Consumption Tax Trends 2008

VAT/GST AND EXCISE RATES, TRENDS AND ADMINISTRATION ISSUES

OECD

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Foreword

This publication is the seventh in the series Consumption Tax Trends. *It presents information relative to indirect taxes in OECD member countries, as at 1 January 2007.*

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

This edition's special feature highlights aspects of VAT/GST developments in China, India and Russia.

This publication was prepared by Stéphane Buydens of the OECD Centre for Tax Policy and Administration, in co-operation with governments of OECD member countries that provided most data in the tables. It is published under the responsibility of the Secretary-General.

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Introduction

Consumption taxes form an important source of revenue for an increasing number of governments. They now account for 31% of all revenue collected by governments across the OECD. Value added taxes* (VAT) are the principal form of taxing consumption in 29 of the 30 OECD member countries (the United States continues to deploy retail sales taxes) and account for two thirds of consumption taxes revenues. The remaining third is made up of specific consumption taxes such as excise duties.

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

Value added tax policy

The continuing globalisation of trade imposes an increasing pressure on the international aspects of value added tax systems, at the same time as these systems have spread across the world. Differences between value added tax systems operated by individual countries create growing difficulties for both businesses and tax administrations. The absence of internationally agreed rules and standards for the treatment of cross-border supplies reduces the capacity of governments to collect taxes and creates uncertainties for businesses. Current inconsistencies in the VAT rules across jurisdictions can hinder the development of international trade, generating uncertainties, double taxation or involuntary non-taxation as well as opening up opportunities for tax avoidance (OECD 2004).

A public consultation launched by the OECD in 2005 showed general support for an international norm based on taxation according to the rules applicable in the jurisdiction of consumption. It was agreed therefore that the OECD should develop a set of guidelines that would aim to minimise the problems identified. In January 2006 the OECD launched a project aimed at providing guidance for governments on applying value added taxes to cross-border trade: the *OECD International VAT/GST Guidelines*, which includes the work already done on applying VAT/GST to e-commerce.

In the long run, these Guidelines should encompass a wide span of issues relating to the application of value added taxes to cross-border trade, including determination of the place of taxation, valuation of transactions, avoidance of double taxation and compliance. However, the OECD considers that the first priority is to deal with the application of value added taxes to cross-border trade in services and intangibles, since this appears to be the most pressing issue for both business and tax administrations. Guidelines are being developed to ensure that each cross-border transaction is taxed in only one jurisdiction. In

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

parallel, since value added taxes should be borne, in principle, by final consumers, Guidelines will also be developed to ensure that the burden of the value added taxes themselves do not lie on taxable businesses, except where explicitly provided for in legislation. In other words, taxation should not result from inconsistencies between legislations but from their fair application.

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 on the OECD website *(www.oecd.org/tax)*.

Excise taxes and vehicle taxation

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

Value added taxes in selected non-OECD economies

This edition provides an overview on the implementation of value added tax systems in selected non-OECD economies China, India and Russia.

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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English Summary

Chapter 1 – Taxing Consumption

The importance of consumption taxes

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

Looking at the unweighted average of revenue from both these categories of taxes as a percentage of overall taxation in the OECD member countries (see Table 3.2, Table 3.3 and 3.7), it can be seen that the proportion is roughly 31%. In 2006, this broke down to one-third for taxes on specific goods and services and two-thirds for general consumption taxes.

The value added tax

VAT is the most widespread general consumption tax in the world since it has now been implemented by over 140 countries and in 29 of the 30 OECD member countries (the United States continues to deploy retail sales taxes). The value added tax system is based on tax collection in a staged process, with successive taxpayers entitled to deduct input tax on purchases and account for output tax on sales in such a way that the tax finally collected by tax authorities equals the VAT paid by the final consumer to the last vendor. These characteristics ensure the neutrality of the tax, whatever the nature of the product, the structure of the distribution chain and the technical means used for its delivery. When the destination principle, which is the international norm, is applied, it allows the tax to retain its neutrality in cross-border trade. According to this principle, exports are exempt with refund of input taxes ("zero-rated") and imports are taxed on the same basis and with the same rates as local production.

The application of the destination principle is relatively easy for the cross-border trade in goods but not always so for services due to their normally intangible nature. Since it is not easy to assess their place of effective consumption, and hence of taxation, most countries have developed a range of proxies. Within the European Union, those proxies are based on the place where the supplier or the customer are established. However, different criteria may be applied *e.g.* in Australia and New Zealand. Although those different systems attempt to reach a similar goal (taxing consumption where it occurs) their application can give rise to differences of treatment for cross-border supplies and create areas for potential double taxation, involuntary non-taxation and uncertainties for business and tax administrations.

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

As the use of VAT was spreading as an efficient means to taxing consumption, the international trade in goods and services expanded rapidly. As a result, the interaction between value added tax systems operated by individual countries has come under greater scrutiny as the potential for double and unintentional non-taxation has increased.

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

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

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

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

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

Tables 3.1 to 3.7 show that the importance of general consumption taxes varies considerably between countries, from the United States and Japan where general consumption taxes account for less than 10 per cent of total taxation and less than 3 per cent of GDP, to

Hungary and Iceland where they account for more than 26 per cent of total tax and more than 9 per cent of GDP. In the majority of countries, general consumption taxes account for more than 15 per cent of total taxation.

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

Tables 3.8 to 3.11 illustrate the wide diversity in tax rates, exemptions and taxation thresholds. Standard VAT rates (Table 3.8) have remained generally stable since 2000 although some trends in various directions can be observed. Five countries have decreased their standard rate (Canada, the Czech Republic, France, Hungary and the Slovak Republic) while seven countries increased the rate (Germany, Greece, Netherlands, Norway, Portugal, Switzerland and Turkey). It may be worth noting that eight of the twelve countries that have changed their standard rate are getting closer to 19%, either by increasing or decreasing their rate.

Given this diversity, 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 3.14). In theory, the closer the VAT system of a country is to the "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 large exemptions or reduced rates or a failure to collect all tax due (*e.g.* tax fraud).

Chapter 4 – 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 in particular 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 4.1 to 4.5). For example, excise duties on wine (Table 4.2) may vary from zero (Austria, Italy, Luxemburg, Portugal, Spain and Switzerland) to more than USD 3.5 a litre (Iceland, Norway and Turkey). Current excise rates for mineral oil products again illustrate the wide disparity. For example, excise taxes on premium unleaded gasoline vary from USD 0.105 in the United States to USD 1.747 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 submitted to excise taxes that most often rely on a combination of *ad valorem* and specific elements.

Chapter 5 – 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 5.1 and 5.3); periodic taxes payable in connection with the ownership or use of the vehicles (Table 5.2); taxes on fuel (Table 4.4) 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, for example, the wide differences in the level of taxes on sale and registration of motor vehicles. Indeed, for a standard passenger car, these taxes may vary from less than 7% of the value of the car in Washington DC to 200% of the value of the car in Copenhagen.

Chapter 6 – Application of Value Added Taxes in Three Non-OECD Countries: China, Russia and India

VAT in China

China implemented VAT in 1984. Since the 1994 tax reform, it applies to most supplies and importation of goods and to services directly relating to those supplies. The Chinese VAT system is based on the standard staged collection process (see Chapter 1). Globally the system is based on the destination principle where exports are zero rated and imports are taxed on the same basis and with the same rates as local production. It includes a standard rate of 17% and a reduced rate of 13% (see Table 6.1). In 2007, the revenue from VAT accounted for 34% of the total tax revenues.

However, the Chinese VAT system deviates from the international standards in three key areas. Firstly, VAT applies to supply and importation of movable goods and specific services directly relating to those goods, such as processing and repairs while most services and supplies of immovable property, including construction, are not subject to VAT. These supplies are subject to a Business Tax (BT) of 5%, which accrues to local governments. Secondly, VAT on fixed assets is non-deductible. Thirdly, limits are placed on the rebate of input tax credits as they relate to exports. Exports then incur a part of residual VAT. Rebates vary according to the nature of the exported products (Table 6.2). For example, the rebate rate for high technology products is 17% (which is equal to a full input tax credit since the standard VAT rate is 17%) while there is no rebate for polluting products. The Chinese government undertook a VAT reform in 2004 with a view to allow for a full input tax credit on fixed assets in pilot regions. This reform is likely to be extended to the whole country in 2009.

VAT in Russia

The Value Added Tax was adopted by the Soviet Union in December 1991 upon the eve of its dissolution. Further to a number of tax reforms, which took place as part of the shift from a centrally planned economy to a decentralised market economy, the Russian Tax Code has been redrafted several times in the last fifteen years. Since the 2006 reform, the Russian VAT system is now close to the European model, with a staged collection process (see Chapter 1) and the destination principle for cross-border trade. Taxable supplies include supply of goods, services and works made on Russian territory (with some usual exemptions such as financial services and health care). The tax code provides for three VAT rates: the standard rate of 18%, a reduced rate of 10% and a zero rate. However, the Russian VAT system deviates from the international

standards in two key areas. Firstly, supplies of services, goods and works made outside Russia are considered outside the scope of Russian VAT. This means that, unlike in the standard VAT model, input VAT in relation to those supplies is not deductible. This means that *e.g.* a Russian taxpayer that provides advertising services only to foreign clients has no right to deduction of input VAT incurred in Russia. Secondly, the origin principle is applied to exports of oil and gas supplies within the Commonwealth of Independent States (CIS). These exports are taxed under Russian VAT at the standard rate of 18%.

VAT in India

A VAT system was introduced in India in 2005. However, according to the federal structure of the country, in which exclusive tax powers are assigned by the Constitution to each layer of government (Union, States and local authorities), the tax base was shared among these entities. VAT on trade in goods is levied by the States while VAT on services is levied by the Central Government. Each State has developed its own VAT legislation based on a common model, close to the international standards (staged collection process with full right to deduction of input tax). The Central Government also has fixed uniform VAT rates: 12.5% (standard rate); 4% (reduced rate applicable to most items of common consumption) and 1% (applicable to gold, silver and precious stones). Basic necessities (about 75 items) are VAT exempt while petrol and diesel fuel are outside the scope of VAT. A list of products considered as inputs for the production sector and fixed assets are submitted to the reduced rate of 4%. The difference of 8.5 percentage points between the VAT rates on inputs and outputs (respectively 4% and 12.5%) originally aimed at improving the cash flow of businesses, tends to reduce tax compliance.

The Indian VAT system is based on the destination principle for cross-border trade. For trade in goods within the Union, this destination principle is moderated by the application of a Central Sales Tax (CST) on interstate sale of goods and stock transfers. The CST cannot be offset against the State VAT and yet revenues accrue to the exporting State. In April 2007 this tax was reduced from 4% to 3% and again reduced from 3% to 2% in June 2008 with a view to a complete phasing-out in the future. The Central Government also taxes the production of goods through central excise taxes. This tax is known as the Central VAT (CENVAT), which is levied at a rate of 16%. Within the goods-producing sector, there is no cascading effect as goods producers can offset input tax against output tax. However, distributors cannot offset the tax against the payment of State VAT and so it becomes effectively an excise tax.

The VAT on trade in services is levied by the Central Government at a rate of 12%. The Service Tax works as an invoice-credit VAT, with input ST paid on all the input services being creditable against the output ST. Service Tax applies to a list of specified services, which was expanded successively across recent years with a view to including most services in the near future.

Further to the difficulties involved with the current multiple VAT system, the Indian Government has announced its intention, in partnership with the States, to merge all taxes like Service Tax, Excise and VAT into a nation-wide Goods and Service Tax (GST) by the year 2010.

Résumé en français

Le texte ci-dessous est un résumé de l'édition 2008 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

Importance des 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 son équivalent, la taxe sur les produits et services (TPS) ainsi que la « taxe de vente » prélevée 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 constituent près du tiers (31 %) des recettes fiscales totales des pays de l'OCDE en moyenne non pondérée (tableaux 3.2, 3.4 et 3.7). Globalement, cette recette se répartissait, en 2006, en un tiers pour les impôts sur les biens et services déterminés et en deux tiers pour les impôts généraux sur la consommation.

La TVA

La TVA est l'impôt général sur la consommation le plus répandu dans le monde, puisqu'elle existe désormais dans plus de 140 pays et dans 29 des 30 pays membres de l'OCDE (seuls les États-Unis ont conservé un système de taxes de vente). La TVA est caractérisée par un mécanisme de paiement fractionné à chaque étape de la production et de la distribution, jusqu'au consommateur final, de manière telle que le montant total de la taxe perçue par l'État correspond en réalité à la TVA imputée par le dernier vendeur au consommateur final. Ces caractéristiques assurent la neutralité de la taxe quelle que soit la nature du produit, la structure du réseau de distribution ou les moyens techniques mis en œuvre pour sa livraison. Lorsque le principe de destination s'applique, ce qui est la norme généralement acceptée, elles permettent à la taxe de conserver sa neutralité à l'égard du commerce international. Selon ce principe, les exportations sont exonérées, avec remboursement de la taxe payée en amont (« taux zéro ») et les importations sont imposées sur la même base et au même taux que la production intérieure.

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

ou du preneur et de la nature de la transaction, mais d'autres critères peuvent être appliqués, par exemple en Nouvelle-Zélande ou en Australie. Même si ces différents systèmes poursuivent un but similaire (imposer la consommation là où elle a lieu), leur application peut aboutir à des résultats différents et conduire à des doubles impositions, à des absences d'imposition involontaires et à des incertitudes pour les entreprises et les administrations fiscales.

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 calculées 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'accises 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

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

Les premières règles internationales en matière de TVA (en dehors de l'Union européenne) ont été adoptées en 1998 avec les *Conditions cadres d'Ottawa sur la fiscalité*. Celles-ci prévoient notamment que « *les règles applicables en matière d'impôt sur la consommation dans le cas d'échanges transfrontières devraient aboutir à une imposition dans le pays où la consommation a lieu* ». En conséquence, le Comité des affaires fiscales de l'OCDE (CAF) a adopté en 2001 les Principes directeurs pour la définition du lieu de consommation dans le contexte du commerce électronique. Ils prévoient que le lieu de consommation est celui où le destinataire a établi sa présence commerciale (pour les transactions entre entreprises) ou sa résidence habituelle (pour les transactions entre entreprises et consommateurs privés). Toutefois, avec le développement de la mondialisation, il est apparu que des règles plus globales étaient nécessaires, au-delà du commerce électronique. Le CFA a adopté en 2005 un canevas pour l'élaboration de *Principes directeurs internationaux pour l'application de la TVA/TPS*. Il a également été décidé de traiter en priorité la définition du lieu d'imposition des prestations de services transfrontières et les conditions de neutralité de la taxe. En 2006, le CFA a donc adopté deux principes :

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

Des travaux sur le développement de ces principes ont été entrepris par les pays membres de l'OCDE, en coopération avec un certain nombre d'économies non membres et avec des de représentants des entreprises. Ces travaux font l'objet de consultations publiques, disponibles sur le site de l'OCDE (*www.oecd.org/tax*). D'autres travaux sont actuellement menés sur l'amélioration de l'efficacité des régimes TVA, la lutte contre la fraude et les questions d'administration fiscale.

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

Les systèmes de TVA varient largement d'un pays à l'autre. En témoigne le maintien d'un vaste éventail de taux réduits, d'exonérations et de dispositions spéciales qui répondent à des objectifs autres que fiscaux. Si la souveraineté des États en matière d'imposition est cruciale, on peut néanmoins établir un certain nombre de principes communs qui permettent d'éviter la double imposition, la non-imposition involontaire, la fraude fiscale et les distorsions de concurrence. Certains facteurs permettent également d'améliorer l'efficacité de la taxe, tels qu'une base d'imposition large, un nombre minimal d'exonérations et de taux réduits et un seuil d'assujettissement suffisant pour permettre à l'administration fiscale de se concentrer sur les contribuables plus importants.

Les tableaux 3.1 à 3.7 montrent que l'importance des impôts généraux sur la consommation varie considérablement d'un pays à l'autre, avec les États-Unis et le Japon d'un côté où les impôts généraux sur la consommation comptent pour moins de 10 pour cent du total des recettes fiscales et moins de 3 pour cent du PIB, et la Hongrie et l'Islande où ces impôts comptent pour plus de 26 pour cent du total des recettes fiscales et plus de 9 pour cent du PIB. Cependant, dans la plupart des pays de l'OCDE, les impôts généraux sur la consommation comptent pour plus de 15 pour cent du total des recettes fiscales.

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

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

Compte tenu de cette diversité, il est raisonnable 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 3.14). 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 faible 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).

Chapitre 4 – 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 alcoolisées, 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 utilisées 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 4.1 à 4.5). Ainsi l'accise sur les vins (tableau 4.2) peut-elle varier de zéro (Autriche, Espagne, Italie, Luxembourg, Portugal et Suisse) à plus de 3.5 USD le litre (Islande, Norvège et Turquie). Des différences similaires apparaissent dans l'imposition des huiles minérales. Ainsi, les taux d'accise pour l'essence sans plomb peut-elle varier de USD 0.105 le litre aux États-Unis à USD 1.747 en Turquie. Les accises sur les combustibles fossiles sont souvent plus utilisées que d'autres pour modifier le comportement des consommateurs. Les produits du tabac, quant à eux, font également l'objet d'accises qui reposent le plus souvent sur une combinaison d'éléments spécifiques et *ad valorem*.

Chapitre 5 – 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 5.1 et 5.3) ; les impôts récurrents sur la propriété ou l'usage des véhicules (tableau 5.2) ; les impôts sur les carburants (tableau 4.4) 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 5.3 illustre, de manière exemplative, les très grandes différences qui existent dans les impôts sur la vente et l'immatriculation des véhicules. Ainsi, pour un véhicule familial de moyenne cylindrée, ces impôts peuvent-ils varier de moins de 7 % de la valeur hors taxes du véhicule à Washington à près de 200 % à Copenhague.

Chapitre 6 – L'application des taxes sur la valeur ajoutée dans trois économies non-membres de l'OCDE : la Chine, la Russie et l'Inde

La TVA en Chine

La TVA a été introduite en Chine en 1984. Depuis la réforme de 1994, elle s'applique désormais à la plupart des livraisons et des importations de biens et aux services directement liés à ces livraisons. Le système de TVA chinois est basé sur le système classique de paiement fractionné (voir chapitre 1). Globalement, le système est basé sur le principe de destination, en vertu duquel les exportations sont exonérées (imposées au taux zéro) et les importations sont imposées sur la même base et aux mêmes taux que la production locale. Les taux applicables (tableau 6.1) sont de 17 % (taux normal) et 13 % (taux réduit). En 2007, les recettes de TVA comptaient pour 34 % du total des recettes fiscales de l'État.

Toutefois, le système chinois dévie des standards internationaux sur trois points importants. D'abord, seules les prestations de services directement liés aux fournitures et réparations de biens meubles corporels sont soumis à la TVA. Les autres services et les opérations sur les biens immeubles sont soumis à une taxe d'entreprise (Business Tax) de 5 %

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dont le produit revient aux provinces. Ensuite, la TVA applicable aux immobilisations corporelles n'est pas déductible. Enfin, le droit à déduction de la TVA sur les inputs est limité pour les exportations. Ainsi les produits exportés supportent-ils une part de TVA rémanente. Cette limitation varie notamment en fonction de la nature des produits exportés (tableau 6.2). Par exemple, les produits de haute technologie bénéficient-ils d'un droit à déduction de 17 % tandis que ce taux peut tomber à 0 % pour les produits dont la fabrication est très polluante. Le gouvernement chinois a entamé une réforme de la TVA en 2004 afin de permettre la déduction de la TVA sur les immobilisations corporelles dans certaines régions pilotes. Ce projet devait être mis en œuvre sur l'ensemble du territoire en 2009.

La TVA en Russie

La TVA a été adoptée par l'Union soviétique en 1991, peu avant sa dissolution. Elle a subi, depuis, un certain nombre de réformes liées au passage d'une économie planifiée à l'économie de marché. Depuis la réforme de 2006, le système de TVA russe est assez proche du modèle européen, avec mécanisme de paiement fractionné (voir chapitre 1) et principe de destination pour le commerce international. Les opérations imposables couvrent l'ensemble des livraisons de biens et des prestations de services qui sont réalisées sur le territoire russe (à l'exception d'un certain nombre d'exemptions appliquées dans la plupart des pays comme les services financiers ou les soins médicaux). Trois taux sont applicables : un taux normal de 18 %, un taux réduit de 10 % et un taux zéro. Toutefois, le système de TVA russe s'écarte des standards internationaux sur deux points importants. D'abord, les livraisons de biens et les prestations de services réputées se situer en dehors du territoire de la Russie sont considérés comme étant hors du champ de la TVA et n'ouvrent donc pas de droit à déduction en amont. Ainsi, un assujetti qui fournit des services de publicité à un client étranger ne bénéficiera d'aucun droit à déduction de la TVA ayant grevé les biens et services utilisés pour réaliser cette prestation, dans la mesure où elle est réputée se situer en dehors du territoire russe. Ensuite, le principe de taxation à l'origine est appliqué aux exportations de gaz et de pétrole à destination des pays membres de la Communauté des États indépendants (CEI). Dès lors, les exportations de ces produits vers ces pays sont taxées à la TVA russe au taux de 18 %.

La TVA en Inde

Un système de TVA a été introduit en Inde en 2005. Toutefois, compte tenu de la structure fédérale du pays, dans lequel la constitution assigne des pouvoirs fiscaux exclusifs à chacun des trois niveaux de pouvoirs (Union, États et autorités locales), la base d'imposition à la TVA a dû être répartie entre ces niveaux de pouvoirs. La TVA sur le commerce des biens est levée par les États, tandis que la TVA sur les services est levée par le gouvernement fédéral. Chaque État a donc élaboré une législation TVA basée sur un modèle commun, proche des standards internationaux (méthode de paiement fractionné avec droit à déduction intégral de la TVA d'amont). Le gouvernement central a également fixé un système de taux communs : 12.5 % (taux normal), 4 % (taux réduit applicable à la plupart des biens de consommation courante) et 1 % (sur l'or, l'argent et les pierres précieuses). Les produits de première nécessité sont exemptés tandis que les carburants sont hors champ et soumis à des taxes spécifiques. Une liste de produits considérés comme des intrants dans le processus de production ainsi que les immobilisations corporelles sont soumis à un taux de TVA de 4 %. Cette différence de 8.5 points entre la TVA sur les intrants et la TVA sur les produits à la sortie, destinée à soulager la trésorerie des entreprises, est cependant susceptible de créer des problèmes de discipline fiscale.

Le système de TVA indien est basé sur le principe de destination pour le commerce avec l'étranger. Ce principe s'applique aussi partiellement au commerce des biens entre les États de l'Union, puisqu'il est tempéré par l'application d'une Taxe de vente centrale (Central Sales Tax) qui grève la livraison des biens d'un État à l'autre et ne peut pas faire l'objet d'un droit à déduction. Dans la perspective de la réalisation d'un marché unique au niveau de l'Union, cette CST est progressivement réduite (de 4 % en 2007 à 2 % en 2008). Le gouvernement central lève également une TVA sur la production des biens (CENVAT) au taux de 16 %. Cette taxe ne crée pas d'effet d'imposition en cascade au niveau de la production des biens, puisqu'elle est intégralement déductible par les industriels, mais elle se transforme en un droit d'accise au niveau de la distribution puisqu'elle n'est plus déductible à ce stade.

La TVA sur les services est levée par le gouvernement central au taux de 12 %. Il s'agit d'une TVA classique basée sur le modèle de la perception fractionnée avec droit à déduction intégral de la taxe d'amont. Elle s'applique à une liste de services, qui s'est élargie au fil des années et devrait couvrir l'ensemble des services dans un avenir proche.

Compte tenu des difficultés générées par ce système de TVA multiple, le gouvernement indien a annoncé récemment son intention de refondre le régime de la TVA en vue d'établir un système complètement harmonisé d'ici 2010.

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Chapter 1

Taxing Consumption

Consumption Taxes

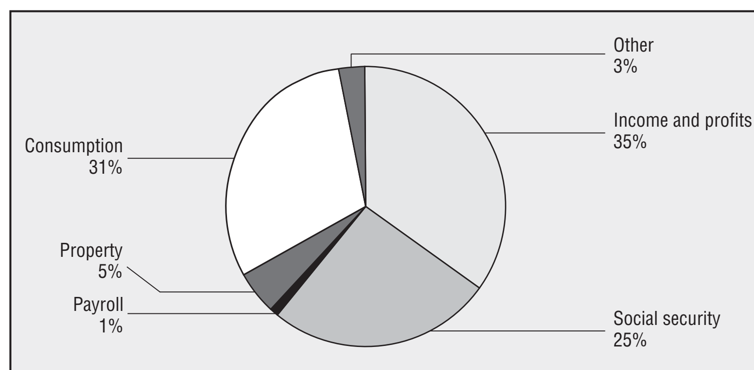
In the OECD classification, "taxes" are confined to compulsory, unrequited payments to general government. They are divided into five broad categories: taxes on income, profits and capital gains; social security contributions; taxes on payroll and workforce; property taxes; and taxes on goods and services, *i.e.* consumption taxes (see OECD, *Revenue Statistics 1965-2006*).

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

- *General* consumption taxes, typically value added taxes (VAT and its equivalent in several jurisdictions, the Goods and Services Tax – GST). This category includes sales taxes, which are also levied on consumption but differ significantly from VAT.
- Taxes on *specific* goods and services, consisting primarily of excise taxes. It also includes customs duties and certain special taxes on insurance or financial operations, which are not covered in *Consumption Tax Trends*.

Looking at the unweighted average of revenue from both these categories of taxes as a percentage of overall taxation in the OECD member countries (see Tables 3.2, 3.4 and 3.7), it can be seen that the proportion is roughly 31%. In 2006, this broke down to one-third for taxes on specific goods and services and two-thirds for general consumption taxes.

Figure 1.1. **Average tax revenue as a percentage of aggregate taxation, by category of tax (2006)**



StatLink http://dx.doi.org/10.1787/478405206308

Source: OECD, *Revenue Statistics 1965-2006.*

General consumption taxes

The value added tax

Key characteristics

The most widespread general consumption tax is the value added tax (VAT), also called goods and services tax (GST). The spread of value added tax has been the most

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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 140 countries (see Annex 2) where it often accounts for one-fifth of total tax revenue. In addition, 19 of the 30 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 principle towards international trade has also made it the preferred alternative to customs duties in the context of trade liberalisation. The United States continues to deploy retail sales taxes, where all of the tax is collected at the final stage of consumption.

Despite its name, the VAT is not intended to be a tax on value added as such but rather to be a tax on consumption. It is its specific staged collection mechanism, charged at all stages of production that gives it its name. As a consumption tax the objective of the VAT is to tax expenditures made by final consumers (private persons as well as legal persons and government when they do not act as taxpayers). Misunderstandings about the word "consumption" should be avoided. In the current language, consumption refers to the use and enjoyment of a good or a service. Some commodities can be consumed fully and immediately like a sandwich or a taxi ride. Some others can be consumed in a more continuous process such as ownership of a car or continuing access to a database. Consumption tax should not be concerned with pure "consumption" in this sense. Instead, expenditure, in order to attain consumption, is the relevant criterion to be considered (Terra, and Kajus, 2005). This specification may be of interest when designing and implementing rules for determination of the place of taxation for cross-border supplies.

The 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 taxpayer) is someone other than the person who actually bears the cost of the tax (the consumer).

Although there is a wide diversity in the way VAT systems are implemented, the value added tax has been defined as follows:

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

This definition highlights the key features of the VAT:

- value added taxes are taxes on consumption, paid, ultimately, by final consumers;
- the tax is levied on a broad base (as opposed to *e.g.,* excise duties that cover specific products);
- in principle, business should not bear the burden of the tax itself since there are mechanisms in place that allow for a refund of the tax levied on intermediate transactions between firms;

- the system is based on tax collection in a staged process, with successive taxpayers entitled to deduct input tax on purchases and account for output tax on sales;
- 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.

When the right to deduction broadly covers all inputs, the final burden of the tax does not lie on businesses but on consumers. This is not always the case since some non-OECD economies do not grant credits for the tax on purchases of capital goods or do not refund excess credits (any excess of tax paid on inputs over tax chargeable on outputs). In these circumstances some of the tax burden lies on business.

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

General functioning

The value added tax system is based on tax collection in a staged process, with successive taxpayers entitled to deduct input tax on purchases and account for output tax on sales. Each business in the supply chain takes part in the process of controlling and collecting the tax, remitting the proportion of tax corresponding to the margin realised on transactions, or the difference between the VAT paid out to suppliers and the VAT charged to customers. There are two main approaches for operating this staged collection process:

- The ***invoice credit method*** ("transaction based method") under which each trader charges VAT at the specified rate on each sale and passes to the purchaser an invoice showing the amount of tax thus charged. The purchaser, if subject to VAT on his own sales, is in turn able to credit such payment of input tax against the output tax charged on his sales, remitting the balance to 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 OECD countries employing VAT, only Japan uses the subtraction method.

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

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Value added tax in international trade

Place of taxation rules. These VAT features allow, in principle, the tax to keep its neutrality in cross-border trade since the *destination principle* is applied. According to this principle, which is the international norm, exports are exempt with refund of input taxes ("zero-rated") and imports are taxed on the same basis and with the same rates as local production. This implies that the total tax paid in relation to a commodity is determined by the rules applicable in the jurisdiction of its consumption and therefore all revenue accrues to the jurisdiction where the sale to the final customer occurs.

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

The destination principle contrasts with the *origin principle* whose meaning is less clear.[1] This principle would mean that, in cases where the value chain crosses several jurisdictions, each jurisdiction where a value added is made would collect the tax on this value added at the local rate. Tax paid on a commodity would then reflect the pattern of its origins and the aggregate revenue would be distributed in that pattern. In practice, under an invoice-credit form of origin taxation, exported commodities are taxed in the same way as domestic supplies while the jurisdiction of import gives a credit for the hypothetical tax that would have been paid on the value added embodied in the commodity at the rate of the importing country. In this way, the final tax paid on a commodity is, in principle, the sum of tax paid, at the local rates, on the various components of value-added embedded in the final product. This would be in contradiction with the main features of the VAT: as a tax on consumption, the revenue should accrue to the jurisdiction where the final consumption takes place while under the origin principle these revenues are shared amongst jurisdictions where value added is made. In addition, as a neutral tax the total amount of VAT collected should not be influenced by the economic or geographical structure of the value chain while under the origin principle this amount reflects the various rates applicable in countries where a value added is made.

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 zero-rating of exports, which means that goods and services circulate free of tax in cross-border trade. The possibilities of fraud are evident. Second, the way it is actually implemented across countries is different which can, in some instances, lead to double taxation or involuntary non-taxation and create uncertainties for both business and tax administrations. This issue is becoming increasingly important as globalisation allows greater development of cross-border trade and economic integration.

In the international trade in tangible goods, the destination principle is underpinned by the filtering role of Customs. Exported goods are subject to a zero rate (and are cleansed of any residual VAT via successive taxpayers' deductions of input tax), whilst imports are subject to the same VAT as equivalent domestic goods. This VAT on imports is generally collected at the same time as customs duties, although in some countries collection is postponed until declared on the importer's next VAT return. Deduction of the VAT incurred

at importation, in the same way as input tax deduction on a domestic supply, ensures neutrality and no distortion of international trade.

