue loss and compensation to be paid to the States for the introduction of VAT: *http://dor.gov.in/sites/upload_files/revenue/files/pdf/VAT_Compentation_guidelines_dated_19th_July_2005.pdf*.

25. For more information, see the First Discussion Paper on Goods and Services Tax in India, The Empowered Committee of State Finance Ministers, New Delhi November 10, 2009, available on the Ministry of Finance's website: *http://finmin.nic.in/gst/Empowered%20Committee%20of%20SFM%20%20First%20Discussion%20paper.pdf*.

26. See article 66A of the Finance Act, 1994, implementing the Service Tax: *www.servicetax.gov.in/stact-july12.pdf*. India implements a sort of place of the recipient rule based on the place of business or of fixed establishment or of permanent address or of usual place of residence. For instance, radio or television broadcasting is deemed to be received in India and is subject to the Service Tax as long as it is intended to be listened or viewed by the public in India, even if the encryption of the signals might have taken place outside India.

27. The mechanism that is envisaged is relatively complex and should work as follows: the inter-State seller will pay IGST by compensating it with its available credits of IGST, CGST and SGST. The exporting State will then transfer to the Central Government the amount of the credit of SGST used to offset the IGST. The importer in the other State will be allowed to credit the amount of IGST paid on the purchase. The Central Government, acting as a clearinghouse, will transfer to the importing State the credit of IGST used by the importer to offset his liability of SGST. For more information,

see the First Discussion Paper On Goods and Services Tax In India, The Empowered Committee Of State Finance Ministers, New Delhi November 10, 2009, available on the Ministry of Finance's website: *http://finmin.nic.in/gst/Empowered%20Committee%20of%20SFM%20%20First%20Discussion%20paper.pdf*.

28. Empowered Committee of State Finance Ministers: *www.empcom.gov.in/content/8_1_ValueAddedTax. aspx*.
29. White Paper on State-Level Value Added Tax by the Empowered Committee of State Finance Ministers, January 17, 2005: *www.empcom.gov.in/WriteReadData/UserFiles/file/white_paper.pdf*.
30. Empowered Committee of State Finance Ministers: *www.empcom.gov.in/*.
31. Empowered Committee of State Finance Ministers: *www.empcom.gov.in/content/8_1_ValueAddedTax.aspx*.

ANNEX 7.A3

Brazil[1]

Brazil is the fifth largest country in the word (and the biggest South America country) and the fifth most populous country with almost 194 million people.[2] Brazil is a federation, called the Union, of 26 States, one Federal district that contains the capital city, Brasilia, and municipalities.[3]

A traditional VAT – that is a transaction tax where taxpayers are entitled to offset the input tax on their purchases – was introduced in Brazil under the military dictatorship by the fiscal reform of 1965 (the country was ruled from 1964 to 1985 by a Military government). Since the fall of the military dictatorship in 1985 and the return to democracy, there is a belief in Brazil that a decentralised administration is more responsive to local needs. As a result, the new constitution in 1988 was marked by the strengthening of regional political forces, as important tax bases were devolved to sub national governments.

The Brazilian political system is based on several different layers that are autonomous from each other: the federal Union, the States and the Municipalities. Accordingly each of those levels of government has its own fiscal resources:

- a VAT on industrial products (**IPI** – *Imposto sobre Produtos Industrializados*) is levied at the **federal level**. This would be better described as a federal excise tax that normally applies on all goods imported or manufactured in Brazil. Credit is normally given with respect to the IPI paid on the raw materials or component parts used in the finished product or consumed in production.
- a VAT on goods, telecommunication, transport services and electricity (**ICMS** – *Imposto sobre Circulação de Mercadorias e Serviços*) is levied at the **state level**. It is worth noticing that, in Brazil, restaurant and catering services are considered as belonging to the "*goods*" category.
- a tax on services (**ISS** – *Imposto Sobre Serviços*) is levied at the **municipality level**. The third "layer" is not a VAT. It is a tax imposed at the consumption stage to a limited list of services (mainly electronic services, research, development, rental services or health related services). Since no credit is granted to businesses that purchase services for the purposes of their activities, that tax has a cascading effect. This could impede competitiveness and therefore growth and economic development.

Given Brazil's mistrust of strong central power, these three levels of fiscal resources ensure that the federal powers are sufficiently balanced.

It is not possible to claim a refund for a VAT credit. Input tax can only be offset against output tax but cannot be refunded, which may cause a problem in terms of neutrality for undertakings making mainly zero-rated supplies such as exports.

Furthermore, the Union is also levying two other taxes that are not VAT per se but social contributions: the **COFINS** (*Contribuição para o Financiamento da Seguridade Social* – Contribution to Social Security Financing) and the **PIS** (*Programa de Integração Social* – Contribution to the Social Integration Program). The COFINS is targeted for funding of social welfare programs. The PIS was created to fund the unemployment insurance program. These taxes are applied on the company's gross revenues.[4]

What is the legal basis?

The Union, the States and the Federal District have the power to legislate concurrently on tax, financial and budgetary laws.[5] Therefore, States and Municipalities have autonomous administrations, collect their own taxes and receive a share of taxes collected by the Federal government.

However, the scope of the taxing powers varies between the Union, the States and the Federal District and the Municipalities. According to article 153 of the Constitution, the **Union** has the power to institute taxes on:

I. importation of foreign products;

II. exportation to other countries of national or nationalized products;

III. income and earnings of any nature;

IV. industrialized products;

V. credit, foreign exchange and insurance transactions, or transactions relating to bonds or securities;

VI. rural property;

VII. large fortunes.

According to article 155 of the Constitution, the **States** and the **Federal District** have the competence to institute taxes on:

I. transfer by death and donation of any property or rights;

Table 7.A3.1. **Taxing powers**

Taxes	Jurisdiction
Foreign Trade Taxes:	
– Import Tax – II	Union
– Export Tax – IE	Union
Taxes on Assets and Income:	
– Income Tax – IR	Union
– Rural Land Tax – ITR	Union
– Tax on Automotive Vehicles – IPVA	States
– Tax on Property Transmission Causa Mortis – ITCD	States
– Urban Building and Land Tax – IPTU	Municipalities
– Transmission Tax Inter Vivos – ITBI	Municipalities
Taxes on Production and Circulation:	
– Industrialized Products Tax – IPI	Union
– Tax on Credit Operations, Exchange and Insurance – IOF	Union
– Tax on the Circulation of Merchandise and Interstate and Intermunicipal Transportation Services and Communications – ICMS	States
– Tax on Services of Any Nature – ISS	Municipalities

Source: Secretariat of the Federal Revenue of Brazil's *www.receita.fazenda.gov.br/principal/Ingles/SistemaTributarioBR/Taxes.htm*.

II. transactions relating to the circulation of goods and to the rendering of interstate and inter-municipal transportation services and services of communication, even when such transactions and renderings begin abroad;

III. ownership of automotive vehicles.

According to article 156 of the Constitution, the **Municipalities** have the competence to institute taxes on:

I. urban buildings and urban land property;

II. inter vivos transfer, on any account, by onerous acts, of real property, by nature or physical accession, and of real rights to property, except for real security, as well as the assignment of rights to the purchase thereof;

III. services of any nature not included in article 155, II, as defined in a supplementary law.

Is there a common tax base?

