VAT Developments Around the World

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Mutual assistance

– the Directive will:
  – extend cooperation between Member States to cover direct taxes of any kind;
  – establish time limits for the provision of information on request and other administrative enquiries;
  – allow officials of one Member State to participate in administrative enquiries on the territory of another Member State;
  – provide for feedback on the exchange of information and;
  – provide that information exchange be made using standardized forms, formats and channels of communication.
– The Directive must be implemented by the Member States at the latest 1 January 2013.
– Regulation 1777/2005 effective July 1, 2011
A VAT in the USA?

Indirect tax around the world is practically always a VAT.

November 1984 Report

- The intention of a National Sales Tax was to be able to reduce income taxes (revenue neutrality), however:

  - Disadvantages of a VAT are Federal intrusion into the sales tax area, regressivity, one-time price increase, compliance costs, larger government.
  - Larger government necessary: 20,000 additional personnel + 700 million USD enforcement costs (1984)
  - Treasury Dept: this level of additional expenditure is not justifiable merely against the aim to reduce reliance on income tax revenues.
  - Treasury: if however, a National Sales Tax would ever be introduced, a European style Value Added Tax would be most appropriate at the Federal US level.
- **Congressional Budget Office:**
  - A VAT would raise approx. $50 Billion per percentage point (2010 estimate).

- **April 2010:**
  - White House advisor Paul Volcker: value-added tax (VAT) is not as toxic an idea as it's been in the past for tackling the nation's deficit problem.
  - Additionally, Nancy Pelosi, speaker of the house, and Senator Conrad, chairman of the senate budget committee, voiced their support of a VAT to solve the US economic problems.
  - Congressional Budget Office Director Douglas Elmendorf: confirmed he's been getting "a lot of questions" about the VAT tax from Congress.

  - The CBO is in the process of figuring out how best to study a VAT tax's impact, sorting through various structures employed by other countries. Elmendorf (CBO) also declined to estimate what a VAT tax level would need to be to cover the 2020 debt, which the CBO predicted will be 90 percent of GDP!!

  - Because a VAT is a national sales tax on consumption, Elmendorf said, it would have less impact on savings and investment than on income tax, but warned that its economic effects should not be underestimated.
  - He also warned that politicians and economists should not envision an "idealized" VAT tax as a clean, simple system.
  - "If we were to adopt a VAT tax in this country, it would be subject to many of the same (tax) preferences the income tax is subject to." he said. "The VAT tax itself could become very complicated."

- **May 2010:**
  - White House advisor Paul Volcker: VAT is too unpopular to be under consideration for now or for the indefinite future.
  - President Obama: VAT is not being considered by the government.

- **November 2010:** a VAT will not be included in the Deficit commission’s final recommendations.
– Other arguments in the discussion:

– The UK for example, has an income tax and VAT, but its 2009 deficit- and debt-to-GDP ratios were greater than America's.
– Greece has had income tax and a 24 percent VAT for years.
– California has a sales tax, business tax, and one of the highest top income tax rates in the USA. It's still bankrupt however.
E-commerce Sales into Norway & VAT

– 1 July 2011- simplified VAT scheme for non-established vendors supplying electronic services
– no need to appoint a fiscal representative;
– no need to register in the Central Coordinating Register for Legal Entities;
– not able to deduct input VAT in the VAT return but may apply for a refund.
Malaysia:

- Malaysia’s taxland director recently commented that “it is not a question of if, but when a GST will be adopted in Malaysia.”
- There are no immediate plans to adopt a GST, and adoption of a GST has reportedly been postponed.
- The GST will be introduced at 4 percent and will replace the current sales tax and service tax (which each range between 5 and 10 percent).
- Implementation of the GST system is expected to take 1 ½ years.