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

However, this system does not always ensure the absence of any distortion. For example, double taxation issues may arise in cross-border trade of second hand goods since the goods that have been taxed once in the jurisdiction of export (logically without right to deduction of input tax by the final consumer) are taxed a second time in the jurisdiction of import. Such double taxation is contrary to the VAT principles. In domestic trade, some jurisdictions have solved the issue by implementing a margin tax scheme but the issue remains for cross-border trade. Double taxation can also arise when goods are bought or imported in a jurisdiction by a foreign taxpayer, which is not established or registered there. This is the case for example when a foreign business requires a local producer to produce washing machines, which are subsequently exported. This production requires the local manufacturing of moulds that remain the property of the foreign business. These moulds are destroyed after production is finished. Since those moulds are "consumed" within 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 is contrary to 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).

The nature of services and intangible products[2] does not allow for the application of the same rules. In principle, the provider should account for the tax in the jurisdiction where the service or the intangible property is consumed or used, irrespective of the contract, payment, beneficial interest or the location of the supplier and customer at the time of the supply. Whether intangible property is used or a service is actually performed in a jurisdiction is essentially a matter of fact. However, it is not always easy to determine where services and intangibles are likely to be consumed. The increasing global nature of businesses and communication technologies makes it more difficult to apply a pure consumption test. The solution developed in most countries consists of identifying the place of consumption by reference to proxies rather than directly trying to identify the actual or intended place of consumption. The nature of those proxies and the way they are used vary widely across jurisdictions since they result from local history and legal frameworks.

In the European Union, the Sixth VAT Directive implemented in 1977 provided as a basic rule that services should be taxed in the country where the supplier is established (an "origin" rule). This was a logical proxy at a time where most services were provided domestically. However, recognising that this would breach neutrality in many cases, there were a large number of exceptions to this basic rule. Most tangible services were taxed in the country in which they are in fact performed (*e.g.* construction work, live entertainment, etc.), whereas intangible services (*e.g.* intellectual services, consulting, etc.) were taxed in the country in which the business customer is located or where the customer is located

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when outside the European Union. Further to the development of communication technologies and liberalisation of trade in the 1990s, cross-border trade in services developed significantly, including business-to-consumer transactions. Keeping an "origin" proxy as a basic rule in these circumstances would have implied serious distortions of competition. The EU legislation was, therefore, adapted in 2001 and in 2006. The 2001 change added an item to the list of exceptions to the main ("origin") rule: the place of taxation for electronically delivered services was shifted to the place where the customer is established (except for intra-EU business-to-consumer transactions for which the "origin" rule was maintained). A deeper change was introduced in the 2006 VAT Directive, when the destination principle was adopted as the main proxy. According to this Directive, the main rule provides that services will be taxed where the customer is located, including for intra-EU supplies. This legislation will enter into force in January 2010 (the application of this new rule to intra-EU business-to-consumer was however deferred until January 2015). Some exceptions will still be maintained for a limited range of services such as services related to immovable property; transport services; cultural, artistic, sporting, entertainment, or similar activities; long-term leasing of goods and work on movable tangible property.

Although the EU model has been adopted by a large number of countries, it should be borne in mind that other systems are in place. The New Zealand GST 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. "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 or provided to a non-resident who is outside New Zealand at the time the services are performed; services directly in connection with land or goods located outside New Zealand and supplies in relation to intellectual property rights for use outside New Zealand. Unlike the EU approach, which determines the place of taxation by reference of the nature of the supply 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 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.

These examples (and there are many others) show that, although they attempt to reach a similar goal, *i.e.* taxing goods and services where they are consumed, the approaches of OECD countries (and beyond) can be significantly different. As a result, the application of these approaches gives rise to differences of treatment for cross-border supplies and thus created areas for potential double taxation, involuntary 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.

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

Consumption taxes on specific goods and services

In the OECD nomenclature, taxes on specific goods and services 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.

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

Notes

1. This should be distinguished from the term used in the EU for a proposed system (but never implemented) in which the VAT would have been collected by the member state of origin and the revenue later channelled to the member state of destination for transactions within the EU.
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 "intangible products".

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Chapter 2

Consumption Tax Topics

Value added taxes

Spread of VAT

Value added tax (VAT), which is also called *Goods and Services Tax* (GST) in some countries, has, for many years, demonstrated its capacity to raise tax revenue in a neutral and transparent manner. More than 140 countries (Annex 2), including major non-OECD economies such as China, India and Russia, have adopted this method of taxation and it is now the most widespread general tax on consumption. Since 2000, following the introduction of GST in Australia, 29 of the 30 OECD member countries have a VAT system in place, while the United States continues to deploy retail sales taxes at the state level (and below), rather than apply a federal consumption tax.

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

Developments in the cross-border trade area

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

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

When international trade was characterised largely by trade in goods, collection of taxes was generally undertaken by customs authorities, and when services were primarily

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traded within domestic markets, there was little need for global attention to be paid to the interaction between national consumption tax rules. That situation has changed dramatically over the last fifteen years and the absence of internationally agreed approaches is now leading to significant difficulties.

Even though the basic principles of value added taxes are broadly the same across countries, in that they aim to tax consumption in the jurisdiction where it occurs according to the destination principle, wide divergences exist as to how this is achieved. 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 to the application of value added taxes, and other consumption taxes, such as different interpretation of the same or similar concepts; different approaches to time of supply and its interaction with place of supply; different definitions of services and intangibles and inconsistent treatment of bundled supplies.

The booming of e-commerce in the late 1990s marked the beginning of a period of rapid change creating areas of uncertainty. Tax authorities recognised that value added taxes should be adapted in a coherent manner to the borderless world of global trade. Business and tax administrations 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 included the following regarding consumption taxes:

- 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 provided 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 value added taxes. 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 unintentional non-taxation (OECD 2003).

In addition, in several sectors such as telecommunications, leasing, financial services and provision of bundled supplies, companies wrestle with additional complex and sometimes contradictory tax requirements. Further, the advantages for companies entering into global contracts with service providers are often offset by uncertainties over the possible tax consequences or additional compliance costs that those contracts entail.

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 CFA, in cooperation with a number of non-OECD economies and the business community then began work on a set of framework principles for the international application of consumption taxes: the *International VAT/GST Guidelines,* which cover a wide range of international VAT/GST issues. There is no international framework (outside the European Union) which imposes legally binding rules to countries, and this is probably not necessary, nor desirable. It is not the OECD role to draft detailed consumption taxes legislation but by developing agreed international guidelines for countries to incorporate in their own legislation, it can contribute to reducing significantly the potential for the current conflicts and uncertainties.

The development of the International VAT/GST Guidelines

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[1]. It was also agreed that the right to deduction of input tax principle, which forms the bulk of domestic VAT systems and gives the tax its neutral character, should also be transposed to cross-border trade. After a successful consultation process with number of non-OECD economies and the business community, the CFA approved[2] in January 2006 the two following basic principles:

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

These principles are currently being developed by OECD governments, together with input from business and from non-OECD economies, into Guidelines that would help governments in the drafting of legislation that minimise uncertainties and barriers to international trade.

Definition of the place of consumption. Initially, the focus is on the key factors affecting taxation of services and intangibles, in particular the definition of place of consumption and the identification of the supplier and the customer.

In principle, VAT is a consumption tax and its goal is to tax services and intangibles in the jurisdiction where they are actually consumed. Nevertheless, the very nature of intangible transactions makes the achievement of this goal difficult, especially as there may be differing views as to what might constitute consumption in a jurisdiction. In practice, taxation of services under a “pure” consumption test can lead to complex

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situations where tax would be very burdensome for business to manage and difficult for tax administrations to control.

As is already the case for VAT legislation in most countries, these difficulties could be overcome for cross-border trade by the use of a set of commonly agreed approximations for consumption (proxies). The main difficulty is in finding a consistent set of proxies, which are easy to implement, are consistent with business practices and minimise the risk for fraud and avoidance. Such a set of proxies could include a main rule for the taxation of internationally traded services and intangibles that ensures that they are not subject to VAT/GST in more than one jurisdiction. It would then be up to the jurisdiction that has the right to tax the supply to decide whether or not any tax is due. It is recognised that there will be situations where the main rule will not work or where it would not achieve a logical result. In those cases, specific rules and proxies will be needed, but these should be limited as far as possible.

As part of this work, a first consultation paper was prepared by an OECD Technical Advisory Group consisting of representatives from governments, business and academia. This paper set out some of the basic fundamental approaches to applying value added taxes to cross-border supplies of services and intangibles in a business-to-business context. It was issued on the OECD website for public consultation in January 2008 (available on *www.oecd.org/tax*). This document provides a number of business scenarios and suggests how the "jurisdiction of consumption" might be determined, *i.e.*:

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

All the comments received agreed on the "destination principle" adopted by the CFA and on the proxy adopted as a main rule for cross-border business-to-business transactions in services and intangibles. There was also agreement on the principle that each transaction should be treated independently. The work has continued with the publication of a second consultation document, which involves more complex situations (available on *www.oecd.org/tax*). It should be noted that these papers are published for consultation purposes only and are not intended to be part of the International VAT/GST Guidelines themselves.

Cross-border VAT/GST refunds. Normally, the right to recovery of input tax incurred in the course of furtherance of taxable business is operated by reducing the tax payable on outputs over a certain period of time. In some cases, taxpayers pay more tax on their inputs than is due on their outputs and ought in principle to receive refunds. This is true, in particular, of exporters (since their output is zero-rated if the destination principle applies)

and those whose investment purchases are larger than their current sales over the return period (*e.g.* new or developing enterprises).

For cross-border trade, in most cases, place of taxation rules imply zero-rating of exports of goods and services, which ensures that businesses do not bear the VAT burden on inputs in countries where they are not established. However there are situations where taxpayers incur VAT in countries where they are not established. These situations may vary considerably from one country to another due to the legislation in place (*e.g.* scope for zero-rating or exemptions, rules for taxation of cross-border trade and exceptions to these rules). In this case, mechanisms are often in place to allow those foreign taxpayers to recover the input VAT incurred in the country or to avoid VAT being initially charged. This follows from the general principles of value-added tax, which imply that the burden of value added taxes themselves should not lie on taxable businesses but on the final consumer.

Currently, there are different types of practices for removing the VAT burden on foreign taxpayers. These practices can be divided in two wide categories: those which rely on the standard VAT mechanism *i.e.* involve the payment of the VAT to the supplier followed by a deduction or refund mechanism (*e.g.* through direct refund procedures, through a registration mechanism or through the appointment of a tax representative) and those which avoid VAT being actually charged to foreign customers (*e.g.* through the application of a general zero-rate for some supplies made to foreign customers or through more specific measures such as one-off zero-rating of supplies to authorised customers). The conditions and procedures for relief or recovery vary considerably between countries. The lack of consistency of these procedures across countries and their current complexity involve significant compliance and administrative burdens for businesses and tax administrations.

The absence of appropriate procedures may lead to double taxation (*e.g.* because the foreign input VAT/GST incurred in a foreign country is normally not refundable/deductible in the country where the customer is established and/or because these goods or services can be taxed on importation in this country) and create distortion of competition towards local businesses.

The CFA is undertaking work in this area to assess the extent to which this imposes tax burdens on businesses and administrative costs on revenue authorities.

Improving VAT efficiency

The importance of value added taxes within the overall tax revenue framework as well as the pressure to reduce income taxes leads to a need for improved efficiency of value added taxes. The comparative assessment of this efficiency allows for a better understanding of how several features of domestic VAT structure (number and level of rates; scope for exemptions) and compliance and administrative efficiency impact on the yield of the tax. Although it is not easy to measure the actual "efficiency" of existing VAT systems from currently available data, one tool considered as an appropriate indicator of their performance is the VAT Revenue Ratio (VRR), which measures the gap between the actual VAT revenue collected and the revenue that would theoretically be raised if VAT was applied and collected at the standard rate to all final consumption. This ratio is explained in Chapter 3.

Tackling VAT fraud

There has been a significant and worrying trend in recent years for VAT to become a target for serious criminal activity. Carousel frauds within the EU continue despite the efforts of EU tax administrations and the improved co-operation between them. Most of

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

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 (Table 3.4 below). Apart from their role as a source of tax revenue, excise taxes also fulfil social and environmental functions, since changes in the rates and structure of excise taxes influence consumer behaviour in certain areas. Even so, while they share similar objectives, excise tax rates and bases still vary widely from one OECD country to another, something that can affect cross-border shopping and have a significant impact on certain businesses located in border areas.

Notes

1. 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".
2. Luxembourg has maintained a reservation on the first principle.

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Chapter 3

Value Added Taxes Yield, Rates and Structure

Introduction

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

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

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

Globalisation and expansion of world trade generates greater competition. As such, while countries' tax sovereignty remains essential, a number of shared basic principles are needed in order to guarantee a measure of coherence that can help prevent double taxation, involuntary non-taxation, tax evasion and distortion of competition. Furthermore, tax authorities need more efficient tax management. To achieve this efficiency, a number of factors are desirable:

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

There is no "ideal" system and tax design strongly depends on local economic, political, social and historic conditions as well as the need for revenue to fund public services. Nevertheless, the experiences of several countries may serve as a benchmark for improvement.

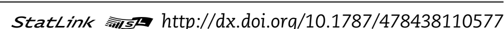
Importance of and trend in general consumption taxes

Tables 3.1 and 3.2 present respectively revenues from general consumption taxes as a percentage of Gross Domestic Product (GDP) and as a percentage of total taxation. These ratios vary considerably between countries, from the United States and Japan where general consumption taxes account for less than 10 percent of total taxation and less than 3 per cent of GDP, to Hungary and Iceland where they account for more than 26 per cent of total tax and more than 9 per cent of GDP. Nevertheless, in the majority of countries, general consumption taxes account for more than 15 per cent of total taxation, with an OECD unweighted average of 18.9 per cent.

The revenue from taxes on general consumption, mainly in the form of VAT receipts, stabilised after 2000 as a percentage of both GDP and total taxation. This followed a period of

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

	1965	1970	1975	1980	1985	1990	1995	2000	2004	2006	Difference 2000-2006
Canada	4.6	4.5	4.0	3.6	4.3	5.1	5.0	5.1	5.0	4.7	–0.4
Mexico				2.5	2.7	3.6	2.8	3.5	3.8	4.2	0.7
United States	1.2	1.6	1.8	1.9	2.0	2.2	2.2	2.3	2.2	2.2	–0.1
Australia	1.5	1.6	1.7	1.4	2.2	2.3	2.5	3.7	4.1	4.0	0.3
Japan						1.3	1.5	2.4	2.6	2.6	0.1
Korea			1.9	3.8	3.5	3.7	3.7	4.0	4.5	4.5	0.5
New Zealand	1.8	2.1	2.6	3.1	3.2	8.4	8.3	8.4	8.9	9.0	0.6
Austria	6.3	6.3	7.3	7.8	8.6	8.2	7.7	8.0	7.9	7.7	–0.4
Belgium	6.6	7.2	6.4	7.0	7.0	6.9	6.7	7.3	7.2	7.4	0.1
Czech Republic							6.3	6.5	7.2	6.6	0.2
Denmark[1]	3.0	7.2	6.6	9.6	9.3	9.5	9.4	9.5	10.0	10.2	0.7
Finland	5.6	6.1	5.7	6.2	7.3	8.4	7.9	8.2	8.7	8.6	0.4
France[1]	7.9	8.7	8.3	8.5	8.5	7.9	7.5	7.5	7.5	7.5	0.0
Germany	5.2	5.4	5.0	6.1	5.7	5.8	6.5	6.8	6.2	6.3	–0.5
Greece	1.8	3.4	3.1	2.8	4.4	6.0	6.8	7.4	6.9	7.5	0.1
Hungary							8.0	9.9	10.5	9.8	–0.1
Iceland	4.4	6.0	8.6	8.6	9.3	10.0	9.9	10.6	11.1	11.3	0.7
Ireland	1.4	3.7	4.2	4.6	7.1	6.8	6.9	7.3	7.7	7.9	0.6
Italy	3.3	3.4	3.6	4.6	4.9	5.6	5.5	6.5	6.0	6.3	–0.2
Luxembourg	3.4	2.5	4.0	4.1	5.0	4.9	5.2	5.6	6.1	5.7	0.1
Netherlands	4.1	5.2	5.9	6.8	6.9	7.1	6.5	6.9	7.6	7.3	0.4
Norway	6.4	8.2	8.0	7.7	7.8	7.7	8.7	8.4	7.9	8.0	–0.4
Poland							6.2	7.0	7.7	8.1	1.2
Portugal		1.5	2.2	3.7	3.2	5.4	7.1	8.0	8.7	8.9	0.9
Slovak Republic								6.9	7.9	7.6	0.6
Spain[1]	3.3	3.2	2.8	2.3	4.1	5.2	5.1	6.1	6.3	6.4	0.3
Sweden	3.6	3.9	5.0	6.2	6.6	7.8	9.2	8.8	9.2	9.2	0.4
Switzerland	1.9	1.7	2.1	2.5	2.7	3.0	3.3	3.9	3.9	3.9	0.0
Turkey					2.7	3.0	5.2	5.8	5.3	5.5	–0.4
United Kingdom	1.8	2.5	3.1	5.1	6.0	6.1	6.6	6.7	6.8	6.7	0.0
Unweighted average:											
OECD total	3.8	4.4	4.5	5.0	5.4	5.9	6.1	6.6	6.8	6.8	0.2
OECD America	2.9	3.0	2.9	2.7	3.0	3.6	3.3	3.6	3.7	3.7	0.1
OECD Pacific	1.7	1.8	2.1	2.8	3.0	3.9	4.0	4.6	5.0	5.0	0.4
OECD Europe	4.1	4.8	5.1	5.8	6.2	6.6	6.9	7.4	7.6	7.6	0.2


StatLink http://dx.doi.org/10.1787/478438110577

1. The total tax revenues have been reduced by the amount of capital transfer. The capital transfer has been allocated between tax headings in proportion to the report tax revenue.

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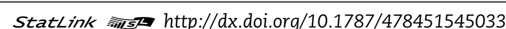
Source: Revenue Statistics 1965-2007.

many years in which it gradually increased. Between 2000 and 2006 Denmark, Iceland, Mexico, Poland and Portugal are the countries where taxes on general consumption in relation to GDP have increased the most (by at least 0.7 percentage points), while in Austria, Canada, Germany, Norway and Turkey the percentage has fallen by at least 0.4 percentage points.

Over the longer term, OECD member countries have relied increasingly on taxes on general consumption. Since 1965, the share of taxes on general consumption as a percentage of GDP has almost doubled as an unweighted average, rising from 3.8% to 6.8%. The share has also risen by a third as a percentage of total taxation (up from 13.6% to 18.9%).

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

	1965	1970	1975	1980	1985	1990	1995	2000	2004	2006	Difference 2000-2006
Canada	17.8	14.4	12.5	11.5	13.2	14.1	14.0	14.3	15.0	14.0	–0.2
Mexico				15.7	15.9	20.8	16.9	18.7	19.1	20.2	1.5
United States	4.8	5.8	7.0	7.0	7.9	8.0	8.0	7.6	8.1	7.8	0.2
Australia	7.4	7.4	6.7	5.3	7.9	8.0	8.7	12.0	13.4	13.2	1.2
Japan						4.4	5.4	9.1	9.5	9.2	0.1
Korea			12.7	22.0	21.1	19.7	18.9	17.0	17.5	16.8	–0.2
New Zealand	7.7	8.0	9.0	10.2	10.4	22.4	22.8	24.9	23.8	24.4	–0.5
Austria	18.7	18.5	19.8	20.1	21.0	20.8	18.6	18.8	18.8	18.4	–0.5
Belgium	21.1	21.2	16.3	17.0	15.8	16.5	15.4	16.3	16.2	16.8	–0.3
Czech Republic							16.7	18.3	19.2	17.9	–0.3
Denmark[1]	10.1	18.8	17.3	22.3	20.2	20.5	19.3	19.3	19.7	20.8	1.5
Finland	18.5	19.3	15.6	17.3	18.3	19.3	17.4	17.4	19.8	19.9	2.4
France[1]	23.3	25.5	23.4	21.1	20.0	18.8	17.4	16.9	17.1	16.9	0.0
Germany	16.5	17.1	14.6	16.6	15.8	16.6	17.4	18.4	18.0	17.8	–0.5
Greece	10.3	16.8	18.3	13.2	17.2	26.5	23.0	21.8	22.2	24.0	2.1
Hungary							19.4	26.1	28.1	26.3	0.2
Iceland	16.7	22.0	28.6	28.9	33.0	32.3	31.7	28.5	27.3	27.2	–1.4
Ireland	5.7	13.1	14.7	14.8	20.6	20.6	21.2	23.1	25.1	24.7	1.6
Italy	12.9	13.2	14.3	15.6	14.5	14.7	13.8	15.4	14.6	14.9	–0.5
Luxembourg	12.4	10.6	12.1	11.6	12.8	13.9	14.0	14.3	16.2	16.0	1.7
Netherlands	12.4	14.6	14.4	15.8	16.2	16.5	15.6	17.4	19.5	18.6	1.2
Norway	21.5	23.8	20.5	18.2	18.2	18.8	21.2	19.8	18.2	18.2	–1.6
Poland							17.1	22.0	23.4	24.2	2.2
Portugal		8.4	11.2	16.2	12.6	19.6	22.5	23.4	25.1	24.8	1.5
Slovak Republic								20.5	25.0	25.4	4.9
Spain[1]	22.2	20.3	15.3	10.2	14.7	16.0	15.9	17.8	17.6	17.4	–0.4
Sweden	10.4	10.3	12.0	13.4	14.0	14.9	19.4	17.0	18.5	18.8	1.8
Switzerland	10.6	8.8	8.7	10.3	10.7	11.6	12.0	13.1	13.4	13.2	0.1
Turkey					23.3	20.1	31.1	24.2	21.8	22.2	–2.0
United Kingdom	5.9	6.8	8.9	14.7	15.9	16.9	19.0	18.1	18.6	18.1	0.0
Unweighted average:											
OECD total	13.6	14.8	14.5	15.4	16.4	17.4	17.7	18.5	19.0	18.9	0.6
OECD America	11.3	10.1	9.7	11.4	12.3	14.3	13.0	13.5	14.0	14.0	0.5
OECD Pacific	7.5	7.7	9.5	12.5	13.1	13.7	13.9	15.7	16.1	15.9	0.1
OECD Europe	14.6	16.1	15.9	16.5	17.6	18.7	19.1	19.5	20.1	20.1	0.6


StatLink http://dx.doi.org/10.1787/478451545033

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Source: Revenue Statistics 1965-2007.

This is especially true of VAT (see Tables 3.5 and 3.6), which exists in all but one of the OECD countries. Following the introduction of the GST in Australia, the United States is now the only OECD country not to have adopted a VAT-type consumption tax. Greece, Spain Portugal, Japan and New Zealand introduced VAT in the 1980s while Switzerland followed shortly afterwards. The Eastern European economies introduced VAT in the 1990s, some of them adopting the EU model with their future membership of the Union in mind. The tendency for VAT rates to rise over the long term (see Table 3.8) also contributed to the growing share of general consumption taxes in the tax mix.

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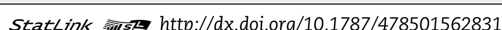
Table 3.3. **Taxes on specific goods and services (5120) as percentage of GDP***

	1965	1970	1975	1980	1985	1990	1995	2000	2005	2008
Canada	4.3	4.1	4.3	4.0	4.2	3.7	3.5	3.0	3.0	2.9
Mexico				5.6	8.2	5.9	6.0	6.2	7.3	7.2
United States	3.7	3.2	2.6	2.2	2.1	1.9	2.1	1.9	1.8	1.7
Australia	4.8	4.4	4.9	6.0	5.9	4.4	4.2	4.4	3.7	3.6
Japan	4.6	4.1	3.1	3.6	3.3	2.2	2.2	2.1	2.1	2.1
Korea			7.1	6.8	6.1	4.9	4.3	4.6	4.1	4.0
New Zealand	4.4	4.5	3.9	3.4	3.6	3.4	3.1	2.5	2.3	2.3
Austria	6.1	6.1	5.1	3.9	4.1	3.6	3.2	3.3	3.3	3.2
Belgium	4.0	4.5	3.9	3.7	3.6	3.6	3.7	3.2	3.3	3.3
Czech Republic							4.9	3.9	3.7	3.7
Denmark[1]	8.7	6.9	5.8	5.8	6.0	5.1	5.6	5.5	5.4	5.2
Finland	7.1	6.2	5.8	6.3	6.0	5.6	5.5	5.1	4.7	4.5
France[1]	4.9	4.0	3.2	3.4	3.7	3.7	3.8	3.6	3.3	3.2
Germany	4.6	4.1	3.7	3.4	3.2	3.2	3.5	3.3	3.5	3.3
Greece	6.0	5.5	4.6	5.4	5.3	4.1	4.7	3.4	2.9	2.8
Hungary							8.6	5.3	4.0	4.2
Iceland	11.8	10.4	10.1	8.8	7.5	5.2	4.4	4.1	4.3	4.4
Ireland	10.8	10.3	8.5	8.8	7.6	6.6	5.7	4.4	3.4	3.2
Italy	6.2	6.0	3.5	2.9	3.1	4.0	4.5	4.1	3.8	3.8
Luxembourg	3.1	2.0	2.6	3.3	4.4	3.7	4.5	4.9	4.7	4.2
Netherlands	4.8	4.1	3.3	3.1	3.1	3.2	3.7	3.5	3.6	3.5
Norway	5.5	6.2	6.3	6.8	7.7	6.3	6.3	4.1	3.4	3.3
Poland							6.3	4.4	4.4	4.2
Portugal	7.0	6.7	5.7	6.6	7.5	6.6	5.6	4.6	5.0	5.1
Slovak Republic								4.7	3.9	3.2
Spain	2.7	2.5	1.6	2.4	3.5	3.4	3.3	3.3	3.0	2.9
Sweden	6.7	6.2	4.4	4.3	5.5	4.8	3.7	3.6	3.4	3.2
Switzerland	3.7	3.7	2.8	2.7	2.4	2.1	2.3	2.4	2.3	2.2
Turkey	5.6	4.5	4.9	3.4	1.4	1.1	1.0	4.0	6.2	6.0
United Kingdom	7.7	7.4	5.2	4.7	5.2	4.5	5.0	4.6	3.8	3.6
Unweighted average:										
OECD total	5.8	5.3	4.7	4.7	4.8	4.1	4.3	3.9	3.8	3.7
OECD America	4.0	3.6	3.5	3.9	4.9	3.8	3.9	3.7	4.0	3.9
OECD Pacific	4.6	4.3	4.8	5.0	4.7	3.7	3.4	3.4	3.1	3.0
OECD Europe	6.2	5.6	4.8	4.7	4.8	4.2	4.5	4.0	3.9	3.8


StatLink http://dx.doi.org/10.1787/478501562831

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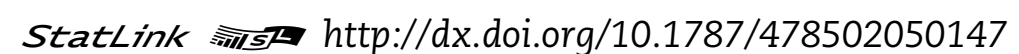
Source: Revenue Statistics 1965-2007.

Tables 3.3 and 3.4 show that revenue from taxes on specific goods and services, the bulk of which are excise taxes, fell slowly as a pe centage of GDP (from 5.8% in 1965 to 3.7% in 2006) and as a percentage of total taxation (from 24.3% in 1965 to 10.8% in 2006) over the last fourteen years in parallel with the rise of VAT (excise taxes are discussed in greater detail in Chapter 4).

As a result, the mix of consumption taxes has fundamentally changed (see Figure 3.1). The share of all taxes on consumption (general consumption taxes plus specific consumption taxes) hardly changed between 1975 and 2006, but general consumption taxes, especially the VAT, now dominate in the mix. General consumption taxes presently produce almost 19 per

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

	1965	1970	1975	1980	1985	1990	1995	2000	2005	2006
Canada	16.8	13.3	13.6	13.0	13.0	10.3	9.9	8.5	8.9	8.7
Mexico				34.4	48.6	34.0	35.8	33.4	36.6	35.1
United States	15.1	11.7	10.0	8.3	8.4	7.0	7.5	6.3	6.6	6.2
Australia	22.7	20.4	19.1	22.6	20.7	15.3	14.5	14.1	12.0	11.8
Japan	25.0	20.9	15.1	14.1	12.1	7.5	8.3	8.0	7.7	7.4
Korea			47.3	39.5	37.4	25.7	21.9	19.7	15.9	14.9
New Zealand	18.5	17.2	13.8	11.2	11.7	9.2	8.6	7.5	6.2	6.1
Austria	18.0	18.0	14.0	10.1	9.9	9.0	7.8	7.8	7.8	7.8
Belgium	13.0	13.2	9.8	8.8	8.2	8.5	8.5	7.1	7.3	7.3
Czech Republic							13.0	11.0	9.9	10.1
Denmark[1]	28.9	17.9	15.0	13.4	13.0	11.0	11.4	11.1	10.6	10.6
Finland	23.4	19.8	16.0	17.8	15.2	12.9	12.1	10.9	10.8	10.5
France[1]	14.3	11.6	9.0	8.4	8.7	8.7	8.9	8.2	7.6	7.2
Germany	14.6	12.9	10.8	9.3	8.7	9.2	9.5	8.8	9.9	9.4
Greece	33.8	27.4	23.9	25.1	20.9	15.6	16.4	10.0	9.3	8.9
Hungary							20.9	13.8	10.8	11.3
Iceland	45.0	37.9	33.6	29.8	26.5	16.9	14.0	11.9	10.6	10.5
Ireland	43.4	36.4	29.7	28.3	22.0	20.1	17.5	13.7	11.1	10.2
Italy	24.1	23.2	14.0	9.7	9.1	10.6	11.1	9.6	9.2	9.0
Luxembourg	11.1	8.7	8.0	9.3	11.1	10.5	12.2	12.5	12.3	11.6
Netherlands	14.7	11.6	8.1	7.3	7.2	7.5	9.0	8.9	9.3	9.0
Norway	18.4	17.8	16.1	16.1	18.1	15.3	15.5	9.6	7.9	7.6
Poland							17.5	14.0	13.4	12.7
Portugal	44.0	36.4	28.9	28.9	29.7	23.8	17.6	13.5	14.3	14.3
Slovak Republic[1]								13.7	12.3	10.6
Spain[1]	18.4	15.5	8.7	10.5	12.8	10.5	10.3	9.7	8.3	7.8
Sweden	19.2	16.3	10.7	9.2	11.6	9.2	7.9	7.0	6.8	6.5
Switzerland	21.3	19.1	11.9	11.0	9.5	8.2	8.4	8.0	7.8	7.5
Turkey	53.4	48.8	40.9	25.2	12.4	7.3	6.0	16.4	25.5	24.6
United Kingdom	25.2	19.9	14.8	13.3	13.8	12.6	14.5	12.4	10.5	9.8
Unweighted average:										
OECD total	24.3	20.7	17.7	16.7	16.2	12.9	13.0	11.5	11.2	10.8
OECD America	16.0	12.5	11.8	18.6	23.3	17.1	17.7	16.1	17.4	16.6
OECD Pacific	22.1	19.5	23.8	21.8	20.5	14.4	13.3	12.3	10.5	10.0
OECD Europe	25.5	21.7	17.0	15.3	14.1	12.0	12.3	10.8	10.6	10.2


StatLink http://dx.doi.org/10.1787/478502050147

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Source: Revenue Statistics 1965-2007.

cent of total tax revenue, compared with less than 14 per cent in the mid-1960s. In fact the substantially increased importance of VAT has everywhere served to counteract the diminishing share of specific consumption taxes, such as excise and customs duties. Over the 1965-2006 period the share of specific taxes on consumption (mostly on tobacco, alcoholic drinks and fuels, including some newly introduced environment-related taxes) was halved. Only Mexico and Turkey still collect a relatively large part of their revenues by way of taxes on specific goods and services (respectively 35.1% and 24.6%).