In the case of Brazil, the answer is a clear no. Each government body is responsible for administering and collecting the taxes in its own sphere of competence, *i.e.* the IPI on industrial products for the Union, the ICMS on goods and telecommunication and transport services for the States and the ISS on services for the municipalities.

The Union, States and Municipalities do not co-occupy the same tax base. Unlike that of many federations, the different levels of governments do not share the same tax base. Tax attributions are clearly defined by the Constitution, although there can be some overlap in practice between the IPI and ICMS.

Who determines the rates?

The IPI, PIS and COFINS rates are determined by the Union and may vary depending on the nature of the product.

The ICMS rates are determined by the States. However, a resolution of the Federal Senate determines the ICMS rates that apply to inter-State transactions, that is normally 12% or 7% when the transaction is from a rich State to a poor State.[6] A resolution of the Federal Senate also determines the minimum and maximum ICMS rates that States can apply.[7] The minimum ICMS rates that apply to intra-State transactions is equal to the ICMS rate that applies to inter-State transactions and is therefore equal to 7% if the State is a poor State and 12% if the State is a rich State.[8]

The ISS rates are established by each Municipality Furthermore, an organic law (that is a law just below the constitution in terms of hierarchy of norms) sets up the maximum rate of ISS at 5%.

Is there a unique rate or a standard rate and reduced rates?

IPI is normally charged on an ad valorem rate according to the classification of the product based upon the international Harmonized Commodity Description and Coding System (HS), administered by the World Customs Organization. Rates range from 0 to more than 360%.

ICMS standard rate is 17% but may vary slightly from states to states. The standard rate is 18% in São Paulo and 19% in Rio de Janeiro. On inter-state movements of goods, the rate may vary depending on the state of destination (12% when the supply is made to a rich state, 7% when the supply is made to a poor state). ICMS applies at a lower rate of 12% on some goods and services and 7% on items of basic necessity. There is an extensive list of exemptions that applies on medical products, books, newpapers, etc.

ISS standard rate is generally between 2% and 5 % (it cannot normally be higher than 5%), but may vary significantly from one municipality to another. Lower rates apply to specific services.

The standard rates of PIS and COFINS are respectively 1.65 % or 0.65 % and 3 % or 7.6 %[9] depending on the method of calculation used for the tax, that is with or without credit entitlement. Indeed, credits may be granted with respect to the acquisition of goods and services needed for the company's activities.

Who is administering the tax?

Brazil's strong decentralisation grants administrative and tax autonomy to all its levels of government. The IPI (VAT on industrial products), PIS and COFINS are levied by the Union. The ICMS (VAT on goods and telecommunication and transport services) is levied by the States. The ISS (tax on services) is levied by the Municipalities.

Table 7.A3.2. **Description of indirect taxes in Brazil**

	IPI	ICMS	ISS	PIS	COFINS
Type	Production	Production/Consumption	Production/Consumption	Production	Production
Taxable event	NA	Circulation of merchandise	Services rendered	NA	NA
Tax base	Industrialized products	Value of Merchandise and Services Sold (aggregate value)	Value of the Service Rendered	Gross revenues (including financial)	Gross revenues (including financial)
Taxpayer	Corporate entity	Corporate entity	Corporate entity; or individual (self-employed service provider)	Corporate entity	Corporate entity
Rates	From 0% to 365.63%, according to IPI Tariff Table[1]	4%, 7%, 12%, 17%, 18%, 21% and 25% (levied within price)[2]	From 0.5% to 5%[2]	0.65%, 1.65%	3%, 7.6%
Taxing authority	Union	States	Municipalities	Union	Union

Notes:
1. The IPI Tariff Table uses the same tariff classification system as the Brazilian External Tariff Code that is based on the Harmonised Commodity Description and Coding System – HS (administered by the World Customs Organisation).
2. The rates of those taxes for which States and Municipalities are responsible are based on those in effect in the Federal District (which includes Brasilia, the Capital of Brazil).

Source: Federal revenue service of Brazil (Secretariat of the Federal Revenue of Brazil): *www.receita.fazenda.gov.br/principal/Ingles/SistemaTributarioBR/Taxes.htm*.

How is the tax apportioned between the federal state and the Provinces?

Each government level responsible for administering the tax under its jurisdiction is collecting the corresponding tax revenues. The Union is thus collecting the IPI, PIS and COFINS revenues and so do the States with respect to the ICMS revenues and the Municipalities with respect to the ISS revenues. There is no tax equalisation at the VAT level per se although the inter-state transactions subject to the ICMS (VAT on goods and telecommunication and transport services), which are taxed at the origin in the State of the supplier, are taxed at a lower rate (7% instead of 12%) when the export is made from a richer State to a poorer State.

However, the Constitution determines federal fund transfers to States and Municipalities and State fund transfers to Municipalities aimed at correcting regional unbalances. The proportion of these transfers is determined by the Constitution and they are automatic.[10]

What are the place-of-supply rules?

The treatment of inter-state transactions is a major concern in Brazil due to the ICMS war between states as they are competing for resources and investment. States derive most of their resources from ICMS. ISS (services tax) is of a lower concern in inter-state transactions as it is normally applied in the municipality where the supplier is established (*i.e.* origin principle: taxation at the location of the supplier) although there are many exceptions. The destination principle (taxation at the location of the customer or recipient) is normally applied in overseas transactions.

As far as ICMS is concerned, Brazil has a specific system for treating inter-state transactions that involves a mix of the origin and destination principle:

- Normally inter-state transactions are taxed at a standard rate of 12% in the state of the supplier.[11] That rate is applied irrespective of the rates applied in the state of the supplier and the customer. Hence, a supply from a state A to a state B is subject to VAT in the state A at a standard rate of 12%. The 12% output tax is accounted for by the supplier in the state of the supplier.
- The tax treatment in the state of the customer depends on the use that is made by that customer of the goods or services purchased:

– If the goods or services purchased do not qualify as fixed assets and if the customer is using those goods or services for the purpose of its business activity, then he will be entitled to offset the 12% as input tax (*i.e.* accounted for by the supplier in the state of the supplier) against the output tax he will collect on its supplies.

– If those goods or services consist of fixed assets and if the state of the customer has a VAT rate higher than 12%, then the customer will be liable for the difference in the VAT rates. The customer will be entitled to offset the 12% + the difference in the VAT rate against his output tax during the next 4 years so that the transaction should be relatively neutral. For instance, if the VAT standard rate in state B is 17%, the customer in state B will be subject to VAT on the difference between 17% and 12% but he will be allowed to offset the same amount as input tax against his output tax (*i.e.* for a total of 17% during the next 4 years).

– If those goods or services are consumed by the customer as a final consumer (this may be the case for some products that cannot be deemed to be incorporated into products or services sold but "disappear" during the process), then the customer will be liable for the difference in the VAT rates (12% and 17% for instance). However, he will not be entitled to offset the 12% + the difference in the VAT rate against his output tax. This is an input tax block as encountered in many countries on specific items (such as petrol), leading to the burden of the tax falling on businesses rather than on household consumption.

The main drawback of that system is that an exporting state collects 12% of VAT whereas an importing state grants a credit of 12%. This may in practice penalise the resources of poorer states that are net importers of taxable goods or services while increasing the resources of exporting states.

This is partly solved by the use of a lower inter-state standard rate of 7% when taxable goods or services are exported from a richer state to a poorer state. Moreover, one of the big advantages of this system is that it does avoid carousel fraud[12] by taxing inter-state transactions.