- **October 2010:** Country officials cite the need to get more public input as the reason implementation of GST has been postponed (government continues to recognize the importance of a GST).
United Arab Emirates:

– Although the UAE has had pressure from the regional community to implement a VAT, there are no firm plans to do so.
– There is no general consensus a VAT is needed within the UAE:
  – Al Majed, chair of Dubai’s economic counsel, recently argued against adopting a VAT. However, Nasser Saidi, chief economist at the Dubai International Financial Center Authority, recently stated a VAT is needed to lessen the overall burden and consolidate the fees from the various UAE residents.
– The UAE finance minister recently finished a report on the economic ramifications of adopting a VAT, but the UAE cabinet has not acted on the report.
– Although there is no standard VAT within the UAE, individual emirates currently charge a consumption tax on some products.
– If a decision to introduce VAT is taken this year, it’ll be fair to say that 2011 may not see the implementation of VAT.
China

– China has published initial plans to reform the VAT and Business Tax regimes
– Reduce the double taxation caused by separate VAT and Business Taxes
– Enable a fairer VAT input deduction system / consumption-based tax not to distort industry and trade.
India

- Paving way for introduction of GST
- Constitutional amendment introduced on 22 May 2011 to authorize Centre and States to levy taxes on services and goods
- Recommendations for a dual GST model – Central and State GST
- Exact rates have not been announced, but expected to be around 16% - 8% CGST and 8% SGST.
2011 European VAT Increases

- Greece reduced VAT rate 11% to 13%; super reduced rate 5.5 to 6.5%
- Latvia 21% to 22%, reduced rate 10% to 12%
- Poland 22% to 23%
- Portugal 21% to 23%
- Slovakia 19% to 20%
- Switzerland (non-eu) 7.6% to 8%
- UK 17.5% to 20%
- Ireland 21% to 23% by 2014
2011 Worldwide VAT & GST Proposed Increases

- Canada 7.5% to 8.5% Quebec Sales Tax/PST
- Fiji 12.5% to 15%
- Israel withdraws planned Jan 2011 VAT cut to 15.5%
- Central African Republic reduced rate abolished
- Seychelles to introduce VAT
- Pakistan Considering VAT for 2011
- Mexico proposed standard rate of 13% (raising reduced rate of 11% along U.S. border).
Spread of VAT

- VAT now operates in about 150 countries – raises 20% of tax revenues – affects 4 billion people

- Europe – South America – Japan, New Zealand – Eastern European economies – Asia – China – Africa – Australia – India?

- Many use the EU model or variations (New Zealand, Canada, Australia) but not Japan.
Some Figures

- VAT in 33 of 34 OECD countries
  - USA is the only exception
- Significant source of revenue across OECD countries—and growing:
  - VAT (% of all tax): 18.7% (2008)
    11.2% (1985)
  - VAT (% of GDP): 6.5% (2008)
    3.8% (1985)
VAT Increase

– Spiralling government deficits and competition for global inward investment lay out the route for VAT increases and more can be expected
– Global-wide trend to shift the tax burden away from job-creating business onto consumers
– Strategy: increasing VAT rates, cutting down on employer tax charges (UK: VAT increase 2011, corporation tax rate down from 28% to 24% by 2014/2015)
– The risks are high for governments wrestling with failing consumer confidence and rising inflation.
Higher Standard VAT Rates

- Technically easy
- Financially tempting
  - France +1% = 5.9 bn €
  - UK +1% = 6.0 bn € (17.5% to 20% = 15 bn €)
- But what about efficiency?
  - Incentive to fraud?
  - Impact on the economy?
VAT Increase

– Outlook for 2011?

– No doubt more rises as countries seek to rebalance their economies after the financial crisis

– Although….  
  – South America VAT decreases in Venezuela (22% to 20%) and Peru (17% to 16%) and proposed decrease in Uruguay
  – Czech Republic – merger of rates approved by gov’t (10% and 20% to 17.5%). Must now be adopted by parliament and signed by president
  – Merged Rate Netherlands of 15.25%?