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

	1965	1970	1975	1980	1985	1990	1995	2000	2005	2006
Australia								3.5	4.0	3.9
Austria			7.3	7.8	8.6	8.2	7.7	8.0	7.9	7.9
Belgium		3.7	6.4	7.0	7.0	6.9	6.7	7.3	7.1	7.3
Canada						2.5	3.0	3.3	3.4	3.1
Czech Republic							6.3	6.5	7.2	6.6
Denmark		7.2	6.6	9.6	9.3	8.5	9.4	9.5	10.0	10.2
Finland	5.6	6.0	5.7	6.2	7.3	8.4	7.9	8.2	8.7	8.6
France	6.8	8.7	8.2	8.4	8.4	7.7	7.3	7.3	7.3	7.2
Germany		5.4	5.0	6.1	5.7	5.8	6.5	6.8	6.2	6.3
Greece						6.4	6.4	7.2	6.7	7.1
Hungary							7.4	8.5	8.4	7.6
Iceland						8.8	9.3	10.6	11.1	11.3
Ireland			4.2	4.6	7.1	6.8	6.9	7.3	7.7	7.9
Italy			3.5	4.6	4.9	5.6	5.5	6.5	6.0	6.3
Japan						1.3	1.5	2.4	2.6	2.6
Korea				3.8	3.5	3.7	3.7	4.0	4.5	4.5
Luxembourg		2.5	4.0	3.7	4.4	4.2	4.5	5.2	6.0	5.6
Mexico				2.5	2.7	3.6	2.8	3.5	3.8	4.2
Netherlands		5.2	5.8	6.8	6.9	7.1	6.5	6.9	7.6	7.3
New Zealand						8.4	8.3	8.4	8.9	9.0
Norway		8.2	8.0	7.7	7.8	7.7	8.7	8.4	7.9	8.0
Poland							6.2	7.0	7.7	8.1
Portugal						5.4	7.1	8.0	8.7	8.9
Slovak Republic								6.9	7.9	7.6
Spain						5.1	5.1	6.1	6.3	6.4
Sweden		3.9	4.9	6.2	6.6	7.8	9.2	8.7	9.1	9.1
Switzerland							2.4	3.9	3.9	3.9
Turkey					2.6	2.7	4.1	5.8	5.3	5.5
United Kingdom			3.1	5.1	6.0	6.1	6.6	6.7	6.8	6.7
Unweighted average										
OECD Europe	6.2	5.3	5.4	6.3	6.5	6.6	6.6	7.2	7.4	7.4
OECD America				2.5	2.7	3.0	2.9	3.4	3.6	3.6
OECD Pacific				3.8	3.5	4.5	4.5	4.6	5.0	5.0
OECD total	6.2	5.6	5.6	6.0	6.2	6.0	6.2	6.6	6.9	6.8

StatLink http://dx.doi.org/10.1787/478542050841

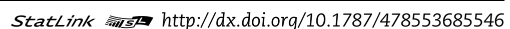
Source: OECD Stat.

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

The general tax mix has also evolved over the same period (see Table 3.7). The relative fall in the share of consumption taxes in total taxation between 1965 and 2006 (by 6.9 percentage points) was balanced by an increase in the share of taxes on income. This rise has came mainly from an increase in the share of social security contributions (by 7.7 percentage points between 1965 and 2006). Personal plus corporate income taxes show no trend over the period as a whole, although the share of personal income tax rose and then fell. In contrast, the share of property taxes (which are difficult to classify as either taxes on consumption or taxes on income) has suffered a slight fall (OECD 2007b). As a result VAT has become one of the three most important taxes in terms of revenue in most OECD countries, ahead of corporate income taxes, payroll and property taxes.

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

	1965	1970	1975	1980	1985	1990	1995	2000	2005	2006
Australia								11.1	13.0	12.8
Austria			19.8	20.1	21.0	20.8	18.6	18.8	18.8	18.4
Belgium		11.1	16.3	17.0	15.8	16.5	15.3	16.2	15.9	16.4
Canada						6.9	8.4	9.3	10.1	9.2
Czech Republic							16.7	18.3	19.2	17.9
Denmark		18.8	17.3	22.3	20.2	18.3	19.3	19.3	19.7	20.8
Finland	18.5	19.0	15.6	17.3	18.3	19.3	17.4	17.4	19.8	19.9
France	20.1	25.5	23.1	20.9	19.7	18.4	17.1	16.5	16.6	16.3
Germany		17.1	14.6	16.6	15.8	16.6	17.4	18.4	18.0	17.8
Greece						24.6	22.0	21.2	21.6	22.7
Hungary							17.8	22.4	22.6	20.4
Iceland						28.4	29.9	28.5	27.3	27.2
Ireland			14.7	14.8	20.6	20.6	21.2	23.1	25.1	24.7
Italy			13.7	15.6	14.5	14.7	13.8	15.4	14.6	14.9
Japan						4.4	5.4	9.1	9.5	9.2
Korea				22.0	21.1	19.7	18.9	17.0	17.5	16.8
Luxembourg		10.6	12.1	10.5	11.1	11.8	12.2	13.3	15.8	15.6
Mexico				15.6	15.9	20.8	16.9	18.7	19.1	20.2
Netherlands		14.6	14.4	15.8	16.2	16.5	15.6	17.4	19.5	18.6
New Zealand						22.4	22.8	24.9	23.8	24.4
Norway		23.8	20.5	18.2	18.2	18.8	21.2	19.7	18.1	18.1
Poland							17.0	22.0	23.4	24.2
Portugal						19.6	22.5	23.4	25.1	24.8
Slovak Republic								20.5	25.0	25.4
Spain						15.7	15.8	17.8	17.6	17.4
Sweden		10.3	12.0	13.4	14.0	14.9	19.4	16.9	18.3	18.5
Switzerland							8.6	13.1	13.4	13.2
Turkey					22.3	18.3	24.3	24.2	21.8	22.2
United Kingdom			8.9	14.7	15.9	16.9	19.0	18.1	18.6	18.1
Unweighted averages										
OECD Europe	19.3	15.9	15.2	16.6	17.3	18.3	18.1	19.2	19.9	19.8
OECD America				15.6	15.9	13.9	12.7	14.0	14.6	14.7
OECD Pacific				22.0	21.1	15.5	15.7	15.5	16.0	15.8
OECD total	19.3	16.7	15.6	17.0	17.5	17.6	17.6	18.3	18.9	18.8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Source: OECD Stat.

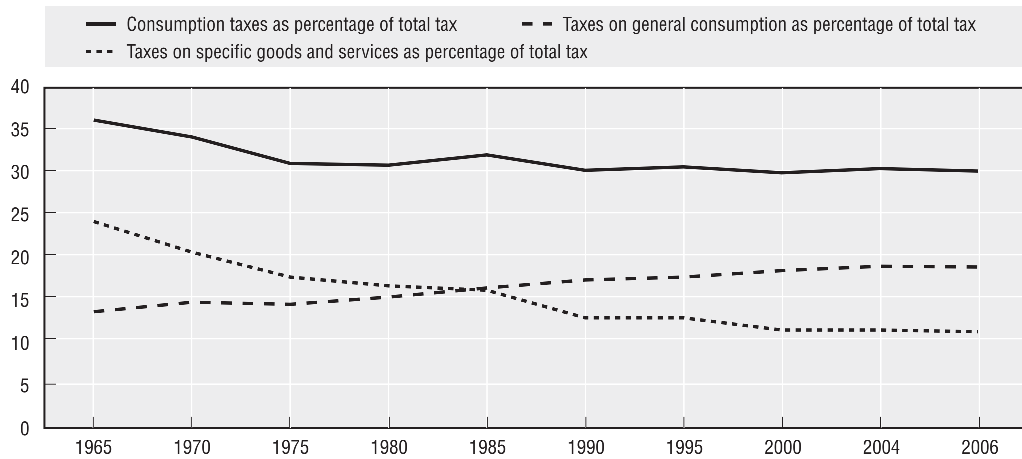
Rate and structure of VAT

Evolution of VAT rates

The standard rates of VAT as at 1 January 2007 (Table 3.8) have remained generally stable since 2000 although some trends in various directions can be observed. Five countries have decreased their standard rate (Canada, the Czech Republic, France, Hungary and the Slovak Republic) while seven countries increased the rate (Germany, Greece, Netherlands, Norway, Portugal, Switzerland and Turkey). It may be worth noting that eight of the twelve countries that have changed their standard rate are getting closer to 19%, either by increasing or decreasing their rate.

There are still major differences in standard rates between the OECD member countries, with rates ranging from 5% (Japan) to 25% (Denmark, Norway and Sweden). However, two-thirds of member countries (19 out of 29) have standard rates between 15% and 22%, while the (unweighted) average remained stable at 17.7% (against 17.8 % in 2000). It can also be seen that since higher rates were abolished in the early 1990's no country has a VAT rate above 25%.

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



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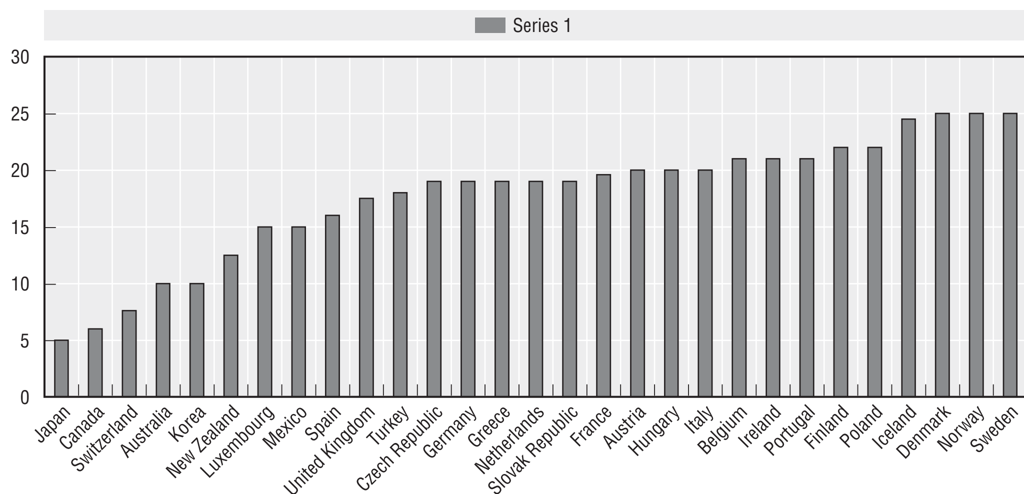
Source: OECD.

Figure 3.2. **Standard rates of VAT**



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Source: OECD.

Table 3.7. **Revenue shares of major taxes in the OECD area (unweighted average)**

	1965	1975	1985	1995	2006
Personal income tax	26.2	29.8	29.7	27.1	24.8
Corporate income tax	8.8	7.6	8.0	8.0	10.7
Social security contributions	17.6	22.0	22.1	24.7	25.3
Payroll taxes	1.0	1.3	1.1	0.9	0.9
Property taxes	7.9	6.3	5.2	5.5	5.7
Taxes on goods and services	38.4	32.8	33.7	32.4	31.5
Of which, VAT and sales taxes	13.6	14.5	16.4	17.7	18.9

StatLink http://dx.doi.org/10.1787/478576648585

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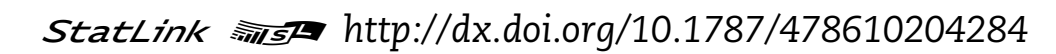
Table 3.8. VAT/GST rates in OECD member countries

	Implemented	Standard rate												Reduced rate	Domestic zero rate[1]	Specific rate applied within specific region
		1976	1980	1984	1988	1992	1994	1996	1998	2000	2003	2005	2007			
Australia	2000	–	–	–	–	–	–	–	–	10.0	10.0	10.0	10.0	–	Yes	–
Austria	1973	18.0	18.0	20.0	20.0	20.0	20.0	20.0	20.0	20.0	20.0	20.0	20.0	10.0/12.0	No	16.0[2]
Belgium	1971	18.0	16.0	19.0	19.0	19.50	20.5	21.0	21.0	21.0	21.0	21.0	21.0	6.0/12.0	Yes	–
Canada	1991	–	–	–	–	7.0	7.0	7.0	7.0	7.0	7.0	7.0	6.0	–	Yes	14.0[3]
Czech Republic	1993	–	–	–	–	–	23.0	22.0	22.0	22.0	22.0	19.0	19.0	5.0	Yes	–
Denmark	1967	15.0	22.0	22.0	22.0	25.0	25.0	25.0	25.0	25.0	25.0	25.0	25.0	–	Yes	–
Finland	1994	–	–	–	–	–	22.0	22.0	22.0	22.0	22.0	22.0	22.0	8.0/17.0	Yes	–
France	1968	20.0	18	19	18.6	19	18.6	20.6	20.6	20.6	19.6	19.6	19.6	2.1/5.5	No	0.9/2.1/8.0/13.0/19.6[4]
																1.05/1.75/2.1/8.5[5]
Germany	1968	11	13	14	14	14	15	15	16	16	16	16	19	7.0	No	–
Greece	1987	–	–	–	16	18	18	18	18	18	18	18	19	4.5/9.0	No	3.0/ 6.0/13.0[6]
Hungary	1988	–	–	–	25	25	25	25	25	25	25	25	20	5.0	No	–
Iceland	1989	–	–	–	–	22	25	25	25	25	25	25	25	7.0	Yes	–
Ireland	1972	20	25	23	25	21	21	21	21	21	21	21	21	4.8/13.5	Yes	–
Italy	1973	12	15	18	19	19	19	19	20	20	20	20	20	4.0/10.0	Yes	–
Japan	1989	–	–	–	–	3	3	3	5	5	5	5	5	–	No	–
Korea	1977	–	10	10	10	10	10	10	10	10	10	10	10	–	Yes	–
Luxembourg	1970	10	10	12	12	15	15	15	15	15	15	15	15	3.0/6.0/12.0	No	–
Mexico	1980	–	10	15	15	10	10	15	15	15	15	15	15		Yes	10.0[7]
Netherlands	1969	18	18	19	20	18	18	18	18	18	19	19	19	6.0	No	–
New Zealand	1986	–	–	–	10	13	13	13	13	13	13	13	13	–	Yes	–
Norway	1970	20	20	20	20	22	22	23	23	23	24	25	25	8.0/14.0	Yes	–
Poland	1993	–	–	–	–	–	22	22	22	22	22	22	22	7.0	Yes	–
Portugal	1986	–	–	–	17	16	16	17	17	17	19	19	21	5.0/12.0	No	4.0/8.0/15.0[8]
Slovak Republic	1993	–	–	–	–	–	25	23	23	23	20	19	19		No	–
Spain	1986	–	–	–	12	13	16	16	16	16	16	16	16	4.0/7.0	No	2.0/5.0/9.0/13.0[9]
																0.5/4.0[10]
Sweden	1969	17.7	23	23	23.5	25	25	25	25	25	25	25	25	6.0/12.0	Yes	–

A corrigendum has been issued for this page. See http://www.oecd.org/dataoecd/56/61/42342144.pdf

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

	Implemented	Standard rate												Reduced rate	Domestic zero rate[1]	Specific rate applied within specific region
		1976	1980	1984	1988	1992	1994	1996	1998	2000	2003	2005	2007			
Switzerland	1995	–	–	–	–	–	6.5	6.5	6.5	7.5	7.6	7.6	7.6	2.4/3.6	Yes	–
Turkey	1985	–	–	–	10	10	15	15	15	17	18	18	18	1.0/8.0	No	–
United Kingdom	1973	8	15	15	15	18	18	18	18	18	18	18	18	5.0	Yes	–
Unweighted average		15.6	17	18	17.2	17	18	18	18	18	18	18	18			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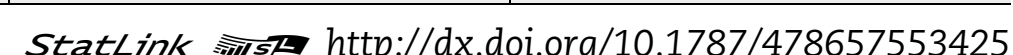
1. "Domestic zero rate" means means tax is applied at a rate of zero to certain domestic sales. Unlike exemption, zero rate means that no VAT is chargeable by the supplier and the supplier is able to fully recover input tax incurred in the process of making such supplies. For the purposes of this table, this category does not include zero rated exports.
2. Applies in Jungholz and Mittelberg.
3. The provinces of Newfoundland and Labrador, New Brunswick, and Nova Scotia have harmonized their provincial sales taxes with the federal Goods and Services Tax and levy a rate of 14%. Other Canadian provinces, with the exception of Alberta, apply a provincial tax to certain goods and services. These provincial taxes apply in addition to GST.
4. Applies in Corsica.
5. Applies to overseas departments (DOM) excluding French Guyana.
6. Applies in the regions Lesbos, Chios, Samos, Dodecanese, Cyclades, Thassos, Northern Sporades, Samothrace and Skiros.
7. Applies in the border regions. From 1980 to 1991 the rate applied in the border region was 6%.
8. Applies in Azores and Madeira.
9. Applies in the Canary Islands.
10. Applies in Ceuta and Melilla.

Source: National delegates: position as at 1 January 2007.

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

	National currency	Registration/collection thresholds[1]						Registration/ collection allowed prior to exceeding threshold[2]	Minimum registration period[3]
		General threshold		Reduced threshold for suppliers of services only		Special threshold for non-profit and charitable sector			
		Nat. curr.	USD	Nat. curr.	USD	Nat. curr.	USD		
Australia	AUD	50 000	35 461			100 000	70 922	Yes	1 year
Austria	EUR	30 000	34 404					Yes	5 years
Belgium[1]	EUR	5 580	6 399					Yes	None
Canada	CAD	30 000	25 000			50 000	41 667	Yes	1 year
Czech Republic	CZR	1 000 000	69 930					Yes	1 year
Denmark	DKK	50 000	5 828					Yes	None
Finland	EUR	8 500	9 748					Yes	None
France	EUR	76 300	87 500	27 000	30 963			Yes	2 years
Germany	EUR	17 500	20 069					Yes	5 years
Greece	EUR	10 000	11 468	5 000	5 734			Yes	5 years
Hungary[1]	HUF	4 000 000	30 769					Yes	2 years
Iceland	ISK	500 000	4 762					Yes	2 years
Ireland	EUR	55 000	63 073	27 500	31 537			Yes	None
Italy	EUR	7 000	8 028					No	None
Japan	JPY	10 000 000	80 645					Yes	2 years
Korea	KRW	None						No	None
Luxembourg	EUR	10 000	11 468					Yes	5 years
Mexico	MXN	None						No	None
Netherlands[5]	EUR	1 883	2 159					No	None
New Zealand	NZD	40 000	26 316					Yes	None
Norway	NOK	50 000	5 624			140 000	15 748	Yes	2 years
Poland	PLN	39 700	20 895					Yes	3 years
Portugal[1]	EUR	10 000	11 468					Yes	None
Slovak Republic	SKK	1 500 000	86 705					Yes	1 year
Spain	EUR	None						No	None
Sweden	SEK	None						No	None
Switzerland	CHF	75 000	44 118			150 000	88 235	Yes	None
Turkey[6]	YTL	See note						Yes	None
United Kingdom	GBP	61 000	93 558					Yes	None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1. Registration/collection thresholds identified in this chart are general concessions that relieve suppliers from the requirement to register and/or to collect for VAT/GST until such time as they exceed the threshold. Except where specifically identified, registration thresholds also relieve suppliers from the requirement to charge and collect VAT/GST on supplies made within a particular jurisdiction. Relief from registration and collection may be available to specific industries or types of traders (for example non resident suppliers) under more detailed rules, or a specific industry or type of trader may be subject to more stringent registration and collection requirements.
2. In these countries, a collection threshold applies. All suppliers are required to register for VAT/GST, but will not be required to charge and collect VAT/GST until they exceed the collection threshold.
3. “Yes” means a supplier is allowed to voluntarily register and collect VAT/GST where their total annual turnover is less than the registration threshold.
4. Minimum registration/collection periods apply to general concessions. Specific industries, types of traders, or vendors that voluntarily register/collect may be subject to different requirements.
5. **Netherlands:** This is a net threshold equal to VAT on total annual turnover minus input tax.
6. **Turkey:** Small retailers and taxpayers taxed on lump sum basis or exempt from personal income tax as well as farmers are exempt from VAT. Personal income tax thresholds and conditions apply to VAT.

Source: National delegates; position as at 1 January 2007.

In assessing differences in rates, consideration also needs to be given to the existence of lower rates, including domestic zero rates (Table 3.8) and exemptions (Table 3.10).

These exceptions tend to cover five categories:

- basic essentials such as medical and hospital care, food and water supplies;
- certain activities considered traditionally to be utilities (public transport, postal services, public television);
- activities that are considered socially desirable (charitable services, culture and sport) or supporting employment (*e.g.* locally supplied labour intensive services);
- Geographic areas that are considered deserving preferential treatment (islands, territories far away from metropolitan areas, border areas);
- Certain sectors that are exempt from VAT for historical or practical reasons and may be subject to specific taxes (*e.g.* property, insurance, financial services).

With the exceptions of Japan and the Slovak Republic, all OECD countries have one or more reduced rates and/or domestic zero rates (a domestic zero rate means that VAT/GST is not levied on goods and services consumed within the country but deduction of input tax is allowed). In some countries, the latter are called "GST-free supplies". Domestic zero rates should not be confused with the zero-rating of exports.

One of the reasons for the introduction of a differentiated rates structure is the promotion of equity (ensuring a fairer distribution of aggregate income). It is considered desirable to alleviate the tax on goods and services that form a larger share of expenditure of the poorest households (*e.g.*, basic food, clothes). Such a policy is partly based on the assumption that consumption taxes have a regressive impact on the distribution of household disposable income. However, although this assumption may be right based on annual income, consumption taxes are likely to be less regressive and even progressive when their effect is assessed over an individual's lifetime (Warren, 2008).

In addition, the effectiveness of reduced VAT rates to achieve distributional objectives is questionable in that the wealthier members of the population also benefit from these reduced rates and in terms of expenditure on non-essential goods the wealthier are likely to pay more tax in absolute terms. Using VAT rates to meet social objectives may not always be the most efficient way of ensuring that those who need assistance actually receive it. The availability of more effective redistributive instruments such as progressive income tax rates and targeted expenditure policies (*e.g.* in the areas of health and education) also weakens the case for rate differentiation. Rate differentiation also increases administrative and compliance costs, legal uncertainty and opportunities for fraud through deliberate misclassification of items.

Another argument to support reduced VAT rates in certain areas is their possible positive impact on employment. Recent work in the European Union (Copenhagen Economics, 2007) has shown that a single VAT rate was the best policy choice from a purely economic point of view but that reduced rates and exemptions in carefully targeted sectors may provide some benefits, *e.g.* in locally supplied services sector employing many low-skilled workers. It may well be the case that the higher the standard rate the greater the pressure for reduced rates in some sectors. A low standard rapplied to a broad base would likely remove many of these pressures.

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

	Exemptions	Taxation of "standard exemptions"[2]
Australia	Financial services; residential rent and premises; certain supplies of precious metals; school canteens operated by non-profit bodies; fund raising events conducted by charitable institutions.	Domestic postal services; sporting services; cultural services excluding religious services (zero rate); insurance and reinsurance excluding health insurance (zero rate); gambling (including lottery tickets and betting); supplies of land and buildings (except certain supplies of farm land – zero rate); commercial property and new residential property (except certain supplies of commercial property where an enterprise is continuing its operation).
Austria	Standard exemptions.	Letting (private housing).
Belgium	Standard exemptions; legal services (including public notaries and bailiffs).	–
Canada	Standard exemptions; legal aid; ferry; road and bridge tolls.	Lotteries and gambling, supply and leasing of commercial land and buildings, domestic postal services.
Czech Republic	Standard exemptions; public television and radio.	Certain cultural services (*e.g.* admission to theatres, cinemas, concerts, etc., subject to reduced rates); sporting services provided by others than by non-profit making organisations; supply of construction land and of new buildings; option to tax letting of buildings.
Denmark	Standard exemptions; passenger transport; burials; sale of products of artistic work valued under 300 000 DKK; travel agents.	Theatre; concerts and cinema.
Finland	Standard exemptions; services of performers; copyright to literary and artistic works; certain transactions by blind people; public cemetery services; self-picked natural berries.	Postal services; cultural services; letting of commercial buildings in certain cases (optional).
France	Standard exemptions; construction, improvement, repair and maintenance work on monuments; cemeteries and graves commemorating war victims undertaken for public authorities and non-profit bodies; new industrial waste and recyclable material; Commodity futures transactions carried out on a regulated market; Services rendered by resource consortia to their members composed of natural or legal persons that are VAT exempt or not subject to VAT.	Letting of immovable property; full taxation for letting of developed immovable property and land for professional use; Option to tax for letting of undeveloped immovable property for professional use in certain circumstances and letting of land and buildings for agricultural use; transport services for sick/injured persons in vehicles not specially equipped for this purpose and/or carried out by persons who do not have administrative certification.
Germany	Standard exemptions.	–
Greece	Standard exemptions; legal services; authors' rights; artists' services; public radio and TV; supply of water by public bodies.	Cultural services (under conditions – admission to theatres, cinemas, concerts, etc.; lower rate); supply of new buildings; letting of immovable property for use as commercial centre (optional taxation).
Hungary	Standard exemptions; public radio and TV broadcasting; sale, rental and leasing of parcels of land (other than for housing purposes); transfer of creditors and ownership rights.	The first supply of immovable property which is for living purposes is taxed at the standard rate.
Iceland	Standard exemptions; sports, passenger transport, authors, composers, burials, travel agents.	–
Ireland	Standard exemptions; passenger transport; broadcasting; supply of water by public authorities; admissions to sporting events; funeral undertaking; travel agents/tour operators.	Long-term letting of commercial immovable property; supply of land and buildings.
Italy	Standard exemptions; municipal passenger transport and taxi; burials.	Supply and letting of land; supply of commercial buildings if sold within four years from their construction or if sold to persons not entitled to deduction (standard rate); Residential housing taxed only when letby building enterprises within four years from their construction (at lower rate of 4% and, in case of non residential housing and luxury housing at a rate of 10%). Medical care is exempt only if earmarked to elderly or poor people, or to people with AIDS.
Japan	Standard exemptions; social welfare services; sale of certain kinds of equipment for the disabled people; administrative services; alienation of securities.	Postal services; supply of buildings.
Korea	Standard exemptions; certain public transport; supply of water and coal; mineral oil used for certain purposes in agriculture and fishery; funeral undertaking; certain personal services similar to labour.	Rental and supply of commercial buildings; commercial cultural services; gambling in licensed clubs.
Luxembourg	Standard exemptions.	–
Mexico	Standard exemptions; 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.

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

	Exemptions	Taxation of "standard exemptions"[2]
Netherlands	Standard exemptions; burials; cremations; public broadcasting; sports clubs; the services of composers, writers and journalists.	Cultural services (mostly lower rate); letting of immovable property other than houses (only at combined request by letter and hirer); supply of immovable property (only at the combined request of supplier and purchaser); the use of sports accommodation.
New Zealand	Financial services; supply of residential accommodation in a dwelling; fine metal; supply by a non-profit body of donated goods and services.	Postal services; human blood, tissues and organs; hospital and medical care; transport of sick/injured persons; dental care; charitable work; certain fund raising events; education; non-commercial activities of non-profit making organisations (other than unconditional gifts); cultural services; sporting services; insurance and reinsurance (other than life insurance and reinsurance); letting of immovable property (other than residential accommodation); betting, lotteries and gambling; supply of land and buildings (other than land and buildings which have been used for the provision of residential accommodation for five years or more).
Norway	Standard exemptions; burials.	Postal services; infrastructural services within the passenger transport sector.
Poland	Standard exemptions; students' accommodation; public radio and television.	Rental or tenancy of the dwelling buildings used for commercial purposes; supply of building land or land for development and buildings.
Portugal	Standard exemptions; agriculture.	–
Slovak Republic	Standard exemptions; public television and radio; services supplied to members; sale of postal and fiscal stamps.	–
Spain	Standard exemptions; copyright to literature and works of art.	Some cultural services provided to paying consumers; letting of commercial buildings; building land; supply of new buildings.
Sweden	Standard exemptions; public television and radio; public cemetery services; social services; investment gold; creative artists.	Postal services; most cultural services; letting of commercial buildings in certain cases (optional).
Switzerland	Standard exemptions; provision of agency workers under certain conditions; certain second-hand goods; products of literary and artistic work as well as copyrights on such works.	Parking spaces unless additional to renting out of real estate; renting out of areas and individual rooms at fairs; certain bank services; provision of prosthesis and orthopaedic equipment.
Turkey	Standard exemptions; restoration project related to cultural object; exempted taxpayers according to Income Tax Law; mergers and transfer according to Corporate Tax Law; supply of water used in agriculture; supply of precious mine and waste; services supplied in free trade area; supply of land for organised industrial zone; military exemption; supply of goods within the scope of financial restructuring; renting workplace in customs area.	Educational and cultural services; human blood; hospitals; transport of sick/injured persons; newspapers, books, magazines (lower rate); postal services; sale of commercial buildings; letting; radio and television broadcasting; lotteries and gambling.
United Kingdom	Standard exemptions; burials and cremations; sports competitions; certain luxury hospital care; works of art.	Standard rated: freehold sales of new commercial buildings (standard rated for three years from completion date) and "option to tax" for other ordinarily exempted supplies of commercial buildings; gaming machines and certain gambling in licensed clubs Zero rated: New housing, including construction of new houses; residential and some charity buildings.

1. For the purposes of this table, "exemption" means supplies for which VAT/GST is not levied on the amount charged by the provider while the latter is not allowed to deduct related input tax. In some countries, those supplies are called "input taxed supplies".
2. Standard exemptions" are the following: postal services; transport of sick/injured persons; hospital and medical care; human blood, tissues and organs; dental care; charitable work; education; non-commercial activities of non-profit making organisations; sporting services; cultural services (except radio and television broadcasting); insurance and reinsurance; letting of immovable property; financial services; betting, lotteries and gambling; supply of land and buildings; certain fund-raising events.

Source: National delegates; position as at 1 January 2007.