Is there some degree of tax competition between the states?

Because the States do not have the autonomy to tax income (this is the privilege of the Union according to article 153 of the Constitution), they have used the ICMS as a policy instrument granting tax exemptions and holidays to attract economic activity. This predatory behaviour resulted in an erosion of the tax base and was referred to as the fiscal war.

As a matter of principle, States can implement VAT cuts only (for instance, new exemptions or reductions of the tax base, etc.) provided that they obtain unanimity of the finance ministers of each State in a council called the CONFAZ (Conselho Nacional de Política Fazendária)[13]. States can also only alter the rates within certain limits (they cannot be lowered below 12 or 7%, depending whether the state is a "rich" or "poor" state). They can however define the tax base and some States have thus halved the tax base, a similar effect to halving the rates.

A reform harmonising the 3 different levels of VAT and tax on services (Union, State and Municipality level) by having either one federal VAT and resources being allocated to the sub-governmental levels or a dual VAT like in Canada would prevent such behaviours and ensure some measure of harmonisation between the 26 States of Brazil.

However a reform may not receive a strong support at the State or Municipality levels.

Firstly, fiscal autonomy allows States and Municipalities to implement their own policies and a reform may transfer resources from the states to the Union thus leading to a loss of power at the sub-national level.

Secondly, some pretend that the implementation of penalties at the federal level against states that are involved in the fiscal war and especially against the governors or ministers of those States would be more effective than reforming the whole VAT system.

Thirdly, it is felt that a strong division of powers between the federal government and the sub federal levels is a guarantee of Brazilian democracy. The fall of the military dictatorship in the mid-80s was partly caused by strong pressures from rich states.

Finally, from an economic point of view, the reform may face opposition from the richest States (*i.e.* Southern and South-East States, like Rio Grande do Sul or São Paulo). A broad federal VAT would allow the Union to have more control over resources and to reallocate them to the poorer States (although it may happen as well that States would only be compensated for the exact amount of resources "*lost*" due to the reform).

A federal or dual VAT may however stop the tax competition that currently exists between states and that is favourable to the richest states. It is also likely that the resources of the States would increase as it would stop predatory tax competition amongst them.

Notes

1. The authors would like to give special thanks to Tanisia Martini Vilarino for her invaluable help in reviewing this article and her suggestions.
2. Web site of the Instituto Brasileiro de Geografia e Estatística: *www.ibge.gov.br/home/presidencia/noticias/noticia_visualiza.php?id_noticia=2204&id_pagina=1*.
3. Article 1 of the Constitution of the federative republic of Brazil, 1988: *www.planalto.gov.br/ccivil_03/Constituiçao/Constituiçao.htm*.

4. Presentation given by the Secretaria da Receita Federal on PIS, COFINS and IPI: *www.receita.fazenda.gov.br/publico/estudotributarios/Eventos/EspecialistasPoliticaTributaria/PIS_Cofins%20and%20IPI%20The%20Federal%20Consumption%20Taxes%20-%20Jefferson%20Rodrigues.pdf*.
5. According to article 24 of the Brazil Constitution (*www.planalto.gov.br/ccivil_03/Constituiçao/Constituiçao.htm*), the Union, the States and the Federal District have the power to legislate concurrently on (unofficial translation):

   I. tax, financial, penitentiary, economic and urban law;

   II. budget;

   III. trade boards;

   IV. costs of forensic services;

   V. production and consumption;

   VI. forests, hunting, fishing, fauna, preservation of nature, defence of the soil and natural resources, protection of the environment and control of pollution;

   VII. protection of the historic, cultural and artistic heritage, as well as of assets of touristic interest and landscapes of outstanding beauty;

   VIII. liability for damages to the environment, to consumers, to assets and rights of artistic, aesthetic, historical, and touristic value, as well as to remarkable landscapes;

   IX. education, culture, teaching and sports;

   X. establishment, operation and procedures of small claims courts;

   XI. judicial procedures;

   XII. social security, protection and defence of health;

   XIII. legal assistance and public defence;

   XIV. protection and social integration of handicapped persons;

   XV. protection of childhood and youth;

   XVI. organization, guarantees, rights and duties of the civil policies.
6. According to Article 155, Paragraph 2, IV of the Constitution of the federative republic of Brazil, 1988 (*www.planalto.gov.br/ccivil_03/Constituiçao/Constituiçao.htm*): "IV – a resolution of the Federal Senate, on the initiative of the President of the Republic or of one-third of the Senators, approved by the absolute majority of its members, shall establish the rates that apply to interstate and export transactions and rendering of services".
7. According to Article 155, Paragraph 2, V of the Constitution of the federative republic of Brazil, 1988 (*http://www.planalto.gov.br/ccivil_03/Constituiçao/Constituiçao.htm*): "V – the Federal Senate may: a) establish minimum rates for domestic transactions, by means of a resolution on the initiative of one-third and approved by the absolute majority of its members; b) establish maximum rates for the same transactions to settle a specific conflict involving the interest of the states, by means of a resolution on the initiative of the absolute majority and approved by two-thirds of its members".
8. According to Article 155, Paragraph 2, VI of the Constitution of the federative republic of Brazil, 1988 (*www.planalto.gov.br/ccivil_03/Constituiçao/Constituiçao.htm*): "VI – unless otherwise determined by the states and the Federal District, under the terms of the provisions of item XII, g, the domestic rates for transactions concerning the circulation of goods and the rendering of services may not be lower than those established for interstate transactions".
9. According to the Provisional Measure (MP) n° 563/2012, COFINS has been increased by 1% up in August 2012 to a total of 8,6% with respect to the import of a list of products defined by law that includes plastics, rubber made products, leather, textiles, several mechanical instruments and appliances, boats and floating structures, electrical equipment, etc.
10. Section VI of the Brazil Constitution defines the revenue sharing between the Union, the States and the Municipalities. It defines the proceeds from the collection of federal taxes (mostly on income) that can be assigned to the States (article 157) and Municipalities (article 158) and the percentage of these proceeds that must be remitted to the States or Municipalities (article 159).

    According to article 157, the following shall be assigned to the states and to the Federal District:

XVII. the proceeds from the collection of the federal tax on income and earnings of any nature, levied at source on income paid on any account by them, by their autonomous government entities and by the foundations they institute and maintain;

XVIII. twenty per cent of the proceeds from the collection of the tax that the Union may institute in the exercise of the powers conferred on it by article 154, I.

According to article 158, the following shall be assigned to the municipalities:

I. the proceeds from the collection of the federal tax on income and earnings of any nature, levied at source on income paid on any account by them, by their autonomous government entities and by the foundations they institute and maintain;

II. fifty per cent of the proceeds from the collection of the federal tax on rural property, concerning real property located in the municipalities, or the totality of the proceeds, in case the municipality exercises the option mentioned by article 153, paragraph 4, III;

III. fifty per cent of the proceeds from the collection of the state tax on the ownership of automotive vehicles licensed in the municipalities;

IV. twenty-five per cent of the proceeds from the collection of the state tax on transactions regarding the circulation of goods and on rendering of interstate and intermunicipal transportation services and services of communication.

According to article 159, the Union shall remit:

I. of the proceeds from the collection of taxes on income and earnings of any nature and on industrialized products, forty-seven per cent as follows: a) twenty-one and a half of one per cent to the Revenue Sharing Fund of the States and of the Federal District; b) twenty-two and a half of one per cent to the Revenue Sharing Fund of the Municipalities; c) three per cent, for application in programs to finance the productive sector of the North, Northeast and Centre-West Regions, through their regional financial institutions, in accordance with regional development plans, the semi-arid area of the Northeast being ensured of half of the funds intended for that Region, as provided by law;

II. of the proceeds from the collection of the tax on industrialized products, ten per cent to the states and to the Federal District, in proportion to the value of the respective exportations of industrialized products;

III. of the proceeds from the collection of the contribution of intervention in the economic order established in article 177, paragraph 4, 29% (twenty-nine percent) to the States and the Federal District, distributed as defined by law, with due regards to the destination as provided by the clause II, c, of the mentioned article.

11. Please note that the Resolution 13/2012 (Resolução do Senado 13/2012), in force as from 1 January 2013, replaces the current ICMS rates (of 7 or 12%) applicable on interstate sales of some imported goods, after customs clearance procedures, by a single rate of 4%. These new rules were introduced in order to combat the "fiscal war of ports" (guerra fiscal dos portos) between Brazilian states. In order to attract investments and increase business in local ports, some states grant VAT credits on imports. The unified rate of 4% intends to neutralize the VAT credits granted by these states. E&Y T Magazine: *http://tmagazine.ey.com/news/ibfd/brazil-state-vat-rates-on-interstate-sales-involving-imported-goods-unified/*.

12. Carrousel fraud is a specific type of fraud that happens usually in regional entities, such as the European Union for instance, with respect to inter-state trade due to the lack of customs borders (although it expanded to international supplies of services such as tradable permits in June 2009). Carrousel fraud happens when a person making an inter-State supply of good (called an intra-Community acquisition of goods in the European Union) then makes a domestic supply of this good and does not remit to the tax authorities the VAT collected on the domestic sale of goods. The fraud happens because the person making the inter-State supply (intra-Community acquisition) reverse-charges all the VAT on his purchase (*i.e.* offsets his input tax against its output tax directly on his tax return with respect to his intra-Community acquisition) and is not therefore in a credit position. Because this person is not in credit position, this creates an incentive not to remit the VAT on the following domestic sale of the products. Carousel fraud is thus made possible because the fraudster does not have to make any real payment of VAT when acquiring the good.

13. Website of the CONFAZ: *www.fazenda.gov.br/Confaz/*.

ANNEX 1

Exchange rates PPP 2011

Australia	AUD	1.56
Austria	EUR	0.85
Belgium	EUR	0.87
Canada	CAD	1.23
Chile	CLP	406.55
Czech Republic	CZK	13.92
Denmark	DKK	7.81
Estonia	EUR	0.53
Finland	EUR	0.95
France	EUR	0.87
Germany	EUR	0.80
Greece	EUR	0.71
Hungary	HUF	129.89
Iceland	ISK	137.69
Ireland	EUR	0.84
Israel1	ILS	3.71
Italy	EUR	0.80
Japan	JPY	106.88
Korea	KRW	822.78
Luxembourg	EUR	0.93
Mexico	MXN	8.15
Netherlands	EUR	0.83
New Zealand	NZD	1.52
Norway	NOK	9.62
Poland	PLN	1.87
Portugal	EUR	0.63
Slovak Republic	EUR	0.52
Slovenia	EUR	0.63
Spain	EUR	0.71
Sweden	SEK	8.91
Switzerland	CHF	1.50
Turkey	TRY	1.04
United Kingdom	GBP	0.66
United States	USD	1.00

Note: Purchase Parity Rates (PPPs) for GDP are the rates of currency conversion that equalise the purchasing power of different countries by eliminating differences in price levels between countries.They show the specified number of monetary units needed in each country to buy the same representative basket of consumer goods and services, which costs USD 1 in the United States. The currency conversion rates rates used in Consupltion Tax Trends are the PPP rates for private consumption. The PPPs are given in national currency unit per US dollar. Data is taken from OECD Dotstat *http://stats.oecd.org/index.aspx?queryid=27286*. For further detail see *www.oecd.org/std/ppp*.

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

ANNEX 2

International overview of general turnover taxes and tax rates

January 2012

Almost all countries levy a general turnover tax, *i.e.* a tax on essentially all goods and services supplied by manufacturers, traders and service providers. Those turnover taxes are mostly levied under a VAT type of tax system and, in a decreasing number of cases, as a multi or single-stage (retail) sales taxes. This take-out section presents an overview of those general turnover taxes and the tax rates applicable on 1 January 2012.

Almost all countries levy a general turnover tax, *i.e.* a tax on essentially all goods and services supplied by manufacturers, traders and service providers ("businesses"), even though specific goods and services may be exempt from tax. The general turnover tax applied by the majority of those countries is VAT, *i.e.* a tax collected at all stages of the processes of production and distribution of goods and services, accumulation of the tax being prevented by allowing businesses to deduct the tax they incur on their inputs from the tax they collect on their outputs. Exports of goods and services are generally within the scope of VAT, although they are commonly zero rated. On the other hand, the importation of goods and services is subject to tax to ensure the neutrality of the tax system.

A minority of countries apply retail sales taxes, *i.e.* single-stage taxes on goods and services supplied at the retail stage to domestic final consumers. Imports of goods and services by final consumers may be within the scope of retail sales taxes but exports are generally outside the scope of those taxes. Sales taxes may also apply to specific business-to-business transactions (*e.g.* in the United States).

The following is an overview of general turnover taxes, excluding taxes that apply to specific goods only, such as excise duties on, for example, tobacco products, alcoholic beverages, mineral oils etc., distinguishing between VAT (column 1) and retail sales taxes (column 2). Where taxes are levied under generally used names or abbreviations, those names or abbreviations are shown in the first two columns. It should be noted that, although "sales tax" commonly refers to a retail type of tax, it may, in specific countries (*e.g.* Pakistan), also refer to a VAT type of tax.

Columns 3, 4 and 5 show the standard, reduced and increased rates, respectively, applicable on 1 January 2012. The standard rate is the rate that generally applies, unless the legislation explicitly provides that specific goods and services are subject to different (reduced or increased) rates. Where insufficient information is available to distinguish the standard rate from the reduced and increased rates, columns 3 and 4, or 3, 4 and 5 are merged into a single box showing the range of tax rates.

Where column 3 (standard rate) is subdivided, for example for Canada and the United States, the (federal) rates in the first sub-column must be added to the (provincial or state) rates in the second sub-column.

Countries levying VAT type of taxes generally apply the zero rate to exports. Exceptions to that rule are indicated in the footnotes.

Compilation of this overview constitutes an enormous research effort that had to be completed in a relatively short period of time. It is based on information from various sources with different levels of dependability and accuracy. Although we realize its shortcomings, we feel that this result is worth publishing for various reasons. It may not only provide you with a useful overview of the general turnover taxes and tax rates around the world, but it may also induce you to send us your comments contributing towards an improved, updated overview that we intend to publish next year. We cordially invite you to send your comments to the *International VAT Monitor* mailbox (VATMonitor@ibfd.org).