Exemptions

In addition to reduced rates, there is also an extensive use of exemption[1] across countries (see Table 3.10). It is a significant departure from the basic logic of VAT. With the exceptions of New Zealand and Turkey, all OECD countries exempt a few specific sectors considered as essential for social reasons: health, education and charities. In addition most countries also use exemptions for practical reasons (*e.g.* financial and insurance services,

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

	Domestic zero rate[1]	Lower rate
Australia	Most food and beverages for human consumption (excl. prepared food); most health and medical; education and students accommodation; child care; religious services; activities of charitable institutions; water sewage and drainage; going concerns; international transport and related matters, precious metals (first supply after refinement); international mail; grants of freehold and similar interests by governments; farm land; cars for use by disabled people; certain government services.	–
Austria	–	Agriculture; Books; food; forestry; hospitals; newspapers; art; culture; letting transport; supply of wine by farmers (12%).
Belgium	Cars for disabled; newspapers and certain weeklies.	Agriculture; food; water distribution; pharmaceuticals; books; works of art, collectors' items and antiques delivered by their authors/creators or their heirs or imported; funeral services; devices for disabled; passenger transport; shows; hotels and camping sites; renovation of dwellings over 5 years old; private homes and establishments for disabled; subsidised institutional housing; coal and coke; some labour intensive services (small repair services).
Canada	Medicine, basic groceries; certain financial services (usually to non-residents); certain agricultural and fishing products; medical devices; international organisations and officials; precious metals (sales of 25 cents or less made through mechanical coin-operated devices).	–
Czech Republic	International passenger transport.	Food; agricultural products; heating; personal transport; medicine; art; cultural services; books; newspapers; equipment and repair for disabled; supply of water; disposal or waste water; accommodation; construction of private dwellings and social houses; health care and domestic care services; cleaning in households; funeral; sport activities.
Denmark	Newspapers.	First time sale of products of artistic work valued over 300 000 DKK (5%).
Finland	Subscribed newspapers and periodicals; printing services for certain membership publications; certain vessels.	Food; non-alcoholic drinks; animal feed; medicine; books; passenger transport; accommodation; TV licence; admission to cultural, entertainment and sporting events and cinema performances; use of sports facilities; works of art supplied by their creators or imported.
France	–	Most food products, medicine; equipment for disabled; books; hotels; entertainment; author's rights; museums; transport; accommodation; agriculture; books; catering; newspapers; water; work on dwellings over 2 years old.
Germany	–	Food; books; newspapers; plants; flowers; devices for the disabled; certain cultural events; museums; zoos; circuses; charitable work if not exempt; author's rights; transport (applicable to passenger transport by ship and to local public passenger transport).
Greece	–	Electric energy; passenger transport; food; water supply; medicine; equipment for the disabled; admission to shows, cultural and sporting events; agricultural services; hotels; restaurants; use of sporting facilities; funeral services; collection and treatment of waste; authors and artists (if not exempt); books; press; some labour-intensive services (domestic care services, clothing repair including leather shoes; renovation of dwellings).
Hungary	–	Medicine, equipment for the blind, books; newspapers.
Iceland	International transport provisions; fuel and equipment delivered for use in ships and aircraft engaged in international traffic; ship-building.	Food; newspapers; books; hotels; warm water; electricity and fuel oil used for the heating of houses and swimming pools.
Ireland	Books; children's clothing and footwear; oral medicine; certain medical equipment; food products; seeds; fertiliser; certain aircraft and sea-going vessels.	Newspapers and certain periodicals; fuel for certain purposes; electricity; works of art; veterinary services; agricultural services; 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.
Italy	–	Food; medicine and health products/services for the disabled; pay TV/cable TV; housing; books; newspapers; weekly publications; combustible gas for cooking; urban waste; purification stations; renewable-source energy; works of art; shows; transport; accommodation let by building enterprises (10%).

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

	Domestic zero rate[1]	Lower rate
Japan	–	–
Korea	Certain machinery and materials for agriculture; fishery; livestock and forestry; certain equipment for the disabled.	–
Luxembourg	–	Accommodation; admission to cultural and sporting events; agriculture; author's rights; books; certain medical equipment; aids and other appliances normally intended to alleviate or treat disability; certain labour intensive services; children's clothing; construction of dwellings; electricity; foodstuffs for human and animal consumption; funeral services; gas; newspapers; passenger transport; periodicals; pharmaceutical products; renovation of dwellings over 20 years old; restaurant services; services supplied in connection with refuse collection and waste treatment; use of sporting facilities; water; works of art delivered by their authors/creators of their heirs or imported.
Mexico	Sale of non industrialised animals and vegetables (except rubber); patent medicines; milk; water (except for bottles of less than 10 litters); ice; food (except sale of processed food in restaurants and food establishments); agricultural equipment; machinery and fishing boats; wholesale of gold; gold bullion (with a content of at least 80% of gold) and jewellery; some agricultural and fishing services; magazines, books and newspapers printed by the taxpayer himself; domestic water supply; hotel services provided to foreign tourists participating in congresses, conventions and trade shows; call centre services for telephone calls originated abroad, as long as the services are contracted and paid a foreign resident without a permanent establishment in Mexico.	Sale of goods and services in the border regions.
Netherlands	–	Accommodation; agricultural inputs; books; catering; food; goods and services for the disabled; medicine; newspapers; magazines; passenger transport; water; entrance fees for sports events; amusement; parks; museums; cinemas; zoos and circuses; cut flowers and plants; restaurant and hotel meals; aids for the visually disabled; use of sports accommodation; art and antiques; hotel and holiday accommodation; certain labour intensive services; lending of books.
New Zealand	Supply of taxable activity (business) as a going concern; supply of fine metal (gold, silver or platinum) from a refiner in fine metal to a dealer in fine metal; supply by local authorities of the local authorities petroleum tax; supply of financial services to registered GST businesses.	Long-term stay in a commercial dwelling; certain services provided as part of the right to occupancy (taxed at the standard rate on 60% of the value of the supply).
Norway	Books; newspapers; certain aircraft and ships; second-hand vehicles; electricity and district heating in the northern part of Norway, electric motor cars.	Passenger transport; public broadcasting and cinemas (8%); foodstuffs (14%)
Poland	Certain books and specialised magazines.	Certain foodstuff; animals; fodder; certain beverages; certain books and newspapers; basic agricultural means of production; certain goods for disabled; certain agriculture services; restaurant services; passengers transport; cemetery services; certain construction services; supply of housing; reception of broadcasting services; admission to cultural and sporting events.
Portugal	–	5%: essential foodstuff; water; medicine; devices for the disabled; medical services (if not exempt); books; newspapers; electricity; passenger transport; admission to cultural and sporting events; natural gas; hotels and similar; social housing; some goods used in agriculture. 12%: some other foodstuffs; restaurant services; diesel fuel for agriculture and heating oil; still wine; machinery mainly used in agricultural production; tools, machines and other equipment solely or mainly designed for collecting and using alternative energy sources.
Slovak Republic	–	–

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

	Domestic zero rate[1]	Lower rate
Spain	–	Books; social accommodation; catering; certain cultural and entertainment services; food (for human and animal consumption); hotels; restaurants; supplies to the disabled; medicines and other medical devices (*e.g.* lenses); transport; newspapers; public amenities; burial services; agriculture and forestry products used as food; goods used in agricultural and forestry undertakings, including flowers and plants; hairdressing and complementary services; minor work on private housing; cleaning; waste treatment; cleaning of public sewage; water; supply of new buildings for private and social housing; the supply of cleaning and maintenance services.
Sweden	Commercial aircraft and ships; aircraft fuel; prescribed medicine; printing of certain membership publications.	Accommodation; food; passenger transport; newspapers; works of art owned by the originator; import of antiques, collector's items and works of art; culture (theatre, cinema, etc.); author's rights; books; newspapers; magazines; zoos; commercial sports events; commercial museums.
Switzerland	Certain supplies of goods and services to international airlines; supplies of some specific sorts of gold.	Water; food; medicine; books; newspapers; non-commercial television; accommodation; plants, seeds and flowers; livestock; cereals; animal food; fertiliser; certain supplies in connection with agricultural production.
Turkey	Supply of ships, aircraft, and rail transportation vehicles; supply of services related to the manufacture, repair, maintenance of such vehicles; supply of services to ships and aircraft at harbours or airports; supply of goods and services for the exploration, management and refining of gold, silver, platinum, and oil; supply of machinery and equipment to persons who have an investment incentive document; goods and construction works for the construction, restoration and enlargement of seaports and airports; some goods and services related to national security; international roaming services supplied in Turkey according to the reciprocity principle.	Agricultural products; leasing; second-hand cars; newspapers; books; magazines; blood and blood component; funeral services; basic foodstuffs; cinema; theatre; opera and ballet tickets; education; stationery goods; blood products and vaccines; medical products and services; ambulance services; medicine; medical equipment; waste water services; seeds.
United Kingdom	Certain services and goods supplied to charities; children's clothing; food; passenger transport; books; newspapers; domestic sewage and water; prescribed drugs; medicine; certain aids and services for disabled people; new housing, including the construction of new houses; residential and some charitable buildings; alterations to listed buildings.	Fuel and power for domestic and charity use (5%); certain energy saving materials supplied together with fitting services to recipient of benefits.

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.

Source: National delegates; position as at 1 January 2007.

due to the difficulties in assessing the tax base) or for historical reasons (postal services, letting of immovable property, supply of land and buildings). The exemption of financial services has been under examination for many years but the potential impact on revenue often prevents countries from making any radical change. Exemptions beyond these core items are numerous and cover a wide diversity of sectors such as culture, legal aid, passenger transport, public cemeteries, waste and recyclable material, water supply, precious metals and certain agricultural inputs.

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

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

	Usage of reverse charge system	Usage of margin schemes
Australia	Imports of intangible supplies are reverse charged to the recipient (registered) business if they would not have been entitled to input tax credits for GST paid. In some circumstances, businesses can choose to reverse charge GST for supplies connected with Australia that are made by non-residents.	Margin scheme can be used on certain sales of new residential or commercial property. It is based on the difference between the tax inclusive sale price and the original purchase price. Tax credits cannot be claimed on the acquisition cost. Gambling: GST applies to the gambling margin calculated based on the total amount wagered less total monetary prizes awarded. Second-hand goods.
Austria[1]	Several services delivered internationally and intra-Community delivery of goods (EU 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 an other person.	Travel agencies; second-hand goods, works of art, collector's items and antiques (EU Directive).
Belgium[1]	Several services delivered internationally and intra-Community delivery of goods (EU 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.	–
Czech Republic[1]	Several services delivered internationally and intra-community delivery of goods (EU Directive); supply of gold between taxable persons; supplies of goods with assembly or installation; gas, electricity and certain other services by non-established traders to established taxable persons.	Travel agencies; second- hand goods; works of art; collector’s items and antiques (EU Directive).
Denmark[1]	Several services delivered internationally and intra-Community delivery of goods (EU Directive); goods imported B2B into Denmark from a country outside the EU; leasing of means of transport from outside the EU to a taxable person in Denmark.	Travel agencies; second-hand goods, works of art, collector's items and antiques (EU Directive).
Finland[1]	Several services delivered internationally and intra-Community delivery of goods (EU Directive); If a foreign enterprise does not have a fixed establishment in Finland, the purchaser is usually liable for tax. Nevertheless, the seller is always liable to tax in the following cases: 1) the purchaser is a foreigner who does not have a fixed establishment in Finland and who has not been entered in the register of persons liable to value added tax, 2) the purchaser is a private individual, 3) in the case of distant sales of goods, 4) in the case of passenger transport, cultural, entertainment and educational services which are considered as sold in Finland. A reverse charge procedure is applied to taxable investment gold as well as gold material and semi-manufactured gold products of purity equal to or greater than 325 thousands.	Travel agencies; second-hand goods, works of art, collector's items and antiques (EU Directive).
France[1]	Several services delivered internationally and intra-Community delivery of goods (EU Directive).	Travel agencies; second-hand goods, works of art, collector's items and antiques (EU Directive); Real estate agents.
Germany[1]	Several services delivered internationally and intra-Community delivery of goods (EU Directive); If customer is an entrepreneur or a legal person governed by public law: supplies of work and other services provided by an entrepreneur resident abroad (with the exception of certain services involving passenger transport) and supplies of pledged assets by the guarantor to the recipient of the security outside the framework of judicial liquidation; turnover covered by the Real Property Transfer Tax Law (in particular transfers of real estate). If the customer is an entrepreneur: supplies of work or other services serving the construction, repair, maintenance, alteration or removal of structures (except for planning and supervision) when the customer himself supplies such services; supplies of gas and electricity provided by an entrepreneur resident abroad.	Travel agencies; second-hand goods, works of art, collector's items and antiques (EU Directive).

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

	Usage of reverse charge system	Usage of margin schemes
Greece[1]	Several services delivered internationally and intra-Community delivery of goods (EU Directive).	Travel agencies; second-hand goods, works of art, collector's items and antiques (EU Directive).
Hungary	Several services delivered internationally and intra-Community delivery of goods (EU Scheme).	Works of art, antiques, collectors' items, second hand goods (EU Directive); the marketing of waste materials; activities relating to tourism.
Iceland	–	–
Ireland[1]	Several services delivered internationally and intra-Community delivery of goods (EU Directive).	Optional margin scheme for antiques, works of art and second hand goods (EU Directive). There is an obligatory margin scheme for auctioneers.
Italy[1]	Several services delivered internationally and intra-Community delivery of goods (EU 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.	Travel agencies; second-hand goods, works of art, collector's items and antiques (EU Directive).
Japan	–	–
Korea	Services which are provided by foreigners or foreign corporations that are not located in Korea, except in cases where the services received are used in taxable operations.	–
Luxembourg[1]	Several services delivered internationally and intra-Community delivery of goods (EU Directive).	Travel agencies; second-hand goods, works of art, collector's items and antiques (EU Directive).
Mexico	When an individual provides or rents goods for a business the obligation to withhold and pay the tax is on business.	–
Netherlands[1]	Several services delivered internationally and intra-Community delivery of goods (EU Directive).	Travel agencies; second-hand goods, works of art, collector's items and antiques (EU Directive).
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 $NZ40 000 in a twelve-month period.	–
Norway	Reverse charge applies to business-to-business transactions of international services (services capable of delivery from a remote location).	Voluntary margin scheme for second hand goods, works of art, collectors items and antiques.
Poland[1]	Several services delivered internationally and intra-Community delivery of goods (EU Directive).	Travel agencies; second-hand goods; works of art; collector's items and antiques (EU Directive).
Portugal[1]	Several services delivered internationally and intra-Community delivery of goods (EU Directive).	Travel agencies; second-hand goods, works of art, collector's items and antiques (EU Directive).
Slovak Republic[1]	Several services delivered internationally and intra-Community delivery of goods (EU Directive).	Travel agencies; second-hand goods, works of art, collector's items and antiques (EU Directive).
Spain[1]	Several services delivered internationally and intra-Community delivery of goods (EU Directive).	Travel agencies; second-hand goods, works of art, collector's items and antiques (EU Directive).
Sweden[1]	Several services delivered internationally and intra-Community delivery of goods (EU Directive).	Travel agencies; second-hand goods, works of art, collector's items and antiques (EU Directive).
Switzerland	The reverse charge system is applicable for the receipt of services taxable in Switzerland from enterprises with their place of business outside of Swiss territory.	Optional margin taxation scheme for used, individualised, movable goods for the purpose of resale, if a deduction of input tax on the purchase price was not possible or was not claimed. As such goods are also deemed works of art, collectors' items and antiques (except precious metals and precious stones).
Turkey	If the taxpayer does not have a place of business, residence, legal or business centre in Turkey or if considered necessary by the Ministry of Finance any of the people involved in a transaction subject to taxation may be held responsible for the payment of tax to cover the tax income.	Travel agencies (commission taken from tour sold abroad is exempt; commission taken from tour sold in Turkey is subject to tax.)
United Kingdom[1]	Several services delivered internationally and intra-Community delivery of goods (EU Directive).	Travel agencies; second-hand goods, works of art, collector's items and antiques (EU Directive).

1. **EU Directive – Reverse charge:** within the European Union the person liable to pay the tax is in principle the taxable person carrying out the supply of goods or services. Nevertheless, several operations give rise to payment of VAT by the person to whom the goods or services are supplied (Directive 2006/112/EC). This is mainly the case for the intra-Community delivery of goods between taxpayers; and several services (advertising, transfers of copyrights, etc., consultants, engineers, accountants, banking, financial and insurance, supply of staff, services of agents, hiring out of movable tangible property, telecommunications, radio and TV broadcasting, electronically supplied services; intra-community transport of goods, services by intermediaries, valuations or work on movable tangible property).

Source: National delegations; position as at 1 January 2006.

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

	Thresholds for tax-free import of goods by individual travellers			Refund for individuals upon export		
	Scheme	Max. threshold		Scheme	Min. value	
		Nat. curr.	USD		Nat. curr.	USD
Australia	AUD 900 worth of goods (or AUD 450 for people under the age of 18 and air and sea crew members); 2.25 litres of alcohol and 250 cigarettes or 250 g of cigars or other tobacco products plus one open packet containing 25 cigarettes or less may be imported without individuals needing to be assessed for GST and customs duty. If the individuals have in excess of this amount, they need to declare goods and be assessed.	AUD 900	638	Tourist Refund Scheme (TRS): individuals may claim a refund of GST on purchases made over AUD 300 from a single business within 28 days of departure. GST refunds are available when goods are shown with the necessary documentation, on departure from Australia. The TRS applies to both residents and non-residents (except to crew, sea and air).	AUD 300	213
Austria	EU Scheme.[1]	EUR 175	201	Refund to individuals exporting goods in their personal luggage to a destination outside the EU Minimum invoice amount EUR 75.	EUR 75	86
Belgium	EU Scheme.[1]	EUR 175	195	Refund to individuals exporting goods in their personal luggage to a destination outside the EU Minimum invoice EUR 125.	EUR 125	140
Canada	I. Goods acquired abroad and for personal or household use imported by Canadian residents, temporary residents or former residents returning to live in Canada: – returning after an absence of not less than 24 hours, goods (except alcoholic beverages and tobacco products) valued at not more than CAD 50 and included in the baggage accompanying the person – returning after an absence of not less than 48 hours, goods (including either wine not exceeding 1.5 litres or any alcoholic beverages not exceeding 1.14 litres and tobacco not exceeding fifty cigars, two hundred cigarettes, two hundred tobacco sticks and two hundred grams of manufactured tobacco) valued at not more than CAD 200 and included in the baggage accompanying the resident – returning after an absence of not less than seven days, goods (including either wine not exceeding 1.5 litres or any alcoholic beverages not exceeding 1.14 litres and tobacco not exceeding fifty cigars, two hundred cigarettes, two hundred tobacco sticks and two hundred grams of manufactured tobacco)valued at not more than CAD 750 whether or not (except for alcoholic beverages and tobacco products) included in the baggage accompanying the person II. Goods that are zero-rated when supplied domestically (for example, basic groceries) III. Conveyances and baggage temporarily imported by non-residents for use in Canada IV. Casual donations valued at CAD 60 or under sent by persons abroad to friends in Canada or imported personally by non-residents as gifts to friends in Canada (except advertising matter, tobacco or alcoholic beverages)	CAD 750	625	Rebate is available to non-resident individuals who purchase eligible goods or eligible short-term accommodation while visiting Canada. Generally, eligible goods are those that are acquired by the individual primarily for use outside Canada, exported within 60 days of delivery to the individual and for which there is appropriate proof of export. Eligible goods exclude excisable goods and gasoline, deisel fuel and other motor fuels. Eligible accommodation is accommodation in a unit provided for less than one month of continuous occupancy. The total purchase amount for eligible goods and short-term accommodation (before taxes) must be at least CAD 200 and for eligible goods, each receipt must show a minimum purchase amount (before taxes) of CAD 50.	CAD 200	167

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

	Thresholds for tax-free import of goods by individual travellers			Refund for individuals upon export		
	Scheme	Max. threshold		Scheme	Min. value	
		Nat. curr.	USD		Nat. curr.	USD
Canada *(cont.)*	V. Personal effects of seasonal residents VI. Personal effects of returning former residents (resident in another country for at least one year) or residents who have been abroad for at least one year (goods must have been actually owned, possessed and used abroad by the individual for at least six months prior to the individual's return to Canada and accompany the individual upon return to Canada) VII. Personal effects of settlers VIII. Personal effects of settlers acquired with blocked currencies IX. Foreign conveyances temporarily imported by a Canadian resident to be used in the international non-commercial transportation of the individual and accompanying the individual using the conveyance. X. Medals, trophies and other prizes that are: – won outside Canada or donated by persons outside Canada for heroic deeds, valour or distinction – to be presented by the importer at awards ceremonies, or – bestowed or awarded abroad as marks of honour or distinction, won abroad in competitions, or won abroad in competitions and donated by persons abroad for bestowal or award in Canada.	CAD 750	625	Rebate is available to non-resident individuals who purchase eligible goods or eligible short-term accommodation while visiting Canada. Generally, eligible goods are those that are acquired by the individual primarily for use outside Canada, exported within 60 days of delivery to the individual and for which there is appropriate proof of export. Eligible goods exclude excisable goods and gasoline, deisel fuel and other motor fuels. Eligible accommodation is accommodation in a unit provided for less than one month of continuous occupancy. The total purchase amount for eligible goods and short-term accommodation (before taxes) must be at least CAD 200 and for eligible goods, each receipt must show a minimum purchase amount (before taxes) of CAD 50.	CAD 200	167
Czech Republic	EU Scheme[1]	CZK 5 198	364	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	140
Denmark	EU Scheme[1]	DKK 1 350	157	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	140
Finland	EU Scheme[1]	EUR 175	181	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	41
France	EU Scheme[1]	EUR 175	192	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	192

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

	Thresholds for tax-free import of goods by individual travellers			Refund for individuals upon export		
	Scheme	Max. threshold		Scheme	Min. value	
		Nat. curr.	USD		Nat. curr.	USD
Germany	EU Scheme[1]	EUR 175	198	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]	EUR 175	248	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	170
Hungary	EU Scheme[1]	HUF 45 000	346	Refund to individuals exporting goods in their personal luggage to a destination outside the EU. Minimum invoice HUF 45 000. Limitation: certain works of art, antiques and tobacco products.	HUF 45 000	346
Iceland	ISK 46 000 for travellers	ISK 46 000	438	Refund for individuals when leaving the country for goods worth more than ISK 4 000.	ISK 4 000	38
Ireland	EU Scheme[1]	EUR 175	173	Refund to individuals exporting goods in their personal luggage to a destination outside the EU. There is no threshold as to the amount.	–	–
Italy	EU Scheme[1]	EUR 175	202	Refund to individuals exporting goods in their personal luggage to a destination outside the EU Minimum threshold is fixed at EUR 154.93.	EUR 155	179
Japan	1) certain goods carried by persons who enter in Japan 2) certain goods for personal use imported by immigrants 3) goods which total taxable value do not exceed JPY 10 000	JPY 10 000	75	Foreign travellers are exempted from VAT for exported goods when they are acquired in Tax-free shops only. There is no threshold as to the amount.	–	–
Korea	Importation of the following duty-exempt goods under the Customs Law is exempted from value-added tax. Books, newspapers, and magazines. Duty-exempt goods of a small amount (USD 400) imported by a resident. Goods imported from moving, immigration, or inheritance. Personal effects of travellers, or goods arriving by separate post and mailed goods that are exempted from customs duties or chargeable by the simplified tariff rates.	KRW 304 800	400	Foreign travellers are exempted from VAT for exported goods when they are acquired in Tax-free shops only. There is no threshold as to the amount.	–	–
Luxembourg	EU Scheme[1]	EUR 175	191	Refund to individuals exporting goods in their personal luggage to a destination outside the EU. Minimum invoice EUR 74.	EUR 74	81

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

	Thresholds for tax-free import of goods by individual travellers			Refund for individuals upon export		
	Scheme	Max. threshold		Scheme	Min. value	
		Nat. curr.	USD		Nat. curr.	USD
Mexico	1) Administrative Rule No. 2.7.2 includes a list of items that may be introduced to Mexico as part of the baggage of international passengers residing abroad or in Mexico. 2) When arriving to Mexico by ships or aircrafts it is possible to introduce tax free good which value does not exceed USD 300 or its equivalent in national or foreign currency. 3) When arriving to Mexico in terrestrial means of transportation such amount shall not exceed USD 50.	MXN 2 166	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	166
Netherlands	EU Scheme.[1]	EUR 175	196	Refund to individuals exporting goods in their personal luggage to a destination outside the EU Minimum invoice EUR 136.	EUR 50	56
New Zealand	No charge for GST or duties is made if the realisable revenue on any one importation is less than NZD 50. In practical terms, this means that goods which only attract GST can be imported up to a value of NZD 399 before the revenue collection threshold is crossed. This threshold does not apply to excisable products above the following quantities: Tobacco: 200 cigarettes, or 250 grams of tobacco, or 50 cigars, or a mixture of all three weighing not more than 250 g. Alcoholic Beverages: 4.5 litres of wine or 4.5 litres of beer – one bottle containing not more than 1 125 ml of spirits, liqueur, or other spirituous beverages. Other concessions: Personal effects: wearing apparel, footwear purchased while outside New Zealand for the intended use or wear of the traveller. Goods need to accompany the traveller when arriving in New Zealand. Other accompanying goods: Each traveller may import other accompanied goods up to a total combined value of NZD 700, free of duty and GST. Gifts: if value is less than NZD 110 – free entry, if more than NZD 110 – GST and duty applies on the value in excess of NZD 110. Multiple gift allowances are permitted provide that the separate identity of each recipient can be established. Heirlooms: Items bequeathed to a person in New Zealand may be imported free of all Customs charges.	NZD 700	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	675	VAT refunds are available for tourists. For Nordic countries a higher value applies.	NOK 250	28
Poland	EU Scheme[1]	PLN 626	330	Refund to individuals exporting goods (excluding fuels) in their personal luggage to a destination outside the EU. Minimum invoice PLN 200.	PLN 200	105

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

	Thresholds for tax-free import of goods by individual travellers			Refund for individuals upon export		
	Scheme	Max. threshold		Scheme	Min. value	
		Nat. curr.	USD		Nat. curr.	USD
Portugal	EU Scheme[1]	EUR 175	95	Refund to individuals exporting goods (except equipment, fuelling and provisioning of private means of transport) in their personal luggage to a destination outside the EU. Minimum invoice EUR 50.	EUR 50	71
Slovak Republic	EU Scheme[1]	SKK 4 972	287	For travellers without permanent or temporary address within the EU. The total amount including VAT of exported goods to one taxpayer in one day should exceed SKK 5 000 and goods should be exported within 3 months after the last day of the month where goods were purchased.	SKK 5 000	289
Spain	EU Scheme[1]	EUR 175	231	Refund to individuals exporting goods in their personal luggage to a destination outside the EU Minimum invoice EUR 90.	EUR 90	119
Sweden	EU Scheme[1]	SEK 1 597	174	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	170	There is no refund of VAT to any individuals by the Tax Administration. Goods for personal use or for gift purposes are tax free if they are exported by the non-resident purchaser within 30 days after delivery to the latter and if the export is confirmed by customs. Minimum invoice: CHF 400.	CHF 400	226
Turkey	–	–	–	VAT refund to passengers who do not reside in Turkey for the purchasing goods taken to abroad. Minimum invoice: YTL 100.	YTL 100	128
United Kingdom	EU Scheme[1]	GBP145	234	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	–	–

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

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

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1. Thresholds and limits for VAT-free import of goods by individual travellers within the EU from non-EU Countries are defined by Council Regulation 918/83 of 28 March 1983. This customs regulation is explained under "European Union" at the end of this table.

Source: National delegations; position as at 1 January 2007.

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

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

from exempt domestic providers. Differences in the scope of exemption between countries can also create double taxation or unintended non taxation.

Firms who sell both taxable and exempt outputs are faced with complex tax calculations. Their right to deduction of input tax must be allocated between the two kinds of sales either by the assessment of a global proportion of the taxable outputs by comparison with total outputs, or on the basis of actual use of inputs or some other method that is acceptable to the tax administration. This adds administrative and compliance burdens that should be taken into account when assessing the impact of exemptions.

Thresholds

An exemption may be defined either in terms of particular goods and services (see above) or in terms of particular firms. The most common example of the latter kind is the exclusion of small firms from the VAT system through the use of a threshold below which they are (compulsorily or voluntarily) not required to charge and collect the tax (Table 3.9). 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 such time as 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 appreciably across OECD countries and may be split into three broad groups:

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

There is no consensus amongst OECD countries on the need for or level of thresholds. The main reason for excluding "small" taxpayers[5] from VAT is that the administrative and compliance costs exceed the VAT revenues from their activity. On the other hand, a high threshold may be considered as giving an advantage to small taxpayers, creating distortion of competition with larger ones. Thus, the level of the threshold is often a compromise between the desire to save compliance and collection costs and the desire not to jeopardise revenue or distort competition.

Special VAT taxation methods

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

One of the most common methods is the reverse charge system (see Chapter 1). Table 3.12 shows the increase in the use of reverse charge mechanism for cross-border supplies of services and intangible products between firms (Iceland, Japan and Mexico are the only countries that do not use this system). This mechanism is also used in the

international trade in goods (including several transactions within the framework of VAT warehouses) or when, for example, a foreign supplier installs or assembles goods in the country of the taxable customer. The main benefit of the mechanism is that the foreign supplier does not have to register and account for VAT in the customer's country. Reverse charge is also used for some domestic transactions such as work on immovable properties, leasing of means of transport and transactions in investment gold. In several cases, apart from the simplification objective, reverse charge is also used as a means of combating fraud.

Table 3.12 also shows that more than two-thirds of Member countries 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.

Revenue performance of VAT

As noted above, there is a wide diversity in the way countries have implemented VAT. Each country has a specific mix of rates, exemptions, thresholds, etc derived from local historic, economic and political conditions. Given this diversity, it is reasonable to consider the influence of these features on the revenue performance of VAT systems.

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

It is also clear that the efficiency of VAT systems depends on the ability of tax administrations to collect the tax due effectively. In this respect, a single rate and a simpler tax system will be easier for tax administrations to administer and for businesses to comply.

In this perspective, a VAT system is, in absolute terms, "efficient" when it covers the whole of the potential tax base (consumption by end users) at a single rate and where all the tax due is collected by the tax administration. One tool considered as an appropriate indicator of such a performance is the VAT Revenue Ratio (VRR). This ratio is derived from the "C-efficiency ratio" (see Ebrill, Keen, Bodin and Summers, 2001), which was also used to measure the performance of VAT in the 2006 edition of Consumption Tax Trends. This ratio has since been amended and re-named the VAT Revenue Ratio to more accurately reflect what it measures. The main change has been amending the calculation basis used to assess the potential tax base (*i.e.* consumption). Consumption is normally taken from national accounts and measured at market prices – including VAT – and it is more accurate to remove VAT revenues from this amount since the theoretical basis for taxation should not include the tax itself.

The VAT Revenue Ratio 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:

VAT Revenue Ratio = (VAT revenue)/([consumption – VAT revenue] x standard VAT rate)

This ratio, using national consumption as a benchmark, is more appropriate than the classic ratio using Gross Domestic Product (GDP), as VAT is a tax on domestic consumption rather than value added (see Chapter 2).

The VRR measures the gap between the revenues that would arise from a theoretically "pure" VAT system with a single rate and 100 per cent compliance and the revenues actually collected. This ratio gives an indication of the efficiency of the VAT regime in a country compared to a standard norm. However, certain features of VAT systems give rise to deviations from the standard. For example, in most countries, exemption[6] of financial services is considered as an appropriate manner of taxation since it is difficult to assess an appropriate basis for taxation. Similarly, exemption of healthcare services is considered as an appropriate way of reducing the costs of healthcare. Therefore, in order to avoid any misunderstanding about the meaning of the ratio, the name *VAT Revenue Ratio* is preferred to *C-efficiency ratio,* the latter being open to misinterpretation in the sense that it might give the (wrong) impression that it attempts to measure the respective "efficiency" of the countries' VAT regimes in absolute terms.