	Type of tax		Tax rates (%)		
	1	2	3	4	5
	VAT	Retail sales tax	Standard	Reduced	Increased
Afghanistan		Business recipient tax	2	–	5, 10
Albania	VAT		20	–	–
Algeria	TVA		17	0, 7	–
American Samoa	No general turnover tax				
Andorra*	No general turnover tax				
Angola		IC	10	2	20, 30
Anguilla	No general turnover tax				
Antigua and Barbuda	VAT		15	0, 10.5[1]	–
Argentina	IVA		21	10.5	27
Armenia	VAT		20	–	–
Aruba		Turnover tax	1.5	1[2]	–
Australia	GST		10	0	–
Austria	MwSt		20	10, 12	–
– Jungholz and Mittelberg	MwSt		19	10, 12	–
Azerbaijan	VAT		18	–	–
Bahamas	No general turnover tax				
Bahrain	No general turnover tax[3]				
Bangladesh	VAT[4]		15	0-9	20-350[5]
Barbados	VAT		17.5	0, 8.75	–
Belarus	VAT		20	0.5, 10	–
Belgium	BTW/TVA		21	0, 6, 12	–
Belize	GST		12.5	0	–
Benin	TVA		18	0	–
Bermuda	No general turnover tax				
Bhutan		Sales tax	0-15	–	50-100
Bolivia	IVA		13[6]	0	–
Bosnia and Herzegovina	VAT		17	–	–
Botswana	VAT		12	0	–
Brazil	State VAT (ICMS)		17 or 18[7]	7, 12	25
British Virgin Islands	No general turnover tax				
Brunei Darussalam	No general turnover tax				
Bulgaria	VAT		20	9	–
Burkina Faso	TVA		18	–	–

	Type of tax		Tax rates (%)			
	1	2	3	4	5	
	VAT	Retail sales tax	Standard	Reduced	Increased	
Burundi	TVA		18	0	–	
Cambodia	VAT		10	–	–	
Cameroon	VAT/TVA		19.25	–	–	
Canada:[8]	GST/HST		Federal tax	Provincial tax		
– Alberta	GST		5	–	–	–
– British Columbia	HST		12[9]	–	–	–
– Manitoba	GST	PST	5	7	–	–
– New Brunswick	HST		13[10]	–	–	–
– Newfoundland and Labrador	HST		13[11]	–	–	–
– Northwest Territories	GST[12]		5	–	–	–
– Nova Scotia	HST		13[13]	–	–	–
– Nunavut	GST[14]		5	–	–	–
– Ontario	HST		13[15]	–	–	–
– Prince Edward Island	GST	PST	5	10.5[16]	–	–
– Quebec	GST + QST		5	9.975[17]	–	–
– Saskatchewan	GST	PST	5	5	–	–
– Yukon	GST[18]		5	–	–	–
Cape Verde	IVA		15	6	–	
Cayman Islands	No general turnover tax					
Central African Republic	TVA		19	–	–	
Chad	TVA		18	–	–	
Chile	IVA		19	–	–	
China (People's Rep.)	VAT		17[19]	13[20]	–	
		Business tax	5	3	20[21]	
Colombia	VAT		16	0, 1.6, 5, 10	20, 25, 35	
Comoros		Consumption tax	0, 1, 3, 5, 10			
Congo (Rep.)	TVA		18.9	5	–	
Congo (Dem. Rep.)	VAT		16	–	–	
Cook Islands	VAT		12.5	0	–	
Costa Rica	IGV		13	5, 10	–	
Croatia	VAT		23[22]	0, 10	–	
Cuba		ISV	2.5, 5, 7.5, 10, 15, 20, 25			
Cyprus	VAT		15[23]	0, 5, 8	–	
Czech Republic	VAT		20[24]	14	–	
Denmark	MOMS		25[25]	0	–	
Djibouti	TVA		7	0	–	
		Consumption tax	5, 8, 10, 20, 33[26]			
Dominica	VAT		15	0, 10	–	
Dominican Republic	ITBIS		16	0	–	
Ecuador	IVA		12	0	–	
Egypt	GST		10	5	15, 20, 30	
El Salvador	ITBMPS		13	–	–	
Equatorial Guinea	VAT		15	6	–	
Eritrea		Sales tax	3, 5, 12 (goods) 5, 10 (services)	–	–	
Estonia	VAT		20	0, 9	–	
Ethiopia	VAT		15	0	–	
Faroe Islands	VAT		25	0	–	
Fiji	VAT		15	–	–	
Finland	VAT		23	0, 9, 13	–	
Former Yugoslav Republic of Macedonia	VAT		18	5	–	
France	TVA		19.6	2.1, 5.5, 7	–	
– Corsica	TVA		0.9, 2.1, 8, 13			

	Type of tax		Tax rates (%)		
	1	2	3	4	5
	VAT	Retail sales tax	Standard	Reduced	Increased
– DOM (Martinique, Guadeloupe and Réunion; excl. French Guyana)	TVA		8.5	1.05, 1.75, 2.1	–
– French Guyana	No general turnover tax[27]				
– French Polynesia	VAT[28]		16 (goods) 10 (services)	5	–
Gabon	TVA		18	0, 10	–
Gambia		Sales tax	15	–	20[29]
Georgia	VAT		18	–	–
Germany	MwSt		19	7	–
Ghana	VAT		12.5 + 2.5[30]	0	–
Gibraltar	No general turnover tax				
Greece	VAT		23	6.5, 13	–
– Greek Departments[31]	VAT		16	5, 9	–
Grenada	Consumption tax		15	7.5, 10	20
Guam		Sales tax	4	–	–
Guatemala	IVA		12	0	–
Guernsey	No general turnover tax[32]				
Guinea (Rep.)	TVA		18	0	–
Guinea-Bissau	IGV		15	–	–
Guyana	VAT		16	0	–
Haiti	VAT		10	–	–
Honduras	ISV		12	–	15, 18
Hong Kong SAR	No general turnover tax				
Hungary	VAT		27	5, 18	–
Iceland	VAT		25.5	7	–
India	VAT[33]		12.5 or 13.5 or 14.5[34]	0, 1, 4	–
		CST	2[35]	0	4-10
		State sales tax	0-20		
		Services tax	10.3[36]		
Indonesia	VAT (PPn)	Sales tax (PPn BM)[37]	10	–	20-200
Iran	VAT		2.5 + 1.5[38]	–	12, 20
Iraq	No general turnover tax[39]				
Ireland	VAT		23	0, 4.8, 9, 13.5	–
Israel	VAT		16	0	–
Italy	IVA		21[40]	0, 4, 10[41]	–
Ivory Coast	TVA		18	0, 9	–
Jamaica	GCT		17.5	0, 10	20[42] , 22.5[43]
Japan	Shohizei (CT)		5[44]	–	–
Jersey	GST		3	0	–
Jordan		Sales tax	16	0	20
Kazakhstan	VAT		12	0	–
Kenya	VAT		16	0, 12[45]	–
Kiribati0-10		Copra tax			
Korea (Dem. People's Rep.) (North Korea)		Turnover tax	1-15 (production sector) 2-4 (commercial sector) 4-10 (sales sector)	16-50	
Korea (Rep.) (South Korea)	VAT		10	–	–
Kosovo	VAT		16	–	–
Kuwait	No general turnover tax[46]				
Kyrgyzstan	VAT		12	0	-
Laos	VAT		10	0	–
Latvia	VAT		22	12	–

	Type of tax		Tax rates (%)		
	1	2	3	4	5
	VAT	Retail sales tax	Standard	Reduced	Increased
Lebanon	VAT		10[47]	0	–
Lesotho	VAT		14	0, 5	15
Liberia	VAT		7	–	–
Libya	No general turnover tax				
Liechtenstein	VAT	8	2.5, 3.8	–	
Lithuania	VAT		21	5[48] , 9[49]	–
Luxembourg	TVA/MwSt		15	3, 6, 12	–
Macauno general turnover tax					
Madagascar	TVA		20	0	–
Malawi	VAT		16.5	0	–
Malaysia		Sales tax[50]	10	5	–
	Service Tax		6	–	–
Maldives	GST		6	–	–
Mali	TVA		18	5	-
Malta	VAT		18	0, 5, 7	–
Marshall Islands		Local sales tax	4 (Majuro), 10 (Kwajalein)	-	-
Mauritania	TVA		18	–	–
Mauritius	VAT		15	–	–
Mexico	IVA		16	0, 11[51]	–
Micronesia:					
– Kosrae		Sales tax	1, 2, 3, 5, 10 (goods) 5 (services)		
– Chuuk		Sales tax	10, 25		
– Yap		Sales tax	10	–	–
- Pohnpei	No general turnover tax				
Moldova	VAT		20	0, 6, 8	–
Monaco	TVA		19.6	2.1, 5.5	–
Mongolia	VAT		10	–	–
Montenegro	VAT		17	0, 7	–
Morocco	VAT		20	0, 7,10,14	–
Mozambique	IVA		17	–	–
Myanmar		Sales tax	5, 10, 20, 25 (goods) 5, 8, 10, 15, 30 (services)	30, 50, 75, 170, 200	
Namibia	VAT		15	0	–
Nauru	No general turnover tax				
Nepal	VAT		13	–	–
Netherlands	BTW		19	6	–
Netherlands Antilles:					
– Bonaire		General expenditure tax	8 (goods) 7, 6 (services)	–	9, 25
– St Eustatius and Saba		General expenditure tax	6 (goods) 5, 4 (services)	–	7, 10, 18, 22, 30
– Curacao	VAT		6	–	–
– St Martin	VAT		3	–	–
New Caledonia		STS	5 (services)	–	–
New Zealand	GST		15	0	–
Nicaragua	IGV		15	0, 7	–
Niger	TVA		19	5	–
Nigeria	VAT		5	0	–
Niue	GST		12.5	0	–
Northern Mariana Islands		Sales tax	5	–	–
Norway	VAT		25	0, 8, 15	–
Oman		Sales tax[52]	2, 3, 5		
Pakistan	Sales Tax		16	0, 2	18.5, 21, 25

	Type of tax		Tax rates (%)		
	1	2	3	4	5
	VAT	Retail sales tax	Standard	Reduced	Increased
Palau		Gross revenue tax[53]	4		
Palestine Autonomous Areas	VAT		14.5	0	–
Panama	ITBM		7	–	10, 15
Papua New Guinea	GST		10	0	–
Paraguay	IVA		10	0, 5	–
Peru	IGV	IPM	16[54] + 2	–	–
Philippines[55]	VAT		12	0	–
Poland	VAT		23[56]	0, 5[57] , 8[58]	–
Portugal	IVA		23	6, 13	–
– Azores/ Madeira	IVA		16	4, 9	–
Puerto Rico		Sales tax	5.5 + 1.5	0	–
Qatar	No general turnover tax[59]				
Romania	VAT		24	5, 9	–
Russia	VAT		18	10	–
Rwanda	VAT		18	0	–
Samoa	VAGST		15	0	–
San Marino*	No general turnover tax				
Sao Tome and Principe		IC	0-149 (goods) 5 (services)		
Saudi Arabia	No general turnover tax[60]				
Senegal	TVA		18	0, 10	–
Serbia	VAT		18	8	–
Seychelles	GST[61]		12 (goods) 15 (services)	0, 7, 10	–
Sierra Leone	GST		15	–	–
Singapore	GST		7	0	–
Slovak Republic	VAT		20	10	–
Slovenia	VAT		20	8.5	–
Solomon Islands		GTA	5, 10, 15 (goods) 10 (services)		
Somalia		Sales tax	10	5	–
South Africa	VAT		14	0	–
Spain	IVA		18	4, 8	–
– Canary Islands	IGIC		5	0, 2	9, 13
Sri Lanka	VAT		12	0	20
St Kitts and Nevis	VAT		17	0, 10	–
St Lucia 0 - 35		Consumption tax			
St Vincent and the Grenadines	VAT		15	0, 10	–
Sudan	VAT		15	0	20, 30[62]
Suriname	VAT		10 (goods) 8 (services)	0	25, 50
Swaziland		Sales tax[63]	14	–	25
Sweden	VAT		25	0, 6, 12	–
Switzerland	MwSt, TVA , IVA		8	2.5, 3.8[64]	–
Syria[65]	No general turnover tax				
Taiwan	VAT		5	0	–
Tajikistan	VAT		20[66]	0	–
Tanzania	VAT		18	0	–
Thailand	VAT		7	0	–
Timor-Leste		Sales tax	2.5	–	–
		Service tax	5[67]	–	–
Togo	TVA		18	–	–
Tonga	VAT		15	–	–
Trinidad and Tobago	VAT		15	0	–
Tunisia	TVA		18	0, 6, 12	–

	Type of tax		Tax rates (%)			
	1	2	3	4	5	
	VAT	Retail sales tax	Standard	Reduced	Increased	
Turkey	VAT		18	1, 8	26, 40	
Turkmenistan	VAT[68]		15	0	–	
Turks and Caicos Islands	No general turnover tax					
Tuvalu		Sales tax	5	0	–	
Uganda	VAT		18	0	–	
Ukraine	VAT		20	–	–	
United Arab Emirates	No general turnover tax[69]					
United Kingdom	VAT		20	0, 5	–	
– Isle of Man	VAT		20	0, 5	–	
United States:		State tax	Local tax			
– Alabama		Sales tax	4	0-5	–	-
– Alaska		Sales tax	–	0-7	–	–
– Arizona		Sales tax	6.6	0.25-5.125	–	–
– Arkansas		Sales tax	6	0-5	–	–
– California		Sales tax	7.25	0-2.5	–	–
– Colorado		Sales tax	2.9	0-7.5	-	–
– Connecticut		Sales tax	6.35	–	–	–
– Delaware	No general turnover tax					
– District of Columbia		Sales tax	6	–	–	–
– Florida		Sales tax	6	0-1.5	–	–
– Georgia		Sales tax	4	2-4	–	–
– Hawaii		Sales tax	4	0-0.5	–	–
– Idaho		Sales tax	6	0-2.5	–	–
– Illinois		Sales tax	6.25	0-4.5	–	–
– Indiana		Sales tax	7	–	–	–
– Iowa		Sales tax	6	0-1	–	–
– Kansas		Sales tax	6.3	0-5	–	–
– Kentucky		Sales tax	6	–	–	–
– Louisiana		Sales tax	4	1-7	–	–
– Maine		Sales tax	5	–	–	–
– Maryland		Sales tax	6	–	–	–
– Massachusetts		Sales tax	6.25	–	–	–
– Michigan		Sales tax	6	–	–	–
– Minnesota		Sales tax	6.875	0-1	–	–
– Mississippi		Sales tax	7	0-0.25	–	–
– Missouri		Sales tax	4.225	0.5-6.625	–	–
– Montana	No general turnover tax					
– Nebraska		Sales tax	5.5	0-1.5	–	–
– Nevada		Sales tax	6.85	0-1.25	–	–
– New Hampshire	No general turnover tax					
– New Jersey		Sales tax	7	–	–	–
– New Mexico		Sales tax	5.125	0.375-3.5625	–	–
– New York		Sales tax	4	3-4.875	–	–
– North Carolina		Sales tax	4.75	2-2.5	–	–
– North Dakota		Sales tax	5	1-2.5	–	–
– Ohio		Sales tax	5.5	0.25-2.25	–	–
– Oklahoma		Sales tax	4.5	0-6.5	–	–
– Oregon	No general turnover tax					
– Pennsylvania		Sales tax	6	0-2	–	–
– Rhode Island		Sales tax	7	–	–	–
– South Carolina		Sales tax	6	0-3	–	–
– South Dakota		Sales tax	4	1-2	–	–
– Tennessee		Sales tax	7	1.5-2.75	–	–
– Texas		Sales tax	6.25	0.5-2	–	–