In theory, the closer the VAT system of a country is to the "pure" VAT regime, the more its VRR is close to 1. Any other value – higher or lower – indicates deviation from a single tax rate applied on all final consumption or a failure to collect all tax due. A VRR close to 1 is taken as an indicator of a VAT bearing uniformly on a broad base with effective tax collection. On the other hand, a low VRR may indicate an erosion of the tax base at the standard rate. This can result from exemptions, reduced rates, application of taxation/registration thresholds for small traders, poor compliance or poor tax administration or a combination of these. As noted in the previous paragraph exemptions can cause distortion because irrecoverable input tax incurred by, for example, the financial services sector, becomes tax that is collected although it is not tax collected from the consumption base used in the ratio. The interpretation of the VRR should, therefore, be made with caution. Firstly, national net consumption as a theoretical VAT taxation base is difficult to assess with precision. The figures of national consumption currently used to calculate the VRR are taken from the national accounts (there is currently no internationally agreed method to assess a VAT theoretical base), but "consumption" in the meaning of national accounts does not exactly match the VAT taxation base. For example, several investment goods (such as new buildings) are not considered as consumption in national accounts (where they are treated as "investments") but they are subject to VAT in many countries. A combination of this factor together with the cascading effects of exemption in the value chain may lead to a VRR above 1.

Secondly, factors that affect the VRR include both policy decisions – over the base and the reduced rates – and compliance levels. In other words, the measure combines the degree to which VAT policy is aimed at taxing consumption at a uniform rate and the extent of compliance. The VRR is actually the product of a "Policy efficiency ratio" (comparing the theoretical revenue from actual VAT law and revenue from a pure VAT system) and a "Compliance efficiency ratio" (comparing actual VAT revenues with theoretical revenue from actual tax law). However, it is not possible to separate these two ratios due to the practical

difficulty of measuring the "theoretical revenue from actual VAT law". This is particularly so given a lack of international agreement on measuring tax expenditures.

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

However, these deficiencies in the VRR calculation are not considered significant enough to disqualify the measure. Its best use might be as a tool to measure a single country's performance over a number of years rather than as a tool for comparing countries with each other. For example a variation of the ratio with no, or only minor, changes to the tax base can indicate changes in compliance.

Table 3.14 shows the considerable variation in the VAT Revenue Ratio across the OECD countries. It varies from 0.33 (Mexico) to 0.81 (Luxembourg), New Zealand being an exception with a VRR of 1.05. New Zealand's figure appears to be due to a combination of factors including a broad base with limited exemptions (see Table 3.10) and a limited use of one zero rate (see Table 3.11)[3]. Additionally, the proportionally high value of investments in residential housing that generates GST revenues distorts the ratio as these investments are not included in the consumption figures provided in national accounts. Luxembourg's high ratio may be indicative of significant revenue being raised through the exemptions applied to the financial services sector.

It appears that the majority of countries (24 of 29) have a VRR below 0.65 and 7 countries have a ratio below 0.50. This means that, globally, VAT regimes, with their multiple reduced rates and exemptions result in significant tax expenditures compared to a "pure" VAT regime. The suggestion is therefore, that, between one half and one third of potential revenues are not subject to taxation or, if they are, they are not collected.

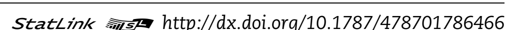
It also appears that the level of the standard rate has a limited influence on the VRR. Countries with comparable standard rates can have very different VRRs. Luxembourg and Mexico for example both employ a standard rate of 15% but their VRR is respectively 0.81 and 0.33. As noted above, one of the factors explaining the high VRR for Luxembourg is the relatively large financial sector within its economy, which provides additional VAT revenue due to the cascading effect of exemption. On the other hand, the low VRR for Mexico probably result from a combination of an extended use of the domestic zero rate, a reduced rate for the sale of goods in the border regions and a lower compliance rate.

Although the majority of countries (16 of 29) have a VRR between 0.50 and 0.65, they have standard VAT rates which vary widely, from 6% (Canada) to 25% (Sweden) without correlation between the level of the VAT rate and the VRR. Denmark, Norway and Iceland have high standard VAT rates (respectively 25%; and 24.5%) with a higher VRR (respectively (0.58 and 0.62) while Spain and Germany have a standard rate of 16% with lower VRR (respectively 0.56 and 0.54). It may be worth noting that the five countries with a VRR above 0.70 have a standard rate below average (Korea, Japan, Switzerland, Luxemburg and New Zealand). 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 domestic zero rate and a high VRR (0.72).

The evolution of VRR across time shows that, although there is a relative stability in average over the last decade (an increase from 0.54 to 0.58), there are some variations between countries. Six countries (Luxembourg, Czech Republic, Ireland, Spain, Australia and Korea) have increased their VRR by more than 0.1 point (respectively by 0.24; 0.15; 0.15;

Table 3.14. **VAT Revenue Ratio (VRR)**[1]

	Standard VAT rate (2005)	1976	1980	1984	1988	1992	1996	2000	2003	2005	Difference 1996-2005
Australia[2]	10.0							0.47	0.56	0.57	0.10
Austria	20.0	0.65	0.65	0.63	0.61	0.59	0.58	0.60	0.59	0.60	0.02
Belgium	21.0	0.57	0.61	0.50	0.53	0.49	0.47	0.51	0.47	0.50	0.03
Canada[3]	7.0					0.44	0.48	0.52	0.51	0.52	0.04
Czech Republic	19.0						0.44	0.44	0.42	0.59	0.15
Denmark	25.0	0.64	0.61	0.60	0.60	0.55	0.58	0.60	0.60	0.62	0.04
Finland	22.0						0.54	0.61	0.60	0.61	0.06
France	19.6	0.64	0.69	0.62	0.61	0.53	0.51	0.50	0.49	0.51	0.00
Germany	16.0	0.56	0.57	0.52	0.50	0.62	0.60	0.60	0.55	0.54	–0.06
Greece	18.0				0.44	0.45	0.42	0.48	0.48	0.46	0.04
Hungary	25.0					0.30	0.43	0.53	0.46	0.49	0.05
Iceland	24.5					0.63	0.54	0.58	0.53	0.62	0.08
Ireland	21.0	0.30	0.21	0.45	0.43	0.46	0.53	0.64	0.62	0.68	0.15
Italy	20.0	0.46	0.43	0.40	0.42	0.39	0.40	0.45	0.41	0.41	0.00
Japan	5.0					0.70	0.72	0.70	0.68	0.72	0.00
Korea	10.0		0.53	0.56	0.54	0.66	0.62	0.65	0.74	0.71	0.10
Luxembourg	15.0	0.60	0.56	0.56	0.57	0.47	0.57	0.68	0.72	0.81	0.24
Mexico	15.0		0.36	0.30	0.28	0.34	0.26	0.31	0.32	0.33	0.07
Netherlands	19.0	0.49	0.54	0.51	0.56	0.59	0.57	0.60	0.57	0.61	0.04
New Zealand	12.5				0.91	0.98	1.00	1.00	1.09	1.05	0.04
Norway	25.0	0.66	0.66	0.63	0.69	0.52	0.60	0.67	0.56	0.58	–0.03
Poland	22.0						0.41	0.42	0.43	0.48	0.07
Portugal	19.0				0.44	0.51	0.57	0.62	0.56	0.48	–0.10
Slovak Republic[4]	19.0							0.46	0.54	0.53	0.07
Spain	16.0				0.59	0.57	0.45	0.53	0.53	0.56	0.11
Sweden	25.0	0.45	0.41	0.38	0.42	0.40	0.50	0.52	0.53	0.55	0.05
Switzerland	7.6						0.70	0.78	0.75	0.76	0.05
Turkey	18.0				0.59	0.56	0.55	0.59	0.63	0.53	–0.02
United Kingdom	17.5	0.47	0.46	0.50	0.54	0.49	0.50	0.50	0.50	0.49	–0.02
Unweighted average	17.7	0.54	0.52	0.51	0.54	0.53	0.54	0.57	0.57	0.58	0.04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1. VAT Revenue Ratio = (VAT revenue)/([consumption – VAT revenue] x Standard VAT rate).
2. For Australia the differencial VRR is calculated on the period 2000-2005 since GST was introduced in 2000.
3. Calculation for Canada is for federal VAT.
4. For Slovak Republic, the differential VRR is calculated on the period 2000-2005 since data is not available for 1996.

0.11 and 0.10). In Luxembourg, this increase may well be due to the strong growth of the financial sector and rising prices in the construction sector while in Australia, the VRR increase may be due to the progressively successful implementation of the new GST system introduced in 2000. In the Czech Republic the rapid increase in VRR between 2003 and 2005 (0.17) corresponded to the introduction of a major tax reform, including a reduction of the scope for reduced VAT rates and a decrease of the standard VAT rate from 22% to 19%. A similar effect can also be seen in the Slovak Republic where a flat VAT rate of 19% was introduced in 2003 (down from a standard VAT rate of 23% in 1999) while the VRR increased by 0.6 between 2003 and 2005. On the other hand, the VRR decreased in Portugal by 0.8 between 2003 and 2005 following an increase in the standard from 19% to 21%. A comparable evolution occurred in Norway. The standard VAT rate increased from 23% to 24% in 2001 (the reduced rates were also increased by 1 percentage point) while the VRR decreased by 1.1 between 2000 and 2003. However, although the standard VAT rate was

increased again in 2005, the VRR also increased between 2003 and 2005 (by a more modest 0.2). This apparent contradiction might be explained by the broadening of the VAT base to include transport services (previously exempt) in 2003.

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

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

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

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

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

Notes

1. 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"
2. Standard exemptions" are the following: postal services; transport of sick/injured persons; hospital and medical care; human blood, tissues and organs; dental care; charitable work; education; non-commercial activities of non-profit making organisations; sporting services; cultural services (except radio and television broadcasting); insurance and reinsurance; letting of immovable property; financial services; betting, lotteries and gambling; supply of land and buildings; certain fund-raising events
3. 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.
4. Thresholds and limits for VAT-free import of goods by individual travellers within the EU from non-EU Countries are defined by Council Regulation 918/83 of 28 March 1983. This customs regulation is explained under "European Union" at the end of this table.
5. This notion may vary considerably across countries

6. 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 several jurisdictions, exemption is referred to as "input taxation".

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Chapter 4

Selected Excise Duties in OECD Member Countries

Introduction

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

Excise duty, unlike VAT and general consumption taxes, is levied only on specifically defined goods. The three principal product groups, which remain liable to excise duties in all OECD countries, are alcoholic beverages, mineral oils and tobacco products.

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

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

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

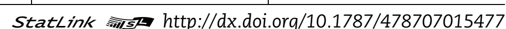
While the main purpose and the original reason for the introduction of excise duties were to raise revenue, an alternative philosophy has emerged in recent years, recognising the application of excise duties as a means of influencing consumer behaviour.

The case put forward in relation to alcoholic beverages and tobacco products is that drinking and smoking are health hazards and increased excise duties help to reduce consumption. For mineral oils, reasons for determining consumer behaviour reflect a mixture of energy conservation, transport and environmental issues. Over the last decade, environmental issues have played an increasing role in determining the nature and application of excise duties to, in particular, road fuel. Taxes on motor vehicles (see Chapter 5) and fuels, including petrol and diesel, generate most of the revenues from environmentally related taxes.

While the main characteristics and objectives ascribed to excise duties are approximately the same across OECD countries, their implementation, especially in respect to tax rates, sometimes gives rise to significant differences between countries. For example, excise duties on wine (Table 4.2) may vary from zero (Austria, Italy, Luxemburg, Portugal, Spain and Switzerland) to more than USD 3.5 a litre (Iceland Norway and Turkey). These differences

Table 4.1. **Taxation of beer**

	Specific excise per hectolitre per degree Plato[1]		Specific excise per hectolitre per degree alc.		VAT rate Per cent	Excise duty on low alcohol (under 2.8% alcohol by volume) beer. Excise per hectolitre of product		Other features of the excise taxation system on beer	
	National currency	USD	National currency	USD		National currency	USD	Excise rates which are progressive by strength	Low rates for small producers
Australia*	See note		See note		10.00	see note		Yes	Yes – see note
Austria*	2.00	2.29			20.00			No	Yes
Belgium*	1.71	1.91			21.00			No	Yes
Canada*			31.22	26.02	6 or 14	See note		Yes	Yes – see note
Czech Republic*	24.00	1.68			19.00			No	Yes
Denmark*			50.90	5.93	25.00			No	Yes
Finland*			19.45	20.07	22.00	1.68	1.73	No	Yes
France*			2.60	2.85	19.60	1.30	1.42	No	No
Germany*	0.79	0.89			19.00			No	Yes
Greece*	1.13	1.60			19.00			No	Yes
Hungary*	540.00	4.15			20.00			No	No
Iceland*			5 870.00	55.90	24.50			No	No
Ireland*			19.87	19.67	21.00	See note		No	Yes
Italy*	2.35	2.71			20.00			No	No
Japan*			See note		5.00			No	No
Korea*	See note		See note		10.00	See note		No	No
Luxembourg*	0.79	0.86	0.00		15.00	0.79	0.86	No	Yes
Mexico*			25%	0.03	15.00			Yes	No
Netherlands*	2.10	2.35			19.00			Yes	Yes
New Zealand*			See note		12.50	See note		No	No
Norway*			See note		25.00	See note		Yes	No
Poland*	6.86	3.61			22.00			No	Yes
Portugal*			See note		21.00	6.60	9.39	Yes	Yes
Slovak Republic*	50.00	2.89			19.00			No	Yes
Spain*	See note		See note		16.00	2.75	3.63	Yes	No
Sweden*			147.00	16.05	25.00			No	No
Switzerland*	2.11	1.24	See note		7.60	See note		No	Yes
Turkey*			23.80*	26.42	18.00			No	No
United Kingdom*			12.59	19.31	17.50			No	Yes
United States*			21.00	21.00	–			No	Yes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1. **The degree Plato** (P) is a unit measuring sugar content of the wort from which beer is made. In Europe, beer is often taxed either by the degree Plato or by the actual alcohol content. There is no precise conversion between these quantities, but for tax purposes it is often assumed that 1% alcohol is equivalent to 2.5 degrees Plato.

Notes:

Australia. The excise rates for beer in individual containers not exceeding 48 litres are: AUD 32.52 per litre of alcohol where volume of alcohol does not exceed 3 per cent, AUD 37.90 where volume of alcohol exceeds 3 per cent. The rates for beer in individual containers exceeding 48 litres are: AUD 6.49 per litre of alcohol where volume of alcohol does not exceed 3 per cent, AUD 20.39 where volume of alcohol exceeds 3 per cent but not more than 3.5 per cent, and AUD 26.68 where volume exceeds 3.5 per cent. Each rate is calculated on the amount by which the alcohol content (by volume) exceeds 1.15 per cent. Beer that does not contain more that 1.15 per cent by volume of alcohol is free of excise. 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.

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

Belgium. Rates for small breweries (annual production up to 200 000 litres of beer) range from EUR 1.4873 to EUR 1.6857 per hl degree Plato, according to the size of production. Beer containing less than 0.5% alc. by volume is subject to an excise duty of EUR 3.7184 per hl.

Canada. Rates for small breweries (annual production up to 75 000 hl) range from *a)* over 2.5% vol. CAD 3.122 to CAD 26.537 per hl; *b)* over 1.2% but not more than 2.5% vol. CAD 1.561 to CAD 13.269 per hl; *c)* 1.2% vol. or less CAD 0.259 to CAD 2.202 per hl. Excise rates are as follows per hectolitre of product over 75 000 hl: *a)* Over 2.5% vol. CAD 31.22; *b)* Over 1.2% vol. but not more than 2.5% vol. CAD 15.61; c) 1.2% vol. or less CAD 2.591.

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

Czech Republic. Excise rates for small breweries: 10 000 hl CZK 12.00; 50 000 hl CZK 14.40; 100 000 hl CZK 16.80; 150 000 hl CZK 19.20; 200 000 hl CZK 21.60.
Denmark. No duty on beer under 2.8% vol. 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. Four reduced rates for small independent breweries: *a)* EUR 9.73 (annual production up to 2 000 hl); *b)* EUR 13.62 (annual production over 2 000 hl and up to 30 000 hl); *c)* EUR 15.56 (annual production over 30 000 hl and up to 55 000 hl); *d)* 17.51 (annual production over 5 500 hl and up to 100 000 hl.
Germany. Rates for small breweries (annual production up to 200 000 hl) range from EUR 0.4407 to EUR 0.7862 per hl per degree Plato.
Greece. The excise rate for independant small breweries producing annually up to 200 000 hl of beer is EUR 0.57 per hl per degree Plato.
Iceland. Excise rate in ISK 5 870 per % alcohol by volume exceeding 2.25%.
Ireland. Excise rate Nil 1.2% and below.
Italy. Beers with volume of alcohol does not exceed 0.5 per cent is not taxed.
Japan. Excise rates are JPY 22 000 per hectolitre of product.
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° G.L.; 30% above 14° G.L. and up to 20° G.L.; 50% above 20° G.L. As a mechanism to discourage the use of disposable containers, taxpayers should pay the greater amount between the result of applying the corresponding rate to the value or a 3 MXN per liter fee (taxpayers that use re-usable containers can reduce an amount of 1.26 MXN per liter).
Netherlands. For beer that is sold usually, that is, beer of 12 degree Plato in the range 11-15 degree Plato (EUR 25.11: 12 = EUR 2.10 per degree Plato). Excise rates are as follows per hectolitre of product: *a)* Up to 7 degree Plato EUR 5.50; *b)* 7-11 degree Plato EUR 18.84; *c)* 11-15 degree Plato EUR 25.11; *d)* Over 15 degree Plato EUR 31.40. Rates for small breweries (annual production up to 200 000 hl) are as follows: *a)* Up to 7 degree Plato the above mentioned rate; *b)* 7-11 degree Plato EUR 17.43; *c)* 11-15 degree Plato EUR 23.23; d) Over 15 degree Plato EUR 29.05. For beer with an alcohol content of. 0.5% the VAT rate is 6%.
New Zealand. The excise rate for beer containing more than 2.5% vol. is NZD $23.936 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 35.898 c per litre of product. There is no excise duty on beer containing less than 1.15% vol.
Norway. Excise rates are as follows per hectoliter of product: *a)* 0.00-0.70% vol. NOK 164; *b)* 0.70-2.75% vol. NOK 256; *c)* 2.75-3.75% vol. NOK 968; *d)* 3.75-4.75% vol. NOK 1 676. The excise rate for beer with an alcoholic content of more than 7% vol is NOK 374 per degree of alcohol and hectoliter.
Poland. Allowances for small breweries: 25 PLN/hl if the producer sells no more than 20 000 hl a year. 12.50 PLN/hl if the producer sells no more than 70 000 hl a year. 10 PLN/hl if the producer sells no more than 150 000 hl a year. 7.50 PLN/hl if the producer sells no more than 200 000 hl a year.
Portugal. Excise rates for beer are as follows per hectolitre of product: *a)* More than 0.5% vol. and up to 1.2% – EUR 6.60 ; *b)* more than 1.2% vol. and a degree Plato up to 8 – EUR 8.27; *c)* more than 1.2% vol. and a degree Plato in excess of 8 but up to 11 – EUR 13.20; *d)* more than 1.2% vol. and a degree of Plato in excess of 11 but up to 13 – EUR 16.53; *e)* more than 1.2% vol. and a degree of Plato in excess of 13 but up to 15 – EUR 19.81; *f)* more than 1.2% vol. and a degree of Plato in excess of 15 – EUR 23.18. Rates for small breweries (annual production up to 200 000 hl) are 50% of the normal rates.
Slovak Republic. Excise rate for small breweries (annual production up to 200 000 hl of beer) is SKK 37 per hectoliter per degree Plato.
Spain. Beer with an alcoholic content not exceeding 1.2% vol. is free of excise. The rate for beer between 1.2% and 2.8% is EUR 2.75 per hl; Beer with an alcoholic degree > 2.8% and a degree Plato < 11 = 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 per hl and per degree Plato. There is no tax on Beer in Ceuta and Melilla – Spanish cities situated in the North of Africa.
Sweden. The rate shown is for beer stronger than 2.8% vol. The VAT rate for beer with an alcoholic strength lower than 3.5% vol. is 12.
Switzerland. Rates for small breweries (annual production up to 55 000 hl) range from CHF 1.26 to CHF 2.08 per hl per degree Plato.
Turkey. No specific tax element. The elements according to the value are the Excise Duty at a rate of 63.3% If the amount computed according to the tax rate is lower than the minimum tax amount specified in the above table, then the minimum tax is paid.
United Kingdom. Beer with an alcoholic content not exceeding 1.2% vol. is free of excise. Reduced duty rates apply for independent breweries producing 5 000 hectolitres or less = GBP 6.30 per % abv. Between 5 000 hectolitres and 30 000 hectolitres = GBP 6.30 –11.54 per % abv. Between 30 000 hectolitres and 60 000 hectolitres GBP 11.54 to 12.59 per % abv.
United States. The weighted average Federal and State excise tax rate is USD 21 per hectolitre of product. The Federal tax is USD 18.00 per barrel (31 gallons). 26.42 US gallons = 1 hectolitre. Small domestic brewers who produce less than 2 million barrels of beer per calendar year pay USD 7.00 per barrel on the first 60 000 barrels. There is no progressive rate structure based on alcohol content and no Federal VAT.
Source: National Delegates; position as at 1 January 2007.

Table 4.2. **Taxation of wine**

	Still wine			Sparkling wine			Low-alcohol (still) wine (< 8.5% alc.)		
	Excise per hectolitre of product		VAT (%)	Excise per hectolitre of product		VAT (%)	Excise per hectolitre of product		VAT (%)
	National currency	USD		National currency	USD		National currency	USD	
Australia*	See note		10.00	See note		10.00	See note		10.00
Austria	0.00	0.00	20.00	0.00	0.00	20.00	0.00	0.00	20.00
Belgium	47.10	52.57	21.00	161.13	179.83	21.00	14.87	16.60	21.00
Canada*	62.20	51.83	6 or 14	62.20	51.83	6 or 14	See note		6 or 14
Czech Republic	0.00	0.00	19.00	2 340.00	163.64	19.00	0.00	0.00	19.00
Denmark*	614.00	71.56	25.00	920.00	107.23	25.00	390.00	45.45	25.00
Finland*	212.00	218.78	22.00	212.00	218.78	22.00	See note		22.00
France	3.40	3.72	19.60	8.40	9.20	19.60	0.00	0.00	19.60
Germany*	0.00	0.00	19.00	136.00	154.20	19.00	0.00	0.00	19.00
Greece	0.00	0.00	19.00	0.00	0.00	19.00	0.00	0.00	19.00
Hungary	0.00	0.00	20.00	12 220.00	94.00	20.00	0.00	0.00	20.00
Iceland*	52 800.00	502.86	24.50	51 480.00	490.29	24.50	See note		24.50
Ireland*	273.00	270.30	21.00	546.01	540.60	21.00	90.98	90.08	21.00
Italy	0.00	0.00	20.00	0.00	0.00	20.00	0.00	0.00	20.00
Japan	8 000.00	64.52	5.00	8 000.00	64.52	5.00	0.00	0.00	5.00
Korea*	See note		10.00	See note		10.00	See note		10.00
Luxembourg	0.00	0.00	12 or 15	0.00	0.00	15.00	0.00	0.00	15.00
Mexico*	25%/30%		15.00	25%/30%		15.00	25%	0.03	15.00
Netherlands*	59.02	65.94	19.00	201.24	224.85	19.00	29.51	32.97	19.00
New Zealand*	See note		12.50	See note		12.50	See note		12.50
Norway*	4 488.00	504.84	25.00	4 488.00	504.84	25.00	See note		25.00
Poland	136.00	71.58	22.00	136.00	71.58	22.00		0.00	22.00
Portugal	0.00	0.00	12.00	0.00	0.00	21.00		0.00	21.00
Slovak Republic*	0.00	0.00	19.00	2 400.00	138.73	19.00	0.00	0.00	19.00
Spain*	0.00	0.00	16.00	0.00	0.00	16.00		0.00	16.00
Sweden*	2 208.00	241.05	25.00	2 208.00	241.05	25.00	See note		25.00
Switzerland*	0.00	0.00	7.60	0.00	0.00	7.60	0.00	0.00	7.60
Turkey*	328.00*	364.04	18.00	1 121.20**	1 244.40	18.00	328.00	364.04	18.00
United Kingdom*	163.47	250.72	17.50	220.54	338.25	17.50		0.00	
United States*	46.00	46.00	0.00	113.00	113.00	0.00	See note		0.00

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Notes:

Australia. No distinction is made between still, sparkling or low alcohol wine, all are taxed at 10 per cent by the goods and services tax (GST) and all are liable for the Wine Equalisation Tax (WET). The WET is levied at 29 per cent of the wholesale value (before GST). The WET applies to the following alcoholic products provided they contain more than 1.15 per cent by the volume of ethyl alcohol: grape wine; grape wine products such as marsala, vermouth, wine cocktails and creams; fruit wines or vegetable wines; and cider, perry, mead and sake. A rebate of WET applies to eligible producers, up to a maximum of AUD 500 000 each per financial year. Some state governments will also operate separate rebate/subsidy schemes in limited circumstances for cellar door sales.

Canada. A rate of CAD 0.62 per litre applies to wine with an alcohol volume of 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% vol. or less the rate is CAD 0.0205 per litre.

Denmark. The rate for wine with more than 15% – maximum 22% volume is DKK 1 055. Low-alcohol wine is more than 1.2% – maximum 6% volume. Still and sparkling wine is more than 6% – maximum 15% volume. The rates for sparkling wine correspond to the rates for still wine plus 306 DKK pr. hectolitre of product. An additional duty is placed on products which contains a mixture of wine and non-alcoholic drinks, Rates: DKK 7.25 pr. l of mixture with alcohol content 10% in the final product and DKK 14.75 pr. l of mixture with alcohol content > 10% in the final product.

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

Germany. Excise rate for low alcohol sparkling wine < 6 % vol. is EUR 51.00. 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. Excise rate shown in the Table is the rate for wine up to 15% vol. The rate is ISK 52.80 per each centilitre of alcohol by volume exceeding 2.25%.

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

Ireland. The rate for low alcohol wine applies to wine with an alcoholic content of less than 5.5% vol.
Korea. The rate of liquor tax on wine is 30% on the manufacturer's price (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.
Mexico. All rates are according to the value. The rates for wine and other alcoholic beverages apply as follows: 25% up to 14° G.L.; 30% above 14° G.L. and up to 20° G.L.; 50% above 20° G.L.
Netherlands. Excise rate for low alcohol sparkling wine is EUR 38.16. For low alcohol wine < 5% the VAT rate is 6%.
New Zealand. The excise rate for unfortified wine is NZD 2.3936 per litre of product.
Norway. The rate shown in the Table is the rate for wine with an alcoholic content of 12% vol. Excise rates for wine with an alcoholic content of 4.76%-22% vol. = NOK 374 per vol. pct. alcohol and per hectoliter.
Slovak Republic. Sparkling wine with an of an alcoholic strength by volume not exceeding 8.5% of the volume: SKK 1 700/hl; intermediate products SKK 2 500/hl.
Spain. Intermediate products – products to which distilled alcohol has been added – and with a volume of alcoholic degree between 1.2% vol. and less than 22% are taxed according to the following rates: Alcoholic degree > 1.2% and less than 15% = EUR 33.32 per hl. Others = EUR 55.53 per hl.
Sweden. Excise rates for low alcohol wine are as follows: *a)* 7%-8.5% vol. SEK 1 541; *b)* 4.5%-7% vol. SEK 1 120; *c)* 2.25%-4.5% vol. SEK 758. No special rates for sparkling wine.
Switzerland. Only wine with more than 15% vol. is taxed at a rate of CHF 1 450 per hectolitre.
Turkey. No specific tax element. The elements according to the value are the Excise Duty at rate of 63.3% or 275.6%. (*) Excise duty rate is 63.3%. If the tax amount computed according to the tax rate is lower than the minimum tax amount specified in the table, then the minimum tax is paid. (**) Excise duty rate is 275.6%. If the tax amount computed according to the tax rate is lower than the minimum tax amount specified in the table, then the minimum tax is paid.
United Kingdom. Reduced excise rates for lower strength drinks (wine categories) are as follows: *a)* exceeding 1.2% – not exceeding 4% alcohol by volume = GBP 50.38 per hl; *b)* exceeding 4% – not exceeding 5.5% alcohol by volume = GBP 69.27 per hl; and *c)* low strength sparkling wine exceeding 5.5% – less than 8.5% = GBP 166.70 per hl. There is also a rate of duty in the band exceeding 15% but not exceeding 22%: GBP 217.95 per hl (wine and made wine). The United Kingdom also charges excise duty on cider and perry products. The following rates per hl applied on 1 January 2003: Exceeding 1.2% but not exceeding 7.5%: GBP 25.61; Exceeding 7.5% but less than 8.5%: GBP 38.43. Sparkling wine and perry – Exceeding 5.5% but less than 8.5%: GBP 166.70. Any still cider product which has a strength of 8.5% and over is dutied as a made wine.
United States. The weighted average Federal and State excise tax rate is USD 46 per hectolitre of product for still wine up to 14% vol., and USD 113 for sparkling wine. The Federal excise rates are as follows: *a)* up to 14% vol. USD 1.07 per gallon; *b)* 14%-21% vol. USD 1.57 per gallon; *c)* 21%-24% vol. USD 3.15 per gallon; *d)* artificially carbonated wine USD 3.30 per gallon; and *e)* sparkling wine USD 3.40 per gallon. 26.42 US gallons = 1 hectolitre. There is no Federal VAT.
Source: National delegates; position as at 1 January 2007.

often result from traditions that exist in countries, in particular as regards the overall tax treatment of alcoholic beverages.

There is not necessarily a direct link between the level of those excises and the share of specific goods and services taxes (5120) in the GDP or in total taxation (see Table 3.3 and 3.4). There are countries such as Finland, Iceland and Turkey where, indeed, there is a high level of excise duties on alcoholic beverages, oil and tobacco and where the taxes on specific goods and services are above OECD average both as percentage of total taxation and as percentage of GDP. It is not the case, however, for *e.g.* Ireland and the United Kingdom, where excise rates on those products are above OECD average whereas the receipts from specific goods and services taxes are below OECD average. This situation may be explained by certain factors. High excise rates may influence customer's behaviour in reducing consumption *e.g.* of cigarettes or polluting fuels. In this case, paradoxically, a reduction in revenue reflects an efficient tax policy. On the other hand, high tax levels may encourage fraud, smuggling or cross-border shopping.

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

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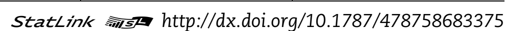
A corrigendum has been issued for this page. See: http://www.oecd.org/dataoecd/56/61/42342144.pdf

Table 4.3. **Taxation of alcoholic beverages**

	Tax per hectolitre of absolute alcohol			
	Excise		VAT Per cent	Small distillery rate
	National currency	USD		
Australia*	See note		10.00	No
Austria*	1 000.00	1 101.32	20.00	Yes
Belgium	1 660.00	1 879.95	21.00	No
Canada*	1 169.60	920.94	6 or 14	No
Czech Republic	26 500.00	1 815.07	19.00	No
Denmark*	15 000.00	1 773.05	25.00	No
Finland*	2 825.00	3 018.16	22.00	No
France	1 450.00	1 616.50	19.60	No
Germany*	1 303.00	1 387.65	19.00	Yes
Greece*	1 090.00	1 563.85	19.00	No
Hungary*	236 000.00	1 873.02	20.00	Yes
Iceland	70 780.00	785.57	24.50	No
Ireland	3 925.00	3 886.14	21.00	No
Italy*	800.00	953.52	20.00	No
Japan*	See note		5.00	No
Korea*	See note		10.00	No
Luxembourg	1 041.14	1 058.07	15.00	No
Mexico*	50%		15.00	No
Netherlands*	1 504.00	1 636.56	19.00	No
New Zealand*	See note		12.50	No
Norway	57 400.00	6 054.85	25.00	No
Poland	4 550.00	1 099.03	22.00	No
Portugal*	956.83	522.86	21.00	Yes
Slovak Republic	28 300.00	1 645.35	19.00	No
Spain*	830.25	1 081.05	16.00	Yes
Sweden	50 141.00	5 379.94	25.00	No
Switzerland*	2 900.00	1 638.42	7.60	No
Turkey*	7 092.60	9 093.08	18.00	No
United Kingdom*	1 956.00	3 159.94	17.50	No
United States*	923.00	923.00	–	No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Notes:

Australia. The excise duty rate of AUD 64.21 per litre of alcohol applied to fruit brandy, whisky, rum, liqueurs and other excisable beverages (but not beer) of alcoholic strength exceeding 10 per cent. Brandy attracted the rate of AUD 59.94 per litre of alcohol and a lower rate of AUD 37.90 per litre of alcohol applied to other excisable beverages (but not beer) of alcoholic strength not exceeding 10 per cent.