	Type of tax		Tax rates (%)			
	1	2	3	4	5	
	VAT	Retail sales tax	Standard	Reduced	Increased	
– Utah		Sales tax	4.7	1.25-3.65	–	–
– Vermont		Sales tax	6	0-1	–	–
– Virginia		Sales tax	4	1	–	–
– Washington		Sales tax	6.5	0.5-3	–	–
– West Virginia		Sales tax	6	0-1	–	–
– Wisconsin		Sales tax	5	0-0.6	–	–
– Wyoming		Sales tax	4	0-2	–	–
US Virgin Islands	No general turnover tax					
Uruguay	IVA		22	0, 10	–	
Uzbekistan	VAT		20	0	–	
Vanuatu	VAT		12.5	–	–	
Venezuela	IVA		12	8	22	
Vietnam	VAT		10	5	–	
Wallis and Futuna	No general turnover tax					
Yemen		Sales tax	5	0	–	
Zambia	VAT		16	0	–	
Zimbabwe	VAT		15	0	–	

* Information on Andorra and San Marino are provided by the OECD.
1. In Antigua and Barbuda, a transitional rate of 10.5% applies to hotel and holiday accommodation.
2. In Aruba, exports are not zero rated. The rate of 1% applies to exports only.
3. In Bahrain, just like in Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates, a VAT system is expected to be introduced in 2013.
4. In Bangladesh, a turnover tax is levied on small-scale manufacturers and service providers whose annual turnover does not exceed BDT 6 million and, thus, fall outside the scope of VAT. The rate of turnover tax is 3%, and input tax is not deductible.
5. In Bangladesh, the rates that range from 20% to 350% constitute a supplementary tax on luxury goods and services.
6. In Bolivia, the VAT (IVA) is an integral part of the price of goods or services; the actual rate net of VAT is 14.94%. Invoices do not show VAT separately.
7. In Brazil, depending on the state, the standard rate is 17% or 18%. The state rates apply to intra-state supplies and, where the customer is a final consumer, to interstate supplies.
8. Throughout Canada, the federal GST rate is 5%. In five provinces, the federal government collects harmonized sales tax (HST) of 12%, 13% or 15% and transfers the provincial portion to the province: British Columbia (7% provincial portion, only until March 2013), Ontario (8%), New Brunswick (8%), Newfoundland and Labrador (8%) and Nova Scotia (10%). Quebec imposes a provincial VAT called the Quebec sales tax (QST) which generally follows the same rules as GST. Manitoba, Saskatchewan and Prince Edward Island have a retail sales tax that applies in addition to the federal GST but is generally limited to goods and to services performed on goods. Alberta and the Northwest Territories have no provincial sales tax so only GST applies. All Canadian sales taxes (GST, HST, QST and retail sales taxes) are legally imposed on the purchaser; the vendor is only the collection agent for the government. However, the tax authorities normally assess the vendor, not the purchaser, for unpaid tax.
9. In British Columbia, 7 percentage points of the 12% are collected by the federal government on behalf of the province, under a broad-based VAT (HST) instead of a provincial retail sales tax imposed primarily on goods. In a referendum in the summer of 2011, the citizens of British Columbia voted to repeal the HST and revert to the system that existed prior to July 2010, i.e. 5% GST plus a 7% retail sales tax. This change will take effect on 1 April 2013. The total tax rate on most goods will remain 12% but many services and restaurant meals will then only be subject to 5% GST.
10. In New Brunswick, 8 percentage points of the 13% are collected by the federal government on behalf of the province, under a broad-based VAT (HST).
11. In Newfoundland and Labrador, 8 percentage points of the 13% are collected by the federal government on behalf of the province, under a broad-based VAT (HST).
12. The Northwest Territories are technically under the control of the federal government but, in practice, they are given the same freedom as the provinces to set their own territorial tax rates. They do not impose a general sales tax on top of the federal GST.
13. In Nova Scotia and Ontario, 10 percentage points of the 15% are collected by the federal government on behalf of the province, under a broad-based VAT (HST).
14. Nunavut is technically under the control of the federal government but, in practice, it is given the same freedom as the provinces to set its own territorial tax rates. Nunavut does not impose a general sales tax on top of the federal GST.
15. In Ontario, 8 percentage points of the 13% are collected by the federal government on behalf of the province, under a broad-based VAT (HST).
16. In Prince Edward Island, the provincial tax rate of 10% applies to the taxable amount, inclusive of 5% federal GST, which means that the effective rate is 10.5% (10% x 1.05) of the taxable amount, exclusive of GST.
17. In Quebec, a provincial tax rate of 9.5% applies to the taxable amount, inclusive of 5% federal GST, which means that the effective rate is 9.975% (9.5% x 1.05) of the taxable amount, exclusive of GST. The rate is expected to be changed to a legal rate of 9.975% of the amount, exclusive of GST (*i.e.* no change), with effect from April 2013.

18. Yukon is technically under the control of the federal government but, in practice, it is given the same freedom as the provinces to set its own territorial tax rates. Yukon does not impose a general sales tax on top of the federal GST.
19. In China, VAT is imposed on the supply of tangible goods and specified services. Small companies are subject to VAT at a flat rate of 3% and they are not entitled to deduct input VAT. From 1 January 2012, under a pilot project, business tax has been replaced by VAT in Shanghai. Under the pilot, services that were previously subject to business tax are subject to VAT at the rates of 17%, 13%, 11%, 6% or 3%.
20. In China, under an administrative arrangement a reduced rate of 4% and a super-reduced rate of 2% apply to the disposal of capital goods under certain conditions.
21. In China, the rate of business tax relating to entertainment (admission to music halls, ballrooms, karaoke bars, music tea houses, billiard rooms, golf courses, bowling alleys and recreation rooms) varies from 5% to 20%.
22. In Croatia, the standard rate of 23% will be increased to 25%, with effect from 1 March 2012.
23. In Cyprus, the standard rate of 15% will be increased to 17%, with effect from 1 March 2012.
24. In the Czech Republic, the standard and reduced rates will be replaced by a single rate of 17.5%, with effect from 1 January 2013. For more information, see the report in this issue under VAT News.
25. In Denmark, the first sale of artists' products is subject to VAT at the standard rate of 25%, but only 20% of the taxable base is taken into account. Therefore, the effective VAT rate is 5%.
26. In Djibouti, where supplies are subject to both VAT (at the rate of 7%) and consumption tax, the rate of the latter tax is reduced by 7 percentage points.
27. In French Guyana, the introduction of VAT has been suspended until 2014.
28. In French Polynesia, exports of goods and services are exempt from VAT, not zero rated.
29. In Gambia, the rate of 20% applies to telecommunications services.
30. In Ghana, the rate of VAT of 12.5% is increased by a National Health Insurance Levy at the rate of 2.5%, which brings the total tax rate to 15%.
31. In the Greek departments of Dodecanese, the Cyclades and Eastern Aegean islands, the special VAT rates will be abolished in the near future.
32. In Guernsey, the government is considering the introduction of a goods and services tax.
33. In India, VAT at state level was introduced in a majority of states on 1 April 2005. The other states gradually followed and, on 1 January 2008, Uttar Pradesh was the last state to switch over from sales tax to state VAT. From that date, only the Union Territories of Andaman and the Nicobar Islands, and Lakshwadeep do not apply VAT or sales tax.
34. In India, several states have increased their standard rates of 12.5% to 13.5% or 14.5%.
35. In India, in the framework of phasing out CST, the rate of that tax should have been decreased from 2% to 1% but that decrease has not yet come into effect.
36. In India, the rate of 10.3% is composed of the standard rate of 10% plus an education cess of 2% of the tax (currently 2% × 10% = 0.2%) and a secondary and higher education cess of 1% of the tax (1% x 10% = 0.1%).
37. In Indonesia, in addition to VAT at the rate of 10%, a sales tax is imposed on the supply and importation of luxury goods at rates ranging from 20% to 200%.
38. In Iran, all goods and services that are subject to VAT (at the rate of 2.5%) are also subject to an additional levy of 1.5%. The VAT rate is expected to be increased to 3.5%, with effect from 21 March 2012. The levy is treated in the same way as VAT.
39. In Iraq, a sales tax of 10% applies to hotels and restaurant services.
40. In Italy, depending on the budgetary situation, the standard rate of 21% may be increased to 23%, with effect from 1 October 2012, and to 23.5%, with effect from 1 January 2014.
41. In Italy, depending on the budgetary situation, the reduced rate of 10% may be increased to 12%, with effect from 1 October 2012, and to 12.5%, with effect from 1 January 2014.
42. In Jamaica, the GCT rate on telephone services is 20%.
43. In Jamaica, commercial importers are generally liable to pay GCT at the rate of 22.5%.
44. In Japan, the rate of 5% includes 1% local tax. The consumption tax rate is envisaged to be increased from the current level of 5% (4% national tax and 1% local tax) to 8% (6.3% national tax and 1.7% local tax), with effect from 1 April 2014, and to 10% (7.8% national tax and 2.2% local tax), with effect from 1 October 2015.
45. In Kenya, the reduced rate of 12% applies to the supply and importation of electricity and fuel oil.
46. In Kuwait, just like in Bahrain, Oman, Qatar, Saudi Arabia and the United Arab Emirates, a VAT system is expected to be introduced in 2013.
47. In Lebanon, under the draft budget for 2012, the standard rate would be increased from 10% to 12%. The Minister of Finance announced in February 2012 that the increase will be limited to 11%.
48. In Lithuania, the reduced rate of 5% applies until 31 December 2012 to pharmaceuticals and medicinal products the costs of which are reimbursed, in part or in full.
49. In Lithuania, the reduced rate of 9% applies, until 31 December 2012, to heating of residential property and, without time limitation, to books and non-periodic publications.
50. In Malaysia, it has been announced that a single consumption tax (GST) will be introduced. The rate of GST is envisaged to be set at 4% and the new tax is to replace the current sales and service tax. However, the introduction of GST has been postponed indefinitely.
51. In Mexico, the rate of 11% applies in the frontier zones.
52. In Oman, just like in Bahrain, Kuwait, Qatar, Saudi Arabia and the United Arab Emirates, a VAT system is expected to be introduced in 2013.
53. In Palau, a new bill has been introduced to the parliament to replace the gross revenue tax with VAT, at a standard rate of 7%.
54. In Peru, in addition to the standard IGV rate of 16%, a 2% sales tax (IPM) is levied at municipal level.
55. In Philippines, the house of representatives proposed to replace the current VAT by a simplified value added tax (VAST). The VAST will be a turnover tax, imposed at the standard rate of 6%.
56. In Poland, depending on the economic situation, the standard rate of 23% may be increased to 24% from 1 July 2012, and to 25% from 1 July 2013
57. In Poland, depending on the economic situation, the reduced rate of 5% may be increased to 6% from 1 July 2012, and to 7% from 1 July 2013.
58. In Poland, depending on the economic situation, the reduced rate of 8% may be increased to 9% from 1 July 2012, and to 10% from 1 July 2013

59. In Qatar, just like in Bahrain, Kuwait, Oman, Saudi Arabia and the United Arab Emirates, a VAT system is expected to be introduced in 2013.
60. In Saudi Arabia, just like in Bahrain, Kuwait, Oman, Qatar and the United Arab Emirates, a VAT system is expected to be introduced in 2013.
61. In Seychelles, GST will be replaced by VAT on 1 July 2012. The standard VAT rate will be 15% and a reduced rate of 0% will apply.
62. In Sudan, the VAT rate on telecommunications services is 30%.
63. In Swaziland, Sales Tax is expected to be replaced by VAT in April 2012.
64. In Switzerland, the reduced rate of 3.8% applies to the provision of accommodation.
65. In Syria, the authorities anticipate that VAT will be introduced at the standard rate of 10%. Other rates may apply to certain categories of goods and services. Basic foodstuffs would be exempt.
66. In Tajikistan, the president instructed the government to consider a reduction of the standard rate from 20% to 18%.
67. In Timor-Leste, the services tax applies to hotel, restaurant, bar, and telecommunication services.
68. In Turkmenistan, certain exports to CIS countries are not zero rated.
69. In the United Arab Emirates, just like in Bahrain, Kuwait, Oman, Qatar and Saudi Arabia, a VAT system is expected to be introduced in 2013.

Source: F. Annacondia & W.v.d. Corput, International - Overview of General Turnover Taxes and Tax Rates, 23 International VAT Monitor 2 (2012), Journals IBFD, cited with permission of IBFD, see *http://online.ibfd.org/kbase/*, All rights reserved.

Note by Turkey: The information in this document with reference to “Cyprus” relates to the southern part of the Island. There is no single authority representing both Turkish and Greek Cypriot people on the Island. Turkey recognizes the Turkish Republic of Northern Cyprus (TRNC). Until a lasting and equitable solution is found within the context of United Nations, Turkey shall preserve its position concerning the “Cyprus issue”.

Note by all the European Union Member States of the OECD and the European Commission: The Republic of Cyprus is recognized by all members of the United Nations with the exception of Turkey. The information in this document relates to the area under the effective control of the Government of the Republic of Cyprus.”

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OECD PUBLISHING, 2, rue André-Pascal, 75775 PARIS CEDEX 16
(23 2012 29 1 P) ISBN 978-92-64-18138-0 – No. 60273 2012

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OECD (2012), *Consumption Tax Trends 2012: VAT/GST and Excise Rates, Trends and Administration Issues*, OECD Publishing.
http://dx.doi.org/10.1787/ctt-2012-en
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ISBN 978-92-64-18138-0
23 2012 29 1 P