Austria. The rate for small distilleries is EUR 540.

Canada. Spirits are subject to excise duty at the rate of CAD 11.696 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.

Denmark. An additional duty is placed on products which contain a mixture of spirits and non-alcoholic drinks, Rates: DKK 2.90 pr. l of mixture.

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

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

Greece. The rate for ouzo and ethyl alcohol (derogation possible for several regions but only applied in the department of Dodecanese) is EUR 545 per hectolitre of pure alcohol.

Hungary. Reduced rate (HUF 118 000) applies to ethyl-alcohol produced by fruit growers' distilleries from fruit supplied to them by private fruit growers. The application of reduced rate is limited to 50 litres of pure alcohol for private consumption per fruit grower per year.

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

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

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

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

Korea. As Excise Tax for liquor is based on the value of the product, the rate does not vary with alcohol content. For whisky, brandy, general distilled spirits, liqueur, diluted soju and distilled soju, the Liquor tax is 72% and the Education tax is 30%.
Mexico. The rates for alcoholic beverages apply as follows: 25% up to 14° G.L.; 30% above 14° G.L. and up to 20° G.L.; 50% above 20° G.L.
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 $2.3936 per litre. For alcoholic beverages above 14% in alcoholic content, the excise rate is NZD $43.594 per litre of absolute alcohol (with the exception of unfortified wine and vermouth which has the rate of NZD $2.33936 per litre of product).
Portugal. A reduced rate for small distilleries applies.
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. Weighted average rate.
Turkey. No specific tax element. The element according to the value is the Excise Duty at a rate of 275.6%. If the tax amount computed according to the tax rate is lower than the minimum tax amount specified in the official table, then the minimum tax amount is paid.
United Kingdom. All drinks over 22% are dutied as spirits.
United States. The weighted average Federal and State excise tax rate is USD 923 per hectolitre. The Federal excise rate is USD 13.50 per proof gallon in 2007. A proof gallon is a US gallon (3.785 litres) containing 50% alcohol. There is no Federal VAT.
Source: National delegates; position as at 1 January 2007.

the effects of cross-border shopping can have a significant economic impact on business in border areas and put pressure on the relevant tax authorities to seek closer approximation of excise duty rates with their neighbours.

Alcoholic beverages

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

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

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

Tables 4.1, 4.2 and 4.3 in respect of excise duties on beer, wine and spirits illustrate, respectively, the complicated computations for excise duties and show the current comparative rates for OECD countries. Due to fluctuations in the value base, coupled with a mixture of specific 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 the obvious tax competition mentioned earlier between certain neighbouring countries giving rise to cross-border "bootlegging" activities (*e.g.* UK/France and Denmark/

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Table 4.4. **Taxation of mineral oils**

	Premium unleaded gasoline (per litre 94-96 RON)			Automotive diesel for non-commercial use (per litre)			Light fuel oil for industry (per 1 000 litres)			Light fuel oil for households (per 1 000 litres)		
	Excise		VAT Per cent	Excise		VAT Per cent	Excise		VAT Per cent	Excise		VAT Per cent
	National currency	USD		National currency	USD		National currency	USD		National currency	USD	
Australia*	0.381	0.278	10.00	0.381	0.278	10.00	See note		10.00	n.a.		10.00
Austria*	0.427	0.470	20.00	0.375	0.413	20.00	60.00	66.08	20.00	98.00	107.93	20.00
Belgium	0.592	0.670	21.00	0.325	0.368	21.00	18.49	20.94	21.00	18.49	20.94	21.00
Canada*	0.252	0.198	6 or 14	n.a.	–	6 or 14	57.30	45.12	6 or 14	82.58	65.02	6 or 14
Czech Republic	11.840	0.811	19.00	9.950	0.682	19.00	660.00	45.21	19.00	660.00	45.21	19.00
Denmark*	4.030	0.476	25.00	2.730	0.323	25.00	219.00	25.89	25.00	1 420.00	167.85	25.00
Finland	0.588	0.628	22.00	0.319	0.341	22.00	70.60	75.43	22.00	101.83	108.79	22.00
France	0.602	0.671	19.60	0.426	0.475	19.60	56.60	63.10	19.60	56.60	63.10	19.60
Germany	0.655	0.698	19.00	0.470	0.501	19.00	61.35	65.34	19.00	81.44	86.73	19.00
Greece	0.296	0.425	19.00	0.245	0.352	19.00	n.a.	–	19.00	n.a.	–	19.00
Hungary	106.540	0.846	20.00	88.01	0.698	20.00	See note	–	20.00	See note	–	20.00
Iceland*	n.a.	–	24.50	n.a.	–	24.50	n.a.	–	24.50	n.a.	–	24.50
Ireland	0.443	0.439	21.00	0.368	0.364	21.00	47.36	46.89	21.00	47.36	46.89	21.00
Italy	0.564	0.672	20.00	0.416	0.496	20.00	403.21	480.58	20.00	403.21	480.58	20.00
Japan*	53.800	0.405	5.00	32.100	0.241	5.00	0.00	0.00	5.00	0.00	0.00	5.00
Korea*	744.290	0.962	10.00	494.190	0.638	10.00	177 100.00	228.81	10.00	177 100.00	228.81	10.00
Luxembourg*	0.462	0.470	15.00	0.290	0.295	15.00	21.00	21.34	15.00	10.00	10.16	12.00
Mexico*	0.780	0.107	15.00	See note	–	15.00	See note	-	15.00	See note	-	15.00
Netherlands*	0.687	0.748	19.00	0.377	0.410	19.00	217.67	236.86	19.00	217.67	236.86	19.00
New Zealand	0.484	0.325	12.50	0.116	0.078	12.50	0.00	0.00	12.50	See note	–	12.50
Norway*	4.970	0.524	25.00	2.142	0.226	25.00	969.00	102.22	25.00	969.00	102.22	25.00
Poland	1.647	0.398	22.00	1.191	0.288	22.00	233.00	56.28	22.00	233.00	56.28	22.00
Portugal*	0.581	0.317	21.00	0.362	0.198	21.00	n.a.	–	12.00	137.20	74.97	12.00
Slovak Republic*	15.500	0.901	19.00	14.50	0.843	19.00	0.00	0.00	19.00	See note	–	19.00
Spain	0.396	0.516	16.00	0.302	0.393	16.00	84.71	110.30	16.00	76.37	99.44	16.00
Sweden	5.060	0.543	25.00	3.720	0.399	25.00	559.00	59.98	25.00	3 413.00	366.20	25.00

Table 4.4. **Taxation of mineral oils** *(cont.)*

	Premium unleaded gasoline (per litre 94-96 RON)			Automotive diesel for non-commercial use (per litre)			Light fuel oil for industry (per 1 000 litres)			Light fuel oil for households (per 1 000 litres)		
	Excise		VAT Per cent	Excise		VAT Per cent	Excise		VAT Per cent	Excise		VAT Per cent
	National currency	USD		National currency	USD		National currency	USD		National currency	USD	
Switzerland	0.735	0.415	7.60	0.771	0.436	7.60	4.10	2.32	7.60	4.10	2.32	7.60
Turkey	1.363	1.747	18.00	0.835	1.071	18.00	n.a.	–	18.00	760.00	974.36	18.00
United Kingdom*	0.484	0.782	17.50	0.484	0.782	17.50	76.90	124.23	17.50	76.90	124.23	5.00
United States*	0.105	0.105	–	0.122	0.122	–	0.00	0.00	–	0.00	0.00	–

StatLink http://dx.doi.org/10.1787/478771422454

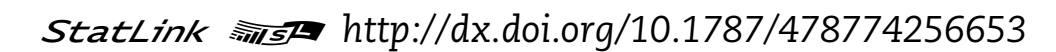
n.a. = Not available in IEA statistics.
VAT on fuel oil for industry is normally refunded to taxpayers.
Excise taxes do not include Emergency Stock Fee.
Country Notes:
Australia. The Energy Grants (Credits) Scheme provides excise relief to businesses through payment of a grant for diesel fuel used in eligible off and on-road activities.
Austria. Excise tax on light fuel oil for industry is partially refunded to certain large industrial consumers.
Canada. A rate of CAN$0.178/litre is applicable on automotive diesel for commercial use.
Denmark. DKK 0.66/litre of the excise tax on automotive diesel is refunded to industrial consumers.
Hungary. The excise rate on light fuel oil is not available because the product is not consumed in significant quantities.
Iceland is not member of the IEA.
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.
Luxemburg. A reduced VAT rate of 12% is applicable to light fuel oil.
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.
Norway. A specific excise rate of NOK 3.560/litre is applicable on automotive diesel for commercial use.
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 Kingdom. For domestic purposes (or supplies under 2 300 litres) the VAT rate on light fuel oil for Households is 5%.
United States. Average Federal and State taxes. There is no VAT.
Source: International Energy Agency, Energy Prices and *Taxes 4th Quarter 2007* (data as at 1st quarter 2007).

Table 4.5. **Taxation of tobacco**

	Cigarettes				Cigars[2]				Tax on rolling tobacco for cigarettes			
	Specific excise per 1 000		Excise on value (% of RSP)[1]	VAT %	Specific excise per 1 000		Excise on value (% of RSP)	VAT %	Specific excise per 1 000 grams		Excise on value (% of RSP)	VAT %
	National currency	USD			National currency	USD			National currency	USD		
Australia*	238.40	174.01	0.00	10.00	See note		0.00	10.00	298.01	217.53	0.00	10.00
Austria*	26.69	29.39	42.00	20.00	0.00	0.00	13.00	20.00	0.00	0.00	47.00	20.00
Belgium	15.93	18.04	52.41	21.00	0.00	0.00	10.00	21.00	7.96	9.01	31.50	21.00
Canada*	82.05	64.61	n.a.	7 or 15	16.60	13.07	See note	7 or 15	55.90	44.02	n.a.	14.00
Czech Republic	480.00	32.88	23.00	19.00	440.00	30.14	n.a.	19.00	600.00	41.10	n.a.	19.00
Denmark*	636.60	75.25	13.61	25.00	198.00	23.40	10.00	25.00	452.50	53.49	0.00	25.00
Finland*	15.13	16.16	50.00	22.00	0.00	0.00	22.00	22.00	3.62	3.87	50.00	22.00
France	7.50	8.36	58.00	19.60	0.00	0.00	27.57	19.60	0.00	0.00	58.57	19.60
Germany	82.70	88.07	24.66	16.00	14.00	14.91	1.47	16.00	34.06	36.27	18.57	19.00
Greece	5.14	7.37	53.83	19.00	0.00	0.00	26.00	19.00	0.00	0.00	59.00	19.00
Hungary	7 240.00	57.46	27.50	20.00	0.00	0.00	28.50	20.00	0.00	0.00	52.00	20.00
Iceland	11 423.00	126.78	47.31	24.50	11 423.00	126.78	44.56	24.50	8 170.00	90.68	44.56	24.50
Ireland	151.37	149.87	17.78	21.00	217.39	215.24	0.00	21.00	183.44	181.62	0.00	21.00
Italy	6.20	7.39	58.50	20.00	0.00	0.00	23.00	20.00	0.00	0.00	56.00	20.00
Japan*	87 744.00	659.73	0.00	5.00	8 744.00	65.74	0.00	5.00	8 744.00	65.74	0.00	5.00
Korea*	32 050.00	41.41	0.00	10.00	See note		0.00	10.00	23 000.00	29.72	0.00	10.00
Luxembourg	15.40	15.65	47.44	15.00	0.00	0.00	5.00	15.00	0.00	0.00	36.00	15.00
Mexico	0.00	0.00	50.72	15.00	0.00	0.00	18.27/50.72	15.00	0.00	0.00	18.27/50.72	15.00
Netherlands	72.97	79.40	20.52	19.00	0.00	0.00	5.00	19.00	30.78	33.49	14.21	19.00
New Zealand*	See note	–	0.00	12.50	See note	–	0.00	12.50	337.62	226.59	0.00	12.50
Norway	1 870.00	197.26	0.00	25.00	1 870.00	197.26	0.00	25.00	1 870.00	197.26	0.00	25.00
Poland	75.12	18.14	31.30	22.00	134.00	46.05	–	22.00	52.00	17.87	21.67	22.00
Portugal*	58.33	31.87	23.00	21.00	0.00	0.00	12.00	21.00	0.00	0.00	40.60	21.00
Slovak Republic*	1 100.00	63.95	23.00	19.00	1 400.00	81.40	–	19.00	1 350.00	78.49	–	19.00
Spain	4.20	5.47	54.95	16.00	0.00	0.00	12.71	16.00	0.00	0.00	38.46	16.00
Sweden	200.00	21.46	39.20	25.00	560.00	60.09	0.00	25.00	630.00	67.60	0.00	25.00
Switzerland*	99.23	56.06	25.00	7.60	2.60/12.10	1.47/6.83	0.00	7.60	1.55/9.90	0.88/5.59	0.00	7.60

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

	Cigarettes				Cigars[2]				Tax on rolling tobacco for cigarettes			
	Specific excise per 1 000		Excise on value (% of RSP)[1]	VAT %	Specific excise per 1 000		Excise on value (% of RSP)	VAT %	Specific excise per 1 000 grams		Excise on value (% of RSP)	VAT %
	National currency	USD			National currency	USD			National currency	USD		
Turkey*	60.00	76.92	58.00	18.00	60.00	76.92	58.00	18.00	60.00	76.92	58.00	18.00
United Kingdom	99.80	161.23	22.00	17.50	145.35	234.81	0.00	17.50	104.47	168.77	0.00	17.50
United States*	See note				See note				See note			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Notes:
1. **RSP.** Retail selling price.
2. **Cigars.** Canada, Denmark and Japan tax cigars at a rate per 1 000 pieces and not according to weight. In Canada and Denmark it is assumed that a cigar weighs 3 grams and in Japan 1 gram.

Australia. The taxation of cigars and cigarettes applies a per stick rate if tobacco content per stick does not exceed 0.8 g. Where the tobacco content exceeds 0.8 g per stick, the excise duty rate is AUD 298.01 per kg. Excise on tobacco not in stick form is imposed at a rate of AUD 298.01 per kg.
Austria. The excise duty on cigars is 13% of RSP, at least EUR 32.7 for 1 000 pieces.
Canada. An additional excise duty on cigars is applicable at the greater of CAD 66 per 1 000 and 66% computed on the sales price for domestically manufactured cigars or on their duty paid value in the case of imported cigars. Provinces add their own taxes on tobacco products. For cigarettes, these range between CAD 103 and CAD 210 per thousand. Some provinces also apply a tax based on the value of the product.
Denmark. The excise tax for other smoking tobaccos is DKK 402.5/1 000 g for coarse-cut tobacco.
Finland. Cigarette paper: excise 60% of RSP.
Japan. The tax consists of a national element, a prefectural element and a municipal element. The rate for cigars is JPY 8744 for 1 000 pieces (same tax as for cigarettes).
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 26.6% (18.27% of the RSP) for cigars or rolling tobacco applies as long as these products are handmade; otherwise a 140% rate applies (50.72% of the RSP).
New Zealand. The excise rate for 1 000 cigarettes with actual tobacco content not exceeding in weight of 0.8 kg is NZD 289.16. Cigarettes exceeding 0.8 kg in actual tobacco content per 1 000 cigarettes are taxed as cigars. Excise rate for cigars is NZD 361.45 per 1 kg of tobacco content of cigars.
Portugal. Excise tax on cigarettes is reduced to EUR 8.36 and 36.5% for small producers in the Azores and Madeira.
Slovak Republic. Excise rate on other tabacco is SKK 880/1 000 g. and excise rate on snuff and chewing tobacco is SKK 880/1 000 g.
Switzerland. "Specific excise per 1 000 for cigars": the tax between the maximum and minimum depends on the retail selling price per piece and the average weight per 1 000 pieces. "Specific excise per 1 000 g for rolling tobacco for cigarettes": the tax between the maximum and minimum depends on the retail selling price.
Turkey. Specific excise duty per 1 000 cigarettes is 60 YTL. Tax amount for 1 packet of cigarettes is 1.2 YTL. 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 States. State taxes vary widely. The weighted average of Federal and State taxes per thousand cigarettes was USD 72.00 in 2007. Federal specific excise tax rates on tobacco are: USD 19.50 per thousand for small cigarettes (no more than 3 pounds per thousand); USD 40.95 per thousand for large cigarettes; USD 1.828 per thousand for small cigars weighing no more than 3 pounds per thousand; 20.719% of the manufacturers price but not more than USD 48.75 per thousand for large cigars; USD 0.0122 per 50 papers for cigarette paper; USD 0.585 per pound for snuff; USD 0.195 per pound for chewing tobacco; USD 1.0969 per pound for pipe tobacco and for roll-your-own tobacco. Some states also tax on an ad valerom basis. There is no Federal VAT.
Source: National delegates; position as at 1 January 2007.

Germany). Although some would argue that market forces should give rise to moves towards approximation of rates, this is contradictory with other policy factors when issues such as health have been taken into account in setting the rates.

Mineral oil products

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

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

A much more significant feature of excise duties on mineral oils is the fact that duty rates have been used to affect consumer behaviour to a greater degree than in other areas. When the more environmentally friendly unleaded petrol appeared on the market it was more expensive to produce and as a consequence not commercially competitive with leaded petrol as a retail product. This handicap was soon overcome through the use of tax differentials making unleaded petrol cheaper at the pump. Nearly all OECD countries have adopted this approach, in combination with other non-fiscal measures such as making catalytic converters obligatory on new cars.

Table 4.4 gives the current excise rates for mineral oil products in OECD countries and again illustrate the wide disparity. For example, excise taxes on premium unleaded gasoline vary from USD 0.105 in the United States to USD 1.747 in Turkey for 1 litre. The rates shown in Table 4.4 are taken from the International Energy Agency (IEA 2007) 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 petrol, smokers do not see cigars and other tobacco products as substitutes for cigarettes, with the result that price elasticity in this field is much lower.

Although only one country levies excise duties on alcoholic beverages and mineral oils according to the value of the products alone (Mexico), this method remains popular for tobacco products, particularly amongst members of the European Union. The majority of countries use a combination of specific and value elements to calculate the excise liability on tobacco products. This not only helps to provide compensation in respect of cheap and

expensive products (in much the same way as alcoholic beverages) but also acts as a means of achieving neutrality between countries with low production costs and those with high production costs. Those countries with low production costs might tend to choose a low specific element combined with a high element according to value whereas high production costs can compensate by choosing a high specific element and a low element according to value.

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

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Chapter 5

Taxing Vehicles

Introduction

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

Taxes and charges on vehicles include:

- taxes on sale 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 5.1 and 5.3);
- periodic taxes payable in connection with the ownership or use of the vehicles, defined in most cases as Circulation Tax (see Table 5.2);
- taxes on fuel (see Table 4.4);
- any other taxes and charges, such as insurance taxes, road tolls, etc.

Since their development at the outset of the 20th century, taxes on vehicles have reflected a variety of influences beyond the obvious need to raise revenue: geographic, industrial, social, energy, transport and environmental policy considerations have had an influence on the level and structure of taxation. In most cases current taxation schemes are used to influence customer or business behaviour. More recently, energy and environmental considerations led to an adjustment of taxation according to the fuel efficiency of vehicles, CO_2 emissions, town planning and transport policies, including the introduction of road or urban tolls.

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

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

Another example of using a tax instrument for environmental protection purposes is the differentiation in registration and circulation taxes on vehicles according to CO_2

emissions. An increasing number of countries have introduced or intend to introduce such CO_2 related registration tax schemes. Recent measures taken in France in this area have led to a substantial change in consumer's behaviour in favour of buying smaller and less polluting cars.

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

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

Taxes on sale and registration of motor vehicles

Taxes on the acquisition of motor vehicles may include Value Added Taxes (VAT or GST), sales taxes, excise duties and other fees and charges associated with the registration of a vehicle. These taxes may vary considerably from one country to another (see Table 5.1).

The taxes on the acquisition or registration of motor vehicles may be based on a wide diversity of criteria or a combination of these criteria. They can be divided in 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, type of fuel, presence of air conditioning and catalyser. This includes rebates and exemptions for vehicles running with Liquefied Gas Petroleum or other low polluting fuels and electrically propelled cars;
- criteria based on social considerations: specific rates or exemptions for emergency vehicles, ambulances, vehicles for disabled people, vehicles for public transport or use by public services;
- specific criteria applicable to commercial vehicles (delivery vans, trucks, vehicles designed for commercial use): weight, number of axles, cargo room, number of seats (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 5.3 and Figure 5.1) and, sometimes between states, provinces, cities or regions in several countries (this is why Table 5.3 shows data for the capital of each country). The taxes and fees (including VAT/GST or sales taxes) on sale and registration of *e.g.* a standard passenger car (1 800 cc – USD 25 000) may vary widely, from USD 1 708 in Washington DC

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

	Taxes	Criteria	Rebates/Exemptions
Australia	GST: 10%. Luxury Car Tax: 25% calculated on the value of the car that exceeds AUD 57 009.	Value	Emergency vehicles such as ambulances and fire engines. Vehicles modified to suit the transportation of eligible people with disabilities.
Austria	VAT: 20%. New Car Registration Tax: while the tax base is the selling price, the tax rate depends on the standard fuel consumption of the car (maximum rate 16%).	Value Fuel consumption	Investment allowance of 6% is applicable to investments in noise-reduced trucks.
Belgium	VAT: 21% Entry into Service Tax : depends on engine power and vehicle age (the tax is set according to a progressive scale from EUR 61.50 to EUR 4 957.00).	Value Age Engine power	Exemption for disabled people and war invalids Rebates for cars running with Liquefied Gas Petroleum or other Gas.
Canada	GST: 6% plus possible 8% HST rate for sales in the participating provinces. Other various provincial tax rates are applicable for sales made in other provinces. Automotive Air Conditioning Tax at CAD 100 CAD per unit. Vehicle excise tax levied on heavy cars (2 007 kg) at an increasing scale starting at CAD 30. One province has a tax levied on the purchase of fuel-inefficient passenger cars and sports utility vehicles.	Value Weight Fuel efficiency Air conditioning	A subsidy of CAD 100 is provided for cars with a highway fuel-efficiency rating of less than 6 litres per 100 km.
Czech Republic	VAT: 19% Registration fee: motorcycles CZK 300 or 500 (depending on cylinder capacity). Other motor vehicles CZK 800. The fee includes the registration plate. Permit fee on non-standard motor vehicles.	Value Cylinder capacity	
Denmark	VAT: 25% Vehicle registration tax: payable on first registration of the vehicle. Graduated tax rates according to the value of the vehicle (with lower rates for commercial vehicles) from 105% to 180% (on the remainder above DKK 65 900) for private vehicles and from 0% to 20% (on the remainder above DKK 12 100) for commercial vehicles.	Value Utilisation Safety equipment	The registration duty rate is adjusted each month. The adjustment is calculated on the basis of the development in the relationship between the Danish net price index for all goods and the net price index for motor vehicles. Motor vehicles with major traffic safety equipment receive a deduction in the value liable to registration duty up to DKK 11 585 and diesel powered motor vehicles with particle filters receive a deduction of DKK 4 000. Rebates between 100 DKK and 1 200 DKK are given to motor vehicles with minor traffic safety equipment.
Finland	VAT: 22% Vehicle excise tax: payable on first registration of the vehicle. Rate for passenger cars 28 % of the general consumer price of the car model (including all taxes), deducted by EUR 650 in the case of petrol cars or by EUR 450 in the case of diesel cars. For delivery vans designed exclusively for transportation of goods (the cargo room at least 3 m1 and carrying capacity at least 525 kg) the tax base is import value (purchase value excluding taxes) and the tax rate is 35 %. The tax for motor cycles varies according to the cylinder capacity, between 8-20 %, and the base is consumer price including all taxes.	Value Utilisation Cylinder capacity Type	
France	VAT: 19.6% Tax on registration certificates or regional tax on certificates: flat rate depending on engine power, with a horse power unit rate established by each region; The rate is reduced by half for some vehicles depending on their nature (trucks weighing more than 3.5 tons, motorcycles) or age (more than 10 years old). Additional special tax on the regional certificate tax for lorries according to their weight (from EUR 38 for less than 3.5 tons to EUR 305 for more than 11 tons or trailers and buses for public transport of passengers). Additional special tax on registration certificates for passenger cars, according to their carbon dioxide emissions by kilometer (from EUR 0 € for less than 200 g carbon dioxide emissions/km to 4 € for more than 250 g carbon dioxide emission/km).	Value Engine power Weight Utilisation Age CO^2 emissions	Exemption for new demonstration models weighing less than 3.5 tons, state vehicles, certain motorcycles; From 50% to 100% rebate for electrically or gas propelled cars. The rate is reduced by half for vehicles equipped to run with E85 fuel (super ethanol).

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

	Taxes	Criteria	Rebates/Exemptions
Germany	VAT: 19% Registration charge: EUR 18 to 25.	Value	
Greece	VAT: 18% Private passengers' cars registration tax depending on engine capacity and anti-pollutant technology: from 5% to 346%. Commercial vehicles' registration tax depending on their weight (less or more than 3.5 tons) and their cylinder capacity: from 5% to 26%. For vehicles that don't fulfil latest EC Emissions Directive rates should be increased by 30%. For the sale of cars, in the cases where VAT is not due, the taxes on sale depend on the cylinder capacity for private cars, on gross weight for trucks and on the number of seats for buses.	Value Weight Utilisation Polluting emissions Type Number of seats	Exemptions from taxes on sale: – Cars used by public authorities. – Cars specially arranged for use by disabled persons.
Hungary	VAT: 25% Registration Tax: from HUF 250 000 to HUF 3 207 000 on new passenger cars according to engine type (diesel or petrol) and engine cylinder capacity, and from HUF 20 000 to HUF 230 000 on motorcycles according to engine cylinder capacity. For cars with lower environmental category of engine higher rates are levied (50, 100 or 200% higher), but rate is reduced according to a scale based on age (until 90%).	Engine type Cylinder capacity Environmental category Age of vehicle	Reduced registration tax for cars with electric or hybrid engines (HUF 190 000) and for cars with gas-powered engines (HUF 380 000). Old-timers are exempted.
Iceland	VAT: 24.5% Vehicle registration fee of ISK 15 000 on initial registration and ISK 2 500 for subsequent changes. Motor vehicle excise duty: based on cylinder capacity (from 0% to 45% of the value).	Value Cylinder capacity	Rally cars and other cars exclusively used for motor sport; cars exclusively used for rescue operations; cars exclusively fuelled with electricity or hydrogen. Motor vehicles for the transport of eighteen or more persons, including the driver; dumpers designed for off-highway use, of a gross weight 4 tons or more; snow-ploughs; self-loading or self-unloading trailers and semi-trailers for agricultural purposes, Snow-mobiles, weighing 700 kg or more; navigable vehicles on wheels designed to travel over both land and water. The following motor vehicles, provided that they are of a gross weight exceeding 5 tonnes: *i)* Tractors principally designed for semi-trailers or for hauling another vehicle. *ii)* Motor vehicles for the transport of goods. *iii)* Trailers and semi-trailers for the transport of goods. *iv)* Motor vehicles for special purposes; breakdown lorries, crane lorries and more, not principally designed for the transport of persons or goods.
Ireland	VAT: 21% Registration tax: rate varies from 22.5% to 30% of the value for motor vehicles according to their cylinder capacity (with a minimum of EUR 315); 13.30% for commercial car-derived vans, "jeep" type vehicles and certain motor caravans and crew cabs (with a minimum of EUR 125); EUR 50 flat rate for other commercial vehicles; new motorcycles EUR 2 per cc up to and EUR 1 per cc above 350 cc. Reduced rates for used motorcycles.	Value Cylinder capacity Type Age	50% vehicle registration tax relief on the registration of series production hybrid electric vehicles, flexible fuel vehicles and electric vehicles. 100% relief under disabled driver scheme.
Italy	VAT: 20% Registration Tax (IPT): EUR 151 for cars < 53 kW, EUR 3.5 per kw for cars > 53 kW. For other vehicles, such as, for instance, buses, tractors and lorries with trailer, the tax is determined on the basis of their engine power, weight, number of seats or other criteria.	Type (category of vehicles) Engine power Weight, number of seats or other criteria according to the category.	Flat rate tax applied for vehicles over 30 or 20 years old. 100% exemption for disabled persons.
Japan	VAT: 5% Automobile Acquisition Tax at 5% of purchase price (3% for commercial and light vehicles).	Value	

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

	Taxes	Criteria	Rebates/Exemptions
Korea	VAT: 10% Special Excise Tax: from zero to 10% of the manufacturer's price according to cylinder capacity. Education Tax: 30% on the amount of Excise Tax. Acquisition Tax: 2% of the retail price excluding VAT. Registration Tax: 2-5% of the retail price excluding VAT.	Value Cylinder capacity	
Luxemburg	VAT: 15%	Value	
Mexico	VAT: 15%. At the border region. 10%. New vehicles tax: from 2% to 17% according to vehicle value.	Value	Exemption of 100% to vehicles with value up to 156.135 MXN. Exemption of 50% to vehicles with value from 156.135 to 197.771 MXN.
Netherlands	VAT: 19% Registration Tax: Cars: 45.2% of net value less EUR 1 540 or increased by EUR 328 (diesel engine). Motorcycles: 10.2% of the net value (for net value up to EUR 2 133) and 20.7% of the net value (for net value above EUR 2 133). The resulting amount reduced by EUR 224.	Value Motor fuel Polluting emissions	Exemption for cars with electromotor/hybrids/hydrogen.
New Zealand	VAT: 12.5% Registration Fee on initial registration: rates vary depending on the cylinder capacity and type of vehicle from NZD 74 to NZD 232. For motorcycles rates vary from NZD 28 to NZD 47.	Value Cylinder capacity	
Norway	VAT: 25% Registration tax: levied upon first time registration of road motor vehicles in the Central Motor Vehicle Register. Rates vary according to weight, engine performance (KW) and CO_2 emissions. When CO_2 emissions information is not stated, the tax will be calculated based on cylinder capacity instead of CO_2 emissions. Re-registration tax: levied on vehicles previously registered in Norway. Rates vary according to type of vehicle and year of registration.	Weight Engine performance CO_2 emissions	Electric vehicles are exempt.
Poland	VAT: 22% **Excise-duty for passenger cars:** it is levied on passenger cars prior to their first registration due to their sale, intra-community acquisition and import. The excise tax rates for personal cars depend on engine capacity and amount to: – for passenger cars with engine cubic capacity over 2 000 cm^2 – 13.6 %, – for others –3.1%.	Value Cylinder capacity	
Portugal	VAT: 21% Vehicle excise duty: varies according to the following formula and rates. **Cylinder capacity x rate – fixed rebate.** Vehicles up to 1 250 cc = number of cc* 3.54 (€) –2 285.92 (€) Vehicles above 1 250 cc = number of cc* 8.38 (€) –8 333.32 (€) **CO_2 Emissions (G/km) x rate – fixed rebate** **Petrol Vehicles** (€) (€) To 120 0.41 0 From 121 to 180 5.62 624.85 From 181 to 210 21.49 3 482.63 More than 210 29.31 5 125.01 **Diesel Vehicles** To 100 1.02 0 From 101 to 150 10.31 918.90 From 151 to 180 29.31 3 784.34 More than 180 34.20 4 664.64 There are other rate brackets for light commercial vehicles and some segments of combined (passenger and freight) vehicles.	Value Cylinder capacity/ CO_2 emissions	

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

	Taxes	Criteria	Rebates/Exemptions
Slovak Republic	VAT: 19% Administrative fees: registration fee payable by the first owner of a motor vehicle: 1 000 SKK; registration fee payable by any other owner of motor vehicle: 300 SKK. Registration fee for assigning and releasing of a licence plate number: from 500 to 5 000 SKK	Value	
Spain	VAT: 16% Vehicle registration tax: 7% for cars with engines of less than 1 600 cc for petrol cars and less than 2 000 cc for diesel cars. 12% for others.	Value Cylinder capacity	
Sweden	VAT: 25% No registration tax.	Value	
Switzerland	VAT: 7.6% No registration tax (but small fees for number plates and registration papers). Acquisition tax on new vehicles (up to 1 600 kg and all passenger cars): 4% of purchase price.	Value	Electric vehicles are exempt from acquisition tax.
Turkey	VAT: 18%. VAT for used passenger cars is 1%. Special Consumption Tax (SCT) is payable on first acquisition of vehicles (importation, acquisition by public auction, acquisition from those who carry out motor vehicle trade, inception of use, capitalisation or registration in the name of those who carry out motor vehicle trading). Motor vehicles: proportional duty is applied. For motor vehicles under CN Code 87.02 and designed for transport of passengers, tax rate is 9% for minibuses, 4% for midibuses 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	First acquisition of motor vehicles laid down in: CN Code 87.03 (cylinder capacity not exceeding 1 600 cm^3). CN Code 87.04 (cylinder capacity not exceeding 2 800 cm^3). CN Code 87.11 by disabled or impaired persons is exempted from the tax. Importation of vehicles for disabled persons are exempted from customs duty.
United Kingdom	VAT: 17.5% Vehicle first registration fee. Since 1.1.2004 a flat rate fee of GBP 38.00 is payable on the first registration or licensing of a motor vehicle in the United Kingdom.	Value	The first registration fee is applicable to all vehicles except the following exemptions: Those first registered and licensed in the "Disabled Exempt" taxation class. Historic Vehicles previously registered with the old Local Authorities (Late conversions). Vehicles previously registered in Northern Ireland. Imported vehicles previously registered under the Personal Export Scheme and New Means of Transport Scheme. Visiting Forces Vehicles. Vehicles registered under the Direct Export Scheme. Vehicles registered for off road use. Crown Exempt Vehicles. Diplomatic and consular vehicles.

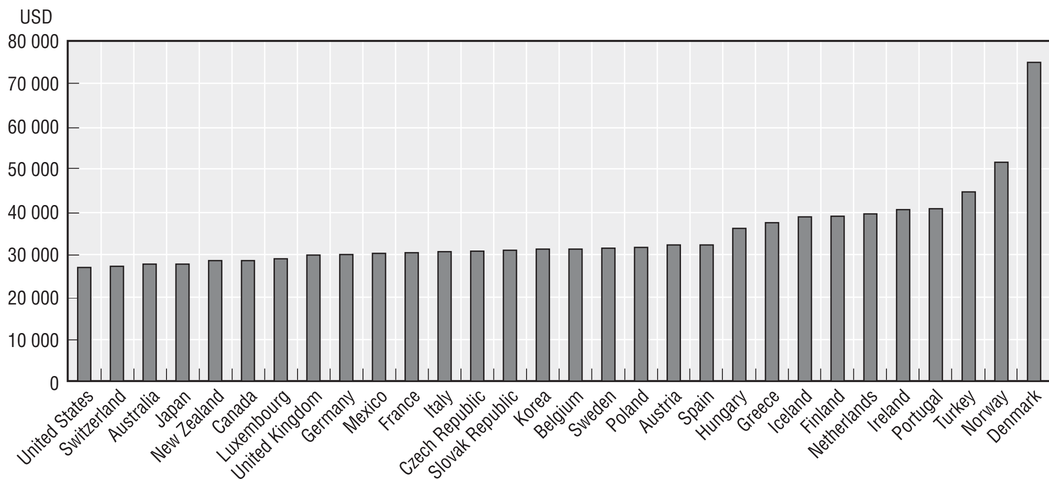
Table 5.1. **Taxes on sale and registration of motor vehicles**[1] *(cont.)*

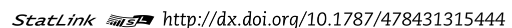
	Taxes	Criteria	Rebates/Exemptions
United States	Gas guzzler excise: levied on the sale of autos whose fuel efficiency is less than 22.5 miles per gallon. The tax varies from USD 1 000 to USD 7 700 depending on the fuel efficiency. A tax is imposed on the first sale of heavy trucks in an amount equal 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	

1. Excluding customs duties: specific regimes for second-hand cars (*e.g.* margin scheme, old timers) and insurance premium tax.
Source: National delegates; position as at 1 January 2007.

Figure 5.1. **Taxes on sale and registration of new cars**

Price all taxes inclusive in the capital of the country for a car whom value net of tax is USD 20 000




StatLink http://dx.doi.org/10.1787/478431315444

(less than 7% of the value of the car) to USD 49 944 in Copenhagen (about 200% of the value of the car). In fourteen OECD countries such taxes vary between 18% (London) and 28% (Madrid) of the value of the car.* It is true that VAT/GST rate applicable to the sale of vehicles is normally the standard rate, which is not specifically designed for vehicle taxation, especially since the higher VAT rate on luxury cars has been abolished in the European Union.

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 submitted to specific customs duties.

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

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

	Taxes	Criteria	Rebates/Exemptions
Australia	The States and Territories levy fees for annual registration. Third party compulsory insurance and drivers' licenses. Fees for commercial vehicles are generally higher than the fees for private vehicles. In most States, fees for trucks vary depending on the type of vehicle and the gross vehicle mass.	Commercial/private use Gross vehicle mass	
Austria	Motor Vehicle Tax based on the engine power of motor vehicles up to a total weight of 3.5 tonnes and on the total weight of motor vehicles above 3.5 tonnes. Road Transport duty levied on lorries and trailers of a total weight of more than 12 tonnes (EUR 6 per day, or EUR 34 per week, or EUR 128 per month, or EUR 1 285 per annum).	Engine power Weight	
Belgium	Annual Road Tax: progressive rates apply from EUR 66.53 up to EUR 1702.01 depending fiscal horsepower (CV). For vehicles above 20 CV (more than 4 l cylinder capacity) an additional amount of EUR 32.79 by CV is levied. Compensation Tax for vehicles fuelled with LPG or by other liquefied gaseous hydrocarbons is levied from EUR 89.16 up to EUR 208.20 according to CV with progressive scales depending on the age of the vehicle. Compensation Tax for diesel vehicles is levied from EUR 5.76 up to EUR 2 938.52. 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, euro class as well as the vehicle's nationality. It can be paid on a daily, weekly, monthly or annual basis. It ranges from EUR 8 per day to EUR 1 250 per year.	Engine power Cylinder capacity Fuel used Number of axles for lorries.	
Canada	All provinces impose annual fees for the use of motor vehicles. In general. The fees depend on the type of vehicles and in most cases on the weight of the vehicle.	Type Weight	
Czech Republic	The road tax is imposed on all road motor vehicles and their trailers registered and operated in the Czech Republic and used for a business activity. Also subject to the tax are all vehicles with the maximum permitted weight of at least 12 tons, designated exclusively for transport of cargo and registered in the Czech Republic, irrespective whether such vehicles are or are not used for business activities. The annual tax rate of passenger cars is from 1 200 CZK to 4 200 CZK and of other vehicles from 1 800 CZK to 44 100 CZK.	Cylinder capacity Total permitted load on axles and number of axles Total weight	Tax Exemptions: motorcycles, vehicles of diplomatic missions and consular offices, vehicles operated by the armed forces, civil defence vehicles, mobilization reserve or emergency supply vehicles, vehicles of the Police of the Czech Republic, fire protection vehicles, ambulances, mining and mountain rescue vehicles, gas emergency service vehicles and power engineering emergency service vehicles, 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 which are exclusively used to maintain land communications, except for passenger cars, electricity powered vehicles. Rebates: vehicle used in multimodal transport – tax reduction from 25% till 100%; reduced tax rates of vehicles meets EURO 2 level limits or higher level limits (up to 31.12.2007 tax rate reduced by 40%, or by 48%).
Denmark	Passenger cars annual tax: the tax is based on fuel consumption, with different rates for petrol/diesel. Rates range from DKK 520 (> 20 km/l) up to DKK 18 460 (< 4.5 km/l). Lorries' annual tax: the charge for private use is DKK 900 annually for cars with total permissible weight (tpw) up to 2 000 kg and DKK 5040 annually for cars with tpw between 2 000 and 4 000 kg. For cars used for both private and commercial purposes the rates are 50%. Cars used exclusively for commercial purposes are free of charge.	Fuel efficiency Weight (for lorries)	

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

	Taxes	Criteria	Rebates/Exemptions
Finland	Annual tax for passenger cars and delivery vans 0.35 euros per day. Additional tax for diesel vehicles: passenger cars 6.7 cents per every 100 kg of max. allowed weight of the vehicle per day; delivery vans: 0,9 cents per every 100 kg of max. allowed weight of the vehicle and for lorries 0.9-3.1 cents per every 100 kg of max. allowed weight of the vehicle depending the number of axles and use of trailers.	Weight Type of fuel Number of axles (trucks) Use of trailer	
France	Tax on business passenger cars: Up to 7 HP: EUR 1 130; more than 7 HP: EUR 2 440.	Engine power	Exemptions: Cars more than 10 years old. Cars used for public passenger transport, cars used for leasing or sale. Electrically or gas propelled cars (for mixed oil and gas propelled vehicles exemption is reduced by half). Vehicles that can use both petrol and GPL are exempt at rate of 50%.
Germany	Motor Vehicle Tax on passenger cars based on cylinder capacity, pollutant emission and type of engine. Annual tax rate for each 100 cc cylinder capacity commenced: EUR 6.75 for low-pollutant petrol-engine cars to EUR 25.36 for high-pollutant petrol-engine cars. Tax rates for diesel-engine cars are EUR 8.69 or EUR 12.22 higher in each case. Tax on motorcycles EUR 1.84 per 25 cc cylinder capacity. Tax on commercial vehicles based on maximum permissible weight, pollutant emission and decibel. Maximum annual tax charges: EUR 664 for low-pollutant category (reached at over 13 tons) to EUR 1 789 for high-pollutant category (both reached at over 15 tons).	Polluting emissions Decibel Cylinder capacity Type of engine Weight (commercial vehicles)	
Greece	Annual road tax on private passenger cars and motorcycles: based on cylinder capacity from EUR 15 to EUR 483. Annual road tax on trucks based on gross weight and on buses on the number of seats.	Cylinder capacity Weight (trucks) Number of seats (buses)	The main exemptions are: Cars used by public authorities, municipalities, ambulances, etc. Cars used by disabled persons and members of foreign diplomatic services. Electrically propelled cars. Motorcycles with 300 cc cylinder capacity used in order to replace old technology ones (replacement should take place up to 31.12.2009). For motorcycles with cylinder capacity over 300 cc used in order to replace old technology motorcycles exemption applies for 5 years only following the date of first registration of the new motorcycle (replacement should take place up to 31.12.2009).
Hungary	Motor vehicle tax levied according to capacity of engine (in Kw) of passenger cars and motorcycles. For lorries the tax is based on net weight plus 50 % of cargo weight. The tax rate for passenger cars and motorcycles is from HUF 120/kW to HUF 300/kW depending on the age of the vehicle (the older the vehicle, the less is due). For lorries the tax rate is HUF 1 200/100 kg of the tax base. The exact amount is determined by the local government.	Engine capacity Weight (for lorries)	Cars owned by public authorities, churches, foundations etc., passenger cars owned or used by handicapped persons, lorries classified above EURO 3.
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.	Weight Distance	

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

	Taxes	Criteria	Rebates/Exemptions
Ireland	Road Tax on private cars based on cylinder capacity: from EUR 151 up to EUR 1 343. Tax on commercial vehicles based on net weight: from EUR 253 (< 3 000 kg) up to EUR 3 948 (> 20 000 kg).	Cylinder capacity Weight (commercial vehicles)	Electrically propelled vehicles: EUR 146 flat rate – private and EUR 80 flat rate – commercial not over 1 500kg.
Italy	Yearly Ownership Tax: From EUR 2.58 per kW to EUR 4.95 per kW according to engine cylinder capacity and environmental category of engine. Regions are entitled to vary the national rate.	Engine power Environmental category	Exemption for historical vehicles over 30 years old; vehicles over 20 years old are exempt only if recognised as being of special historical or collectors' interest; flat rate road tax on vehicles over 30 or 20 years old if still running on public roads. 100% exemption for disabled persons.
Japan	National Motor Vehicle Tonnage Tax (N.B. Commercial vehicles) : levied according to weight, the rates are for passenger vehicles JPY 6 300 per 0.5 ton (*JPY 2 800); for lorries from JPY 4 400 per ton up to JPY 6 300 per ton (*JPY 2 800). Automobile Tax: levied according to cylinder capacity from JPY 29.500 up to JPY 111.000 (*JPY 7500 to JPY 40 700). Lorries: (4-5 tons capacity): JPY 25 500 (JPY 18 500). Buses: JPY 49 000 (JPY 17 500). Light vehicle tax (local) levied on motorcycles and light vehicles according to cylinder.	Cylinder capacity Weight (commercial vehicles)	
Korea	Automobile Tax: rates are applicable according to cylinder capacity from KRW 80 per cc up to KRW 220 per cc for non-commercial vehicles; and from KRW 18 per cc to KRW 24 per cc for commercial vehicles.	Cylinder capacity	
Luxemburg	Automobile Tax : different rate is applicable according to the type and usage of the vehicle. Registered before 01.01.2001 tax is based on cm^3. Registered since 01.01.2001 tax is based on CO_2 emissions.	Vehicle type Usage CO_2 emissions	
Mexico	Cars: Tax on ownership or use of motor vehicles is levied on the value of motor vehicles up to 10 years old. The payments decrease with the years of use. Progressive Tax Tariff: 3.0 % (value < 428.768 MXN) up to 19.1% (value > 1 393 020 MXN). Cars for more than 15 passengers and trucks with a maximum weight of 15 tons. Tax rate: 0.245%. Trucks that weigh more than 15 tons. Tax rate: 0.50%. Motorcycles: tax on ownership or use of motorcycles is levied on the value of motorcycles up to 10 years old. The payments decrease with the years of use. Progressive Tax Tariff: 3.0% (value < 97 826 MXN) up to 16.8% (value > 253 043 MXN).	Value Type of vehicle Number of passengers	Electric vehicles used for public passenger transport.
Netherlands	Motor vehicle tax levied according to type, weight and (for private cars only) fuel used. Tax on heavy vehicles (also know as the Eurovignette) is levied on vehicles (lorries) with a gross weight of 12 tons or more for the use of motor ways in the Netherlands.	Vehicle type Fuel used Weight (for lorries)	
New Zealand	Annual registration fees: rates vary depending on the type of vehicle. Most classes of vehicle including all motor cars and heavy vehicles pay a fee of NZD 206.82.	Vehicle type	
Norway	Annual fee: NOK 2 915 for most cars; NOK 1 645 for motorbikes and NOK 970 for caravans.	Vehicle type	Electric vehicles are exempt.
Poland	Annual (municipal) tax on motor vehicles. Based on heavy goods vehicles and buses of a maximum gross mass equal to 3.5 tons and over to 3.5 tons.	Gross mass of vehicle	Vehicles used for national defence purposes, for emergency services and other special purposes, *i.e.* road maintenance services, camping cars, funeral cars, vehicle excavators and historic vehicles.
Portugal	Municipal vehicle tax levied on cars and motorcycles. Vehicle excise duty on lorries above 2.5 tonnes used in public and private transport of merchandise.	Vehicle type Weight (for lorries)	

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

	Taxes	Criteria	Rebates/Exemptions
Slovak Republic	Motor Vehicle Tax (levied by municipalities) is imposed only on vehicles used for business purposes. Rates vary depending on type, weight and cylinder capacity of the vehicle.	Usage Vehicle type Weight cylinder capacity	
Spain	Motor Vehicle Tax (levied by municipalities) based on engine power for passenger cars, passenger capacity for buses, loading capacity for trucks and cylinder volume for motorcycles.	Vehicle type Engine power Cylinder capacity	
Sweden	Vehicle excise duty levied on weight, carbon dioxide emissions, number of axles, vehicle type and fuel.	Weight CO_2 emissions Number of axles Vehicle type Type of fuel.	
Switzerland	The annual motor vehicle tax is levied on cantonal (provincial) level. The tax depends on the weight or engine volume of the vehicle. At the federal level, a motorway tax of CHF 40 per year is levied on all vehicles below 3.5 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 4 000 (depending on the weight). 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 kilometers driven, the weight as well as the emission values of the towing vehicle.	Weight Engine volume Kilometres driven Emission values	A reduced rate of the motor vehicle tax usually applies to electric and agricultural vehicles.
Turkey	Motor Vehicle Tax levied on all motor vehicles – based on weight, type and cylinder capacity. Paid twice annually by registered owner.	Weight, Vehicle type Cylinder capacity	
United Kingdom	VED on lorries is set according to the number of axles, weight and type of vehicle. For private cars there is a two-tier threshold: vehicles not over 1 549 cc pay an annual rate of duty of £110, and those over, pay £175. Cars that are presented for registration in the UK, on the basis of a type approval certificate specifying a carbon dioxide (CO_2) emission figure, attract a rate of VED according to the amount of CO_2 emitted and the type of fuel used. These cars fall within a seven-banded graduated VED system. The bands are labelled A-G, with band A containing the least polluting vehicles and band G comprising of vehicles that have high CO_2 emissions. Full details can be found at *www.direct.gov.uk/Motoring*	Vehicle type CO_2 emissions Type of fuel	Vehicles for disabled people, historic vehicles constructed before 1.1.1973, limited use vehicles, agricultural machines, mowing machines, steam powered vehicles, electrically propelled vehicles, electrically assisted pedal cycles.
United States	A tax is imposed on the use of trucks weighing at least 55 000 pounds. For those trucks weighing no more than 75 000 pounds, the tax is USD 100 per year plus USD 22 for each 1 000 pounds in excess of 55 000 pounds. For those trucks weighing more than 75 000 pounds the tax is USD 550. State and local governments may impose a periodic registration, operators' license, parking and inspection fees as well as property taxes.	Weight (for trucks)	

1. Excluding insurance premium tax.

Source: National delegates; position as at 41 January 2007.

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

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

In general terms, very high registration taxes are likely to limit the number of motor vehicles on the road. However, while this would at first appear to favour environmental policy, these higher taxes mean that there is a greater population of old cars polluting the atmosphere. To combat this some countries have introduced short term bonus schemes to scrap old cars and encourage the purchase of new cars. Some countries (*e.g.* France) have recently introduced taxes/bonus schemes encouraging consumers to buy low polluting vehicles. In many countries tax exemption schemes exist to encourage consumers to buy vehicles using “clean” energies such as hydrogen, electricity and biofuel. Exemptions also exist for disabled people.

Taxes on use of motor vehicles

Taxes on the use of vehicles include recurring charges levied on the right to drive on public roads, usually in the form of an annual motor tax (see Table 5.2). Taxes on the operation of motor vehicles also include excise duties on fuel and motorway charges or other road user tolls. Table 4.4 gives an overview of the taxation of motor fuel, the most significant tax related to the operation of motor vehicles.

Table 5.3. **Taxes* on sale and registration of selected new vehicles**

	Category A	Category B	Category C	Category D
Australia (Canberra)				
Selling price	13 000	25 000	27 000	97 000
GST 10%	1 300	2 500	2 700	9 700
Luxury tax	–	–	–	11 293
Price (all taxes included)	**14 300**	**27 500**	**29 700**	**117 993**
Austria (Vienna)				
Selling price	13 000	25 000	27 000	97 000
VAT 20%	2 600	5 000	5 400	19 400
New car registration tax	780	2 000	3 780	13 580
Price (all taxes included)	**16 380**	**32 000**	**36 380**	**129 980**
Belgium (Brussels)				
Selling price	13 000	25 000	27 000	97 000
VAT 21%	2 730	5 250	5 670	20 370
Registration tax	62	495	1 239	4 957
Price (all taxes included)	**15 792**	**31 045**	**33 909**	**122 327**
Canada (Ottawa)				
Selling price	13 000	25 000	27 000	97 000
GST 6%	780	1 500	1 620	5 820
Provincial tax 8%	1 040	1 750	2 160	7 760
Air conditioning tax	95	95	95	95
Tax on heavy cars				28
Price (all taxes included)	**14 815**	**28 345**	**30 875**	**110 703**
Czech Republic (Prague)				
Selling price	13 000	25 000	27 000	97 000
VAT 19%	2 470	4 750	5 130	18 430
Registration fee	800	800	800	800
Price (all taxes included)	**16 270**	**30 550**	**32 930**	**116 230**
Denmark (Copenhagen)				
Selling price	13 000	25 000	27 000	97 000
VAT 25%	3 250	6 250	6 750	24 250
Deduction in value liable to registration duty for mayor safety equipment	–1 639	–1 639	–1 639	–1 639
Value liable to registration	14 205	29 205	31 705	119 205
Registration tax 105% on USD 11 633 (DKK 65 900)	12 215	12 215	12 215	12 215
Additional registration tax (180% on the remainder above USD 11 633)	4 629	31 629	36 129	193 629
Deduction for minor safety equipment	150	150	150	150
Price (all taxes included)	**32 944**	**74 944**	**81 944**	**326 944**
Finland (Helsinki)				
Selling price	13 000	25 000	27 000	97 000
VAT 22%	2 860	5 500	5 940	21 340
Car tax	4 980	8 262	16 077	42 540
Price (all taxes included)	**20 840**	**38 762**	**4 9017**	**160 880**
France (Paris)				
Selling price	13 000	25 000	27 000	97 000
VAT 19.6%	2 548	4 900	5 292	19 012
Tax on registration certificates	200	280	400	760
Additional special tax on registration certificates	–	–	438	1 040
Price (all taxes included)	**15 748**	**30 180**	**33 130**	**117 812**

Table 5.3. **Taxes* on sale and registration of selected new vehicles** *(cont.)*

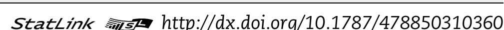
	Category A	Category B	Category C	Category D
Germany (Berlin)				
Selling price	13 000	25 000	27 000	97 000
VAT 19%	2 470	4 750	5 130	18 430
Price (all taxes included)	**15 470**	**29 750**	**32 130**	**115 430**
Greece (Athens)				
Selling price	13 000	25 000	27 000	97 000
VAT 19%	2 470	4 750	5 130	18 430
Registration tax	1 560	7 500	13 500	48 500
Price (all taxes included)	**17 030**	**37 250**	**45 630**	**163 930**
Hungary (Budapest)				
Selling price	13 000	25 000	27 000	97 000
VAT 20%	2 600	5 000	5 400	19 400
Other?	2 865	5 897	11 635	25 452
Price (all taxes included)	**18 765**	**35 897**	**44 035**	**141 852**
Iceland (Rejkavik)				
Selling price	13 000	25 000	27 000	97 000
VAT 24.5%	3 185	6 125	6 615	23 765
Registration tax	3 900	7 500	12 150	23 765
Price (all taxes included)	**20 085**	**38 625**	**45 765**	**164 415**
Ireland (Dublin)				
Selling price	13 000	25 000	27 000	97 000
VAT 21%	2 730	5 250	5 670	20 370
Vehicle Registration Tax	4 567	10 083	14 001	50 301
Price (all taxes included)	**20 297**	**40 333**	**46 671**	**167 671**
Italy (Rome)				
Selling price	13 000	25 000	27 000	97 000
VAT 20%	2 600	5 000	5 400	19 400
Registration Tax	206	442	576	960
Price (all taxes included)	**15 806**	**30 442**	**32 976**	**117 360**
Japan (Tokyo)				
Selling price	13 000	25 000	27 000	97 000
VAT 5%	650	1 250	1 350	4 850
Automobile Acquisition Tax (5%)	650	1 250	1 350	4 850
Price (all taxes included)	**14 300**	**27 500**	**29 700**	**106 700**
Korea (Seoul)				
Selling price	13 000	25 000	27 000	97 000
VAT 10%	1 300	2 500	2 700	9 700
Special Excise Tax	650	1 250	2 700	9 700
Education Tax	217	417	900	3 233
Acquisition Tax	277	533	612	2 199
Registration Tax	693	1 333	1 530	5 498
Price (all taxes included)	**16 137**	**31 033**	**35 442**	**127 330**
Luxembourg (Luxembourg)				
Selling price	13 000	25 000	27 000	97 000
VAT 15%	1 950	3 750	4 050	14 550
Price (all taxes included)	**14 950**	**28 750**	**31 050**	**111 550**
Mexico (Mexico)				
Selling price	13 000	25 000	27 000	97 000
VAT 15%	1 950	3 750	4 050	14 550
New vehicles tax	–	1 293	1 593	9 658
Price (all taxes included)	**14 950**	**30 043**	**32 643**	**121 208**

Table 5.3. **Taxes* on sale and registration of selected new vehicles** *(cont.)*

	Category A	Category B	Category C	Category D
Netherlands (The Hague)				
Selling price	13 000	25 000	27 000	97 000
VAT 19%	2 470	4 750	5 130	18 430
Registration tax	4 156	9 580	11 900	42 274
Price (all taxes included)	**19 626**	**39 330**	**44 030**	**157 704**
New Zealand (Wellington)				
Selling price	13 000	25 000	27 000	97 000
VAT 12.5%	1 625	3 125	3 375	12 125
Registration fee	–	213	277	233
Price (all taxes included)	**14 625**	**28 338**	**30 652**	**109 358**
Norway (Oslo)				
Selling price	13 000	25 000	27 000	97 000
VAT 25%	3 250	6 250	6 750	24 250
Weight tax	6 666	9 829	15 801	42 052
KW tax	963	4 047	10 037	43 374
CO_2 emissions tax	2 742	6 330	16 093	30 217
Price (all taxes included)	**26 621**	**51 456**	**75 781**	**236 893**
Poland (Warsaw)				
Selling price	13 000	25 000	27 000	97 000
VAT 22%	2 949	5 671	6 748	24 243
Excise tax	403	775	3 672	13 192
Price (all taxes included)	**16 352**	**31 446**	**37 420**	**134 435**
Portugal (Lisbon)				
Selling price	13 000	25 000	27 000	97 000
VAT 21%	2 730	5 250	5 670	20 370
Registration tax	3 012	10 273	11 815	31 434
Vehicle registration fee	85	85	85	85
Plates Fee	47	47	47	47
Price (all taxes included)	**18 874**	**40 675**	**44 617**	**148 936**
Slovak Republic (Bratislava)				
Selling price	13 000	25 000	27 000	97 000
VAT 19%	2 470	4 750	5 130	18 430
Plates fee	1 000	1 000	1 000	1 000
Price (all taxes included)	**16 470**	**30 750**	**33 130**	**116 430**
Spain (Madrid)				
Selling price	13 000	25 000	27 000	97 000
VAT 16%	2 080	4 000	4 320	15 520
Registration tax (cylinder capacity)	910	3 000	3 240	11 640
Price (all taxes included)	**15 990**	**32 000**	**34 560**	**124 160**
Sweden (Stokholm)				
Selling price	13 000	25 000	27 000	97 000
VAT 25%	3 250	6 250	6 750	24 250
Price (all taxes included)	**16 250**	**31 250**	**33 750**	**121 250**
Switzerland (Bern)				
Selling price	13 000	25 000	27 000	97 000
VAT 7.6%	988	1 900	2 052	7 372
Fee for license plates and registration papers	88	88	88	88
Price (all taxes included)	**14 076**	**26 988**	**29 140**	**104 460**

Table 5.3. **Taxes* on sale and registration of selected new vehicles** *(cont.)*

	Category A	Category B	Category C	Category D
Turkey (Ankara)				
Selling price	13 000	25 000	27 000	97 000
VAT 18%	2 340	4 500	4 860	17 460
Special consumption tax	4 810	15 000	1 080	81 480
Price (all taxes included)	**20 150**	**44 500**	**32 940**	**195 940**
United Kingdom (London)				
Selling price	13 000	25 000	27 000	97 000
VAT 17.5%	2 275	4 375	4 725	16 975
Vehicle duty	230	280	410	600
Registration fee	76	76	76	76
Price (all taxes included)	**15 581**	**29 631**	**32 211**	**114 551**
United States (Washington DC)				
Selling price	13 000	25 000	27 000	97 000
Sales tax (6% to 8% depending upon weight)	780	1 500	1 890	7 760
Registration fee	72	72	115	155
Title fee	26	26	26	26
Inspection fee	10	10	10	10
Vehicle tags	100	100	100	100
Price (all taxes included)	**13 988**	**26 708**	**29 141**	**105 051**


StatLink http://dx.doi.org/10.1787/478850310360

* This table partially reflects Table 5.1. and includes all taxes, fees and duties that must be paid to allow the vehicle for circulation on public roads.

Notes:

1. The categories are as follows:

Category A: car with 1 200 cc; 45 kw; gasoline, 1 100 kg; 140 g CO_2/km; selling price (free of tax): USD 13 000 (any vehicle technically comparable with *e.g.* Renault Clio).

Category B: car with 1 800 c /92 kw; gasoline, 1 370 kg; 177 g CO_2/km; selling price (free of tax): USD 25 000 (any vehicle technically comparable with *e.g.* Ford Mondeo).

Category C: four wheel drive 2 494 cc/120 kw; diesel; 1 600 kg; 219 g CO_2/km; selling price (free of tax): USD 27 000 (any vehicle technically comparable with *e.g.* Toyota Hilux double cabin).

Category D: Luxury car 3 498 cc/200 kw; gasoline, 2 475 kg; 237 g CO_2/km selling price (free of tax) USD 97 000 (any vehicle technically comparable with *e.g.* Mercedes Classe S 350 Limousine).

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

2. Technical limitations

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

- For simplification purposes, all vehicles are supposed to have air conditioning and are used for private purposes.
- When local taxes, fees or duties apply, the table shows data for the capital of the country.

3. Exchange rates

The amounts of taxes presented in this table result from a conversion into USD at the PPP rate provided in Annex 1 to this publication.

Source: National delegations; situation as at 1st January 2007.

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

According to the European Commission proposal mentioned above, circulation taxes should include a carbon dioxide element in order to reinforce the impact of taxation on the

environment alongside specific fuel taxes. According to the proposal, tax would differentiate on the basis of the number of grams of carbon dioxide emitted per kilometre.

There are emerging arguments in favour of an increase of taxes on use of motor vehicles (circulation taxes, road or urban tolls, differentiated fuel taxes) since they focus more on the polluting element (the actual use of the vehicle) rather than on pure ownership. These policies are nevertheless not easy to implement taking account of revenue and redistributive impact that such reforms might have. However, there is a clear trend since the early 1990s towards an "environmental" restructuring of taxes on motor vehicles (both on sale and registration and on vehicle usage).

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

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Chapter 6

Application of Value Added Taxes in three Non-OECD Economies: China, Russia and India

Introduction

The expansion of value added taxes to more than 140 countries (see Chapter 2) is one of the major developments in the consumption taxes area over the last twenty years. Whilst the statistical part of this publication is limited to OECD member countries it is useful to provide an overview of the VAT systems being developed in three major non-OECD economies *i.e.* China,[1] Russia[2] and India.

VAT in China

China began its implementation of VAT in 1984 by applying it to 24 specified taxable items. In 1994, as part of a general tax reform, the VAT system was extended considerably to most supplies and importation of goods and to supplies of services directly relating to those supplies by the "Provisional Regulation of the People's Republic of China on Value Added Tax", which rules the current regime. It also replaced a pre-existing cascading wholesale turnover tax. According to the existing international standards, the Chinese VAT system is based on a staged collection process with invoice credit method (see Chapter 1). It is also, in principle, a destination-based system where exports are zero-rated and imports are taxed under the same basis and with the same rate as local production.

It includes a standard rate of 17% and a reduced rate of 13% (see Table 6.1). Small businesses are submitted to a simplified VAT scheme where they pay a reduced rate of 6% (4% for non-production enterprise) on outputs, but without right to deduction of input tax. VAT is administered by the State Administration of Taxation (the import VAT is collected by the customs on behalf of the SAT). VAT is the major source of fiscal revenue for the Chinese authorities. In 2007, the revenue from VAT accounted for 34% of the total tax revenues of the year, which makes it the main source of tax revenues (MOF 2007). These revenues are shared between the central government (75%) and local governments (25%).

The Chinese VAT system deviates from the international standards in some key areas. Firstly, most supplies of services and immovable property, including construction, remain outside the scope of VAT and are subject to Business Tax (BT). BT, generally levied at the rate of 5%, is non-deductible and accrues to local governments. However, specific services directly relating to the supply, processing and repair of movable goods are excluded from the BT and included in the scope of VAT.

Secondly, VAT on fixed assets such as buildings, construction and equipment is non-deductible, which makes it a production rather than a consumption type of VAT. This brings more tax revenues to the government but, on the other hand, it influences investments and provokes tax cascading effects.

Thirdly, limits are placed on the rebate of input tax credits as they relate to exports. Exports are normally zero-rated as in conventional VAT systems and exporters benefit from an export rebate. This rebate however differs from a credit invoice VAT in applying to the full value of exports. If the rebate rate is equal to the VAT rate on inputs, it allows for removing the full input VAT burden, including the non-deductible VAT paid on fixed assets.

In 1994 when VAT was introduced, full rebates were planned but sharp export growth and the number of illegitimate refund claims led the government to reduce these rebate rates. The rate was set at 14% on items taxable at 17%; 10% for items taxable at 13% and 3% on a small range of items. Refund rates lower than VAT rates on inputs involve higher prices on exports and more revenue to the government.

These rebate rates on exports have evolved over time. In July 2007, VAT rebate rates were revised as part of a plan to promote high technology and other particular industries (for which the rate has been increased from 13% to 17%) while these rebate rates were decreased (down to 0% on certain items) on energy consuming, resource intensive and high polluting products (see Table 6.2). The scope for these rebates will probably be extended in 2009.

As a consequence of these characteristics producers in China incur some irrecoverable VAT, which induces distortions in the value chain and reduces competitiveness with foreign competitors. China's entry into the World Trade Organisation (WTO) in December 2001 increased the need to reform the country's indirect taxation. The current VAT system will increasingly place domestic producers at a disadvantage as the country complies with the WTO requirements and dismantles tariff and non-tariff barriers on competing goods.

Such a reform should, ideally, include a switch from the current production VAT to a standard consumption VAT, an extension of the tax base to most services (except financial and insurance services and other services usually exempt from VAT) and a full tax relief for exports. However, such a reform would generate considerable revenue losses for local governments (Ahmad, Singh and Lockwood 2004). The move to a consumption VAT would exclude capital goods from the tax base, and also generate losses for the central government. Extending the coverage of the VAT to services would lead to substantial revenue gains to the central government, but would imply the elimination of the business tax on most services, an important source of revenue for local governments. In addition, these reforms would not affect all the provinces uniformly. The move to a consumption VAT for instance would particularly affect provinces where industry represents a large share of their economic activity. Poorer provinces, where agriculture is still predominant, and richer provinces, where services have taken a growing role, would be less affected.

The Chinese government has undertaken to convert the current production based VAT system into a standard consumption based system in 2004 when it introduced a pilot program in Northeast China to test the economic impact of the recovery of input VAT on fixed assets. Overall, the trial was considered successful and it was extended in 2007

Table 6.1. **VAT rates in China**

Coverage of collection	VAT rate (%)
Exportation of goods (except otherwise stipulated – see Table 6.2)	0
Agriculture, forestry, products of animal husbandry, aquatic products. Edible vegetable and grain duplicates. Tap water, heating, cooling, hot air supplying, hot water, gas, liquefied petroleum gas, natural gas, coal/charcoal products for household use. Book, newspapers, magazines (excluding the newspapers and magazines distributed by the post department). Feeds, chemical fertilisers, agricultural chemicals, agricultural machinery and plastic converting film for farming. Selected metal mineral products, Selected non-metal mineral products, coal.	13
Crude oil, mine salt and goods other than those listed above. Taxable services.	17

Box 6.1. **Simplified VAT regime and reduced rates for "Small-scale taxpayers"**

In China, VAT taxpayers are divided into general taxpayers and small scale taxpayers on the basis of their operation scale and accounting and auditing system, with different methods of tax computation.

Small scale taxpayers are those without a sound accounting and auditing system whose taxable value of sales is below RMB 1 million (USD 143 000) for taxpayers engaged in the production of goods or the provision of taxable services and below RMB 1.8 million (USD 257 000) for those engaged in wholesaling or retailing business.

General taxpayers mainly refer to enterprises whose annual taxable sales value exceeds that of small scale taxpayers. Small production enterprises with a sound accounting and auditing system may be classified as general taxpayers. However, individuals, non enterprise units, and enterprises that do not regularly engage in taxable operations are classified as small scale taxpayers even if their annual taxable value of sales exceeds the thresholds for small scale taxpayers.

VAT payable by small scale taxpayers is calculated by a simplified method on the basis of the sales value and the tax rate without offset or deduction for input VAT. The applicable rate is 4% for commercial enterprises and 6% for other operations. The formula for the computation of VAT is as follows: Tax payable = sales value x tax rate (4% or 6%).

Table 6.2. **VAT rebates for exports – China – (examples – non-exhaustive list)**

Product	Rebate rate (%)
Endangered plants and animals; products made thereof; salt; cement; mineral oil products; some chemical products; fertilisers.	0
Vegetable oil; essential oils; explosives and pyrotechnic products; plastics and rubber; leather and fur; certain wooden products; paper and cartons; certain articles of iron and steel; Nickel, lead, zinc or tin and articles thereof; certain articles of stone, asbestos, mica, etc; glass and glassware; pearls.	5
Cables; electrical conductors; furniture and lamps.	9
Some engines and motors; clothing accessories; footwear; clocks and watches; toys; games; sport requisites.	11
Painting, drawing, engravings, sculptures and postage stamps.	13
Information technology products.	17

to 8 industrial sectors in 26 specified cities in Central China. As part of its current fiscal and tax reform programme, the Chinese Ministry of Finance announced in March 2008 its intention to further implement this input VAT credit system for fixed assets on a nationwide basis in the next few years (MOF 2008).

VAT in Russia

The Value Added Tax was adopted by the Soviet Union in December 1991 upon the eve of its dissolution. Although it was broadly based on the European-type VAT and has benefitted from a single rate (albeit high at 28%) and a fairly broad base covering most goods and services, the Soviet model VAT presented several significant problems (Martinez-Vasquez, McNab 2000). First, the accounting tax liability from sales was on a cash basis, which made it basically incompatible with the effective application of the invoice-credit method. Second, the invoice-credit method was only used at the manufacturing level while the subtraction method (see Chapter 1) was used for calculating tax liabilities at the wholesale

and retail levels. Third, the original VAT regime denied input tax credits for the VAT paid on capital assets.

Further to a number of tax reforms, which took place as part of the shift from a centrally planned economy to a decentralised market economy, the Russian Tax Code has been redrafted several times in the last fifteen years. The present VAT law (Chapter 21 of the Russian Tax code) is the result of the last tax reform that came into force on 1 January 2006. As a result of these reforms, the Russian VAT regime is now close to the European model.

Although Russia is a federation (89 members including republics, provinces, and territories) that have some tax and fiscal autonomy, VAT is a federal tax collected by the Federal Tax Service.

According to the European model, the Russian VAT system is a broad-based tax collected through a staged collection process with invoice credit method (see Chapter 1). Taxable supplies include supply of goods, services and works[3] made on Russian territory, including supplies on a free charge basis as well as importation of goods into Russia. As in most jurisdictions, several supplies are VAT exempt[4] such as some medical equipment and services, public transport of passengers, postal services, residential accommodation, education and financial services. Registered taxpayers (except those benefitting from the simplified accounting system) have a right to deduction of input tax that relates to taxable supplies, including, since 1992, VAT paid on the acquisition of fixed assets and intangibles. Since 2006, no payment to suppliers is required for input VAT recovery.

The 2006 VAT reform also shifted the accounting tax liability onto an accrual basis, as in most countries. However, an issue has arisen with respect to time of supply. This is now defined as the date of shipment; internationally, the norm is the earlier of either the receipt of cash, issuance of a VAT invoice or date of shipment. "This peculiar arrangement was apparently motivated by the desire to reduce fraud – it is difficult for officials to monitor false invoices – but it has raised questions about when buyers can take their VAT credit. Moreover, since shipment documents as well as invoices can be forged, it is not clear that the rule will reduce fraud" (OECD 2006).

The tax code provides for three VAT rates: the standard rate of 18% is applicable to all supplies not covered by the reduced or zero rates. A reduced rate of 10% applies on foodstuffs, goods for children, some periodical and books, and some medical goods and services. The zero rate[5] applies to export of goods, supplies of goods, services and works under customs status; international transport of passengers; works performed in outer space or connected to those works; supplies of precious metals by taxpayers that extract them from scrap and waste and goods; services and works provided to foreign diplomatic representations.

A few supplies are treated as being outside the scope of VAT such as operations associated with the circulation of currency; transfer of assets to a legal successor of a business; transfer of assets to non-profit organisations; transfer of assets of State and municipal enterprises which are purchased through privatisation and the supply of land plots. Unlike the European VAT system, supplies of goods, works and services made outside Russia are considered outside the scope of VAT.

The Tax Code provides that Russia shall be treated as the place of supply of goods if *a)* goods are located in the territory of Russia and are not dispatched or transported (*e.g.* real property); or *b)* are located in the territory of Russia prior to dispatching or transferring. Services shall be treated as supplied in the place where the supplier belongs, except in

cases covered by special rules. According to these special rules, work and services directly related to property are deemed to be supplied where the property is located; services referred to the field of culture, art, education, sport and tourism are deemed to be supplied where they are actually provided; intellectual services (transfer of rights, legal, accounting, advertising, marketing, database development, engineering, etc.) and leasing of movable property (except land and transport vehicles) are deemed to take place where the customer is located. In cases where such supplies are provided to Russian taxpayers, the reverse charge system applies (see Chapter 1) and the VAT registered customer acts as tax agent.

The Russian Tax Code also provides for a high taxation threshold for small businesses. Taxpayers with taxable supplies below RUR 2 million (approx. 80 000 USD) in a three months period can apply for a "simplified accounting system", which includes an exemption from paying VAT on outputs (with no right to deduction of input tax). Those taxpayers are also relieved from normal VAT obligations.

The Russian VAT system deviates from the international standards in two key areas. Firstly, supplies of services, goods and works made outside Russia are considered outside the scope of Russian VAT. This means that, unlike in the standard VAT model, input VAT in relation to those supplies is not deductible. This means that *e.g.* a Russian taxpayer that provides advertising services to foreign clients only has no right to deduction of input VAT incurred in Russia. In case where a taxpayer provides such services to both Russian and foreign customers the right to deduction is apportioned to the share of its Russian customers.

Secondly, if the VAT treatment of cross-border trade is now based on the destination principle (see Chapter 1) where exports are zero-rated and imports are taxed under the same basis and with the same rate as local production, a notable exception remains for oil and gas supplies within the Commonwealth of Independent States (CIS).[6] Until July 2001, cross-border trade in goods within the CIS was taxed according to the origin principle (see Chapter 1). Under that regime, VAT with respect to goods passing between them was levied in the exporting country, and not in the importing country. As a result, a 20% (the then generally applicable Russian rate) was levied on all exports to the CIS countries. This was the case, even if the item would otherwise have been exempt from VAT in Russia and exports of intermediate outputs (as opposed to final goods for resale apparently) were subject to credit of 20% VAT paid to the country of origin of the export, as if they had been acquired in Russia and subject to the domestic VAT (Summers and Sunley 1995). One of the main reasons for the development of such a system was the absence of effective border controls that are necessary for the implementation of a destination-based system.[7] The development of autonomous tax codes and administrations in CIS countries allowed for the removal of this specific system and the implementation of a full destination principle to cross-border trade in goods between them in July 2001 (January 2005 for trade with Belarus[8]), except for crude oil and gas.

Tax agreements made between CIS countries in 2001 for the shift from an origin-based to a destination-based VAT for cross-border trade between them included a notable exception: the trade in oil and gas. Since Russia is one of the world's largest producers, it benefits from the application of VAT on oil and gas exports to other CIS countries based on the origin principle. Russia also levies excises on natural gas and export tariffs (mostly linked to world oil prices. According to this destination principle, imports of oil and natural gas are exempt in other CIS countries. Since they do not provide credit for Russian VAT to

oil and gas importers, double taxation arises as they are first subject to Russian VAT and then to domestic VAT on sales of goods produced using these commodities. Recent work on the case of cross-border trade between Russia and Ukraine (Shiells 2005) showed that the move from an origin-based to a destination-based VAT may have a different impact for oil and gas sectors. For the oil market, which is broadly competitive, such a move would increase the price (net of tax) to Russian producers, reduce the price (inclusive of tax) paid by Ukrainian buyers, and increase oil export volume. Since Ukraine does not provide a credit for Russian VAT to oil importers removal of the Russian origin-based VAT would raise the net return to producers, reduce the cost to Ukrainian buyers, and lower Russian tax receipts, and could raise or lower Ukrainian tax revenues. As regards the gas market, natural gas exports from Russia to Ukraine can be characterized (subject to some caveats) as a bilateral monopoly, with the Russian firm Gazprom accounting for virtually all Russian production and exports, and the Ukrainian firm Naftogaz dominating imports and domestic sales. "Moreover, Ukraine has substantial leverage with Russia because it owns the key gas transit pipelines that handle most Russian gas shipments to Europe. Russia chooses to maintain its VAT on gas exports to other CIS destinations, including Ukraine, as an important source of government revenue. If Russia were to move fully to a destination basis for VAT and thereby cease to apply VAT to energy exports to other CIS countries, the export price, inclusive of taxes, would likely remain unchanged, because the Russian government would raise other taxes or the Russian producer would raise its export price" (Shiells 2005).

The evolution of the Russian VAT system, as well as those of former centrally planned economies, has shown a clear trend towards the application of international standards (accrual accounting, invoice-credit method, destination-based system for cross-border trade) and in particular the European model (*e.g.* place of taxation rules for cross-border trade in services) although several differences still remain such as blocked input tax credit for exports of services and supplies made abroad and the intra-CIS trade in oil and gas, perhaps mainly for budgetary reasons. Further developments should also be influenced by the improvements in the management of the tax administration and better compliance.

VAT in India

VAT has emerged as one of the most fundamental component of the ambitious agenda of tax reforms undertaken in the early 1990s in order to develop a strong market economy in India and meet the requirements of international competition. The development of a simple, transparent and broad-based VAT at the federal level was considered as the most efficient way to achieve these goals in the field of consumption taxes. However the design and implementation process of such a VAT system proved very difficult in practice since it entailed revenue losses and fiscal power issues for the sub-central levels of government.

India is a federal republic of twenty-eight States and seven centrally administered Union Territories. Below the States, there are over a quarter million local governments, of which 3 000 are in urban areas. Indian federalism is characterised by constitutional division of revenue and expenditure powers amongst the three levels of governments. The statutory recognition of local rural and urban governments was accorded by a constitutional amendment in 1992 notably to encourage the States to allow for more fiscal decentralisation at local level.

The tax powers are assigned on the basis of the principle of separation and are assigned by the Constitution. Article 246 of the Constitution states that Parliament has exclusive powers to make laws with respect to any of matters enumerated in List I in the Seventh Schedule to the Constitution (called "Union List"). State Governments have exclusive powers to make laws for the States with respect to any matter enumerated in List II of the Seventh Schedule to the Constitution (*States List*). List III (*Concurrent List*) contains entries where both Union and State Governments can exercise power. In the case of Union Territories, the Union Government can make laws in respect of all the entries in all three lists. Statutory recognition was also given to local rural and urban governments by the 73th and 74th amendments to the constitution in 1992. A separate list of functions and sources of finance was identified for those local bodies. It is also to the States to pass and implement required legislation. India has, therefore, a three-tier tax structure, comprising the Union Government, the State Governments and the Urban/Rural Local Bodies.

Most broad-based and progressive taxes (*e.g.* Corporation Tax, Personal Income Tax, Custom Duties, Union Excise Duties and VAT on services) have been assigned to the Central Government while a number of local taxes have been assigned exclusively to the States (*e.g.* Agricultural Taxes, Land Taxes, State Excise Duties, Taxes on Transport, Sales Taxes, VAT on goods). However, only the tax on the sale of goods has been significant for state revenues (Rao and Singh 2006). The Central Government also has the residual tax power. The Constitution leaves the assignment of local taxes to the States. In many States, consumption taxes have been assigned to local authorities such as terminal taxes (*e.g.* property and food taxes) and "octroi", a local entry tax on goods. The exclusivity in the assignment of these taxing powers should be understood in the legal sense only and not in the economic sense. For example, the Central Government levies taxes on production of goods but the tax on the sale of goods is levied by the States (Rao 2005), which causes cascading effects.

In parallel with tax powers, expenditure powers are shared by the Constitution between the three levels of government. The functions required for maintaining macroeconomic stability, international relations and activities having significant scale economies have been assigned exclusively to the Central Government or have to be carried out concurrently with the States. The functions relating to local management are assigned to the States or local authorities. However, the constitutional assignments and developments over the years have caused a high degree of vertical imbalance with well over a third of state expenditures having to be covered by transfers from the Centre (Rao and Singh 2006). The Constitution recognises that the States' tax powers are inadequate to meet their expenditure needs and therefore provides for the sharing of the central tax revenues (Rao 2006).

In this context, it has proved very difficult to implement a federal VAT in India. Although the implementation of a broad-base federal VAT system has been considered as the most desirable consumption tax system for India since the early 1990s, such a reform would involve serious problems for the finances of regional governments. In addition, implementing VAT in India in the context of current economic reforms would have paradoxical dimensions for Indian federalism. On one hand economic reforms have led to more decentralisation of expenditure responsibilities, which in turn demands more decentralisation of revenue raising power if fiscal accountability is to be maintained. On the other hand, implementation of VAT (to make India a single integrated market) would lead to revenue losses for the States and reduce their autonomy, indicating greater

centralisation (Sharma 2004). Other factors have also complicated the implementation of VAT at the federal level such as the administrative and political difficulty for the States to collect other taxes, the structure of consumption taxes levied at local level and the complexity of a transfer system from the Centre to the States.

As a result, the introduction of VAT in India was delayed a number of times. It was only in April 2005 that a first step towards its introduction was made. However, the 2005 reform has introduced only a partial and dual VAT system, which replaced most sales taxes. "Considerations of fiscal autonomy and demands on the Central Government to effect sizable interregional resource transfers as well as the political acceptability tilted the decision in favour of the dual VAT scheme as a medium term goal" (Rao and Rao 2006). There are two different taxes *i.e.* a State VAT on goods, which replaced local sales taxes and a federal Service Tax on a defined list of services.

The VAT on trade in goods is levied by the States. Each State implemented VAT legislation according to a framework agreed at the Union level, which provides for a VAT based on the invoice credit method with tax on inputs (including fixed assets) credited against the VAT on outputs. The Central Government has also fixed uniform VAT rates at the scale of the Union. There are three VAT rates: most items of common consumption, inputs and capital goods (about 275 items) are taxed at 4%; a few selected items are taxed at 1% (gold, precious stones, silver) and all other items are taxed at 12.5%. Basic necessities (about 75 items) are VAT exempt while petrol and diesel fuel are outside the scope of VAT. The difference of 8.5 percentage points between the VAT rates on inputs and outputs (respectively 4% and 12.5%) tends to reduce tax compliance (Rao and Rao 2006). Many commodities can be used as inputs as well as final consumer goods and the lower rate implies a loss of revenue when goods classified as "inputs" are sold for final consumption.

This is, in principle, a destination-based VAT, with export of goods (outside the State or outside India) being zero-rated. This means that taxpayers have a right to 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. Since VAT is a tax managed at the State level, no input tax credit is granted on VAT paid in other States. This destination principle is moderated by the application of a Central Sales Tax (CST) on interstate sale of goods and stock transfers. The CST cannot be offset against the State VAT and yet revenues accrue to the exporting state. In April 2007 this tax was reduced from 4% to 3% and again reduced from 3% to 2% in June 2008 with a view to a complete phasing-out in the coming years. The central government may compensate exporting States for this tax cut by transferring the revenue from the Service Tax.

All dealers with an annual turnover above INR 500 000 (about USD 12 000) are required to register for VAT. The State Governments, through Taxation Departments, are carrying out the responsibility of levying and collecting VAT with the assistance of the Central Government.

The Central Government also taxes the production of goods through central excise taxes. This tax is known as the Central VAT (CENVAT), which is levied at a rate of 16%. Within the good-producing sector, there is no cascading effect as goods producers can offset input tax against output tax. However, distributors cannot offset the tax against the payment of State VAT and so it becomes effectively an excise tax.

The VAT on trade in services, called Service Tax (ST) is levied by the Central Government at a rate of 12% (10% until 2005) on specified services called "taxable services". This tax was

introduced in July 1994 and covered initially three services: Insurance (other than life insurance), stock brokerages and telecommunications. This list was expanded successively across years and now includes more than 80 services such as 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. It is expected that the coverage of the Service Tax be gradually expanded until most services fall within the scope of the tax.

The Service Tax works as an invoice-credit VAT, with input ST paid on all the input services being creditable against the output ST. Since VAT on trade in goods and ST on trade in services are two distinct taxes, collected by two different levels of government (respectively by States and Central Government), the input ST on services incurred by a taxpayer cannot be creditable against its output VAT on goods.

This system leads to considerable cascading of taxes and unequal tax treatment of different firms. The separation of the taxation of goods from that on services makes taxation complex and facilitates tax avoidance (OECD 2007). There is also a cascading effect since the central VAT on goods (CENVAT) becomes an excise tax once the taxed item leaves the production sector while the goods are taxed under VAT by the States. The Central Sales Tax on cross-border sales favours intra-State production at the expense of production processes covering more than one State. Moreover, there are physical border controls between States, which are costly and can be barriers to the development of a uniform internal market, but are necessary to prevent tax evasion in the context of zero-rating of interstate trade.

The Indian Government announced its intention, in partnership with the States, to merge all taxes like Service Tax, Excise and VAT into a nation-wide Goods and Service Tax (GST) by the year 2010 (Chidambaram 2008). A first step in this direction has been taken with the progressive phasing out of the CST (now at 2%). As a second step the three taxes concerned (States' VAT on goods, Service Tax and CENVAT) should be merged into one central VAT. At the same time, the scope for taxation of services should be widened in order to cover most services.

Notes

1. China, India, Brazil, Indonesia and South Africa were invited by the OECD Council at Ministerial level in May 2007 to strengthen co-operation with the OECD with a view to possible membership.
2. Russia, Chile, Estonia, Israel and Slovenia were invited by the OECD Council at Ministerial level in May 2007 to enter an accession process to the OECD.
3. Even though the Russian tax legislation distinguishes between services and works, for VAT purposes services and works are treated alike. "Work" means any activity leading to tangible results which may be sold or transferred.
4. 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".
5. 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.
6. The CIS was created when the USSR was dissolved in December 1991. According to CIS official website (*www.cis.minsk.by*) members of the CIS were as at 1 September 2008 : Armenia; Azerbaijan; Belarus; Georgia; Kazakhstan; Kyrgyzstan; Moldova; Russia; Tajikistan; Turkmenistan; Ukraine; Uzbekistan. Turkmenistan and Ukraine have however not ratified the CIS Charter.

7. Within the European Union, the destination principle was maintained despite the removal of tax borders in 1992. Border controls were replaced by a reinforced administrative cooperation.
8. Since a customs union exist between Russia and Belarus, the VAT on cross-border trade in goods between them is not collected by customs authorities but by tax administrations via a deferred-payment system where zero-rate for exports is allowed for the exporter on the basis of a copy of the import declaration made by the importer.

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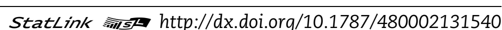
ANNEX 1

Exchange Rates PPP 2006

Australia	AUD	1.41
Austria	EUR	0.872
Belgium	EUR	0.896
Canada	CAD	1.2
Czech Republic	CZR	14.3
Denmark	DKK	8.58
Finland	EUR	0.969
France	EUR	0.913
Germany	EUR	0.882
Greece	EUR	0.705
Hungary	HUF	130
Iceland	ISK	105
Ireland	EUR	1.01
Italy	EUR	0.868
Japan	JPY	124
Korea	KRW	762
Luxembourg	EUR	0.917
Mexico	MXN	7.22
Netherlands	EUR	0.895
New Zealand	NZD	1.52
Norway	NOK	8.89
Poland	PLN	1.9
Portugal	EUR	0.703
Slovak Republic	SKK	17.3
Spain	EUR	0.758
Sweden	SEK	9.16
Switzerland	CHF	1.7
Turkey	TRL	0.901
United Kingdom	GBP	0.652
United States	USD	1



Note: Purchasing Power Parities (PPP) are the rates of currency conversion that eliminate the differences in price levels between countries. They show the specified number of monetary units needed in each country to buy the same representative basket of consumer goods and services, which costs USD 1 in the United States. The PPPs are given in national currency unit per US dollar. 2006 PPPs for all countries are OECD estimates. For further detail see *www.oecd.org/std/ppp*.

ANNEX 2

Countries with VAT (2008)

		Abbreviation for VAT*			Abbreviation for VAT*
1	Albania	TVSH	41	Ethiopia	(VAT)*
2	Algeria	TVA	42	Fiji	VAT
3	Argentina	IVA	43	Finland	ALV
4	Armenia	*AAH*	44	France	TVA
5	Australia	GST	45	Gabon	TVA
6	Austria	USt.	46	Georgia	*DGhG*
7	Azerbaijan	HAC *NDS*	47	Germany	MwSt./Ust.
8	Bangladesh	VAT	48	Ghana	VAT
9	Barbados	VAT	49	Greece	ϕMA
10	Belarus	HAC *NDS*	50	Guatemala	IVA
11	Belgium	BTW/TVA/MWSt	51	Guinea	TVA
12	Benin	TVA	52	Guyana	VAT
13	Bolivia	IVA	53	Haiti	TVA
14	Bosnia and Herzegovina	PDV	54	Honduras	IVA
15	Botswana	VAT	55	Hungary	AFA
16	Brazil	ICMS	56	Iceland	VSK
17	Bulgaria	MMC	57	India	VAT
18	Burkina Faso	TVA	58	Indonesia	PPN
19	Cambodia	(VAT)*	59	Ireland	CBL VAT
20	Cameroon	TVA/VAT	60	Israel	Ma'am
21	Canada	GST	61	Italy	IVA
22	Cap Verde	IVA	62	Jamaica	VAT
23	Central African Republic	TVA	63	Japan	Consumption Tax
24	Chad	TVA	64	Jersey	GST
25	Chile	IVA	65	Jordan	*GST*
26	China, People's Republic of	(VAT)*	66	Kazakhstan	*Kck*
27	Colombia	IVA	67	Kenya	VAT
28	Congo, Republic of	TVA	68	Korea (South)	VAT
29	Costa Rica	IGV	69	Kyrgyz Republic	(VAT)*
30	Côte d'Ivoire	TVA	70	Kosovo	TVSH
31	Croatia	PDV	71	Latvia	PVN
32	Cyprus[1]	ϕMA	72	Lebanon	TVA
33	Czech Republic	DPH	73	Lesotho	VAT
34	Denmark	moms	74	Lithuania	PVM
35	Dominican Republic	ITBIS	75	Luxembourg	TVA
36	Ecuador	IVA	76	Macedonia	MMB
37	Egypt	*GST*	77	Madagascar	TVA
38	El Salvador	IVA	78	Malawi	VAT
39	Equatorial Guinea	IVA	79	Malaysia	(VAT)
40	Estonia	km	80	Mali	TVA

		Abbreviation for VAT*			Abbreviation for VAT*
81	Malta	VAT	115	Slovak Republic	DPH
82	Mauritania	TVA	116	Slovenia	DDV
83	Mauritius	TVA	117	South Africa	VAT
84	Mexico	IVA	118	Spaihn	IVA
85	Moldova	(VAT)*	119	Sri Lanka	(VAT)*
86	Mongolia	(VAT)*	120	Sudan	VAT
87	Montenegro	PDV	121	Suriname	BTW
88	Morocco	TVA	122	Sweden	Moms
89	Mozambique	IVA	123	Switzerland	MWST
90	Namibia	VAT	124	Taiwan (Republic of China)	(VAT)*
91	Nepal	(VAT)*	125	Tajikistan	(VAT)*
92	Netherlands	BTW	126	Tanzania	VAT
93	Netherlands Antilles	BTW	127	Thailand	(VAT)*
94	New Zealand	GST	128	Togo	TVA
95	Niger	TVA	129	Trinidad and Tobago	IVA
96	Philippines	RVAT	130	Tunisia	TVA
97	Nigeria	VAT	131	Turkey	KDV
98	Norway	MVA	132	Turkmenistan	(VAT)*
99	Pakistan	(VAT)*	133	Uganda	VAT
100	Panama	ITBMS	134	Ukraine	MAB
101	Papua New Guinea	VAT	135	United Kingdom	VAT
102	Paraguay	IVA	136	Uruguay	IVA
103	Peru	IGV	137	Uzbekistan	(VAT)
104	Philippines	RVAT	138	Vanuatu	TVA
105	Poland	PTU/VAT	139	Venezuela	IVA
106	Portugal	IVA	140	Vietnam	GTGT
107	Romania	TVA	141	West Bank and Gaza	(VAT)*
108	Russia	HAC *NDS*	142	Zambia	VAT
109	Rwanda	TVA	143	Zimbabwe	VAT
110	Samoa	VAT			
111	San Marino	IVA			
112	Senegal	TVA			
113	Serbia	PDV			
114	Singapore	GST			

1. **Notes on Cyprus.** ***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".

* (VAT) means that no acronym was available (not found or not existing in Latin alphabet).

Source: OECD.

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