Global Trends

The relative contribution of consumption-based taxes is increasing globally.

Among leading economies, the contribution of broad-based consumption taxes such as VAT to overall revenues has increased.

Governments have moved away from their reliance on specific consumption taxes and income-based taxes.

In general, VAT rates in developed markets have increased over the last decade.

In contrast, rates of personal and corporate income taxes have tended to decrease amid concerns about their competitive impact.
Motivations behind the introduction of VAT

VAT is recognised as a stable, broad-based revenue source

- **Greater revenue stability**
  - Broad-based taxes can enhance revenue stability.
  - Particularly important in resource-rich economies seeking to reduce their reliance on royalties, given the volatility of underlying prices.

- **Support for strategic investment and expenditure**
  - Taxes can support the government in achieving its long-term objectives.
  - Enables strategic investment in areas such as infrastructure, technology and education.

- **Increased fiscal powers**
  - Short-term reductions in the rate can be used to stimulate consumer demand and increased revenues can be used to accumulate a surplus.
  - This is especially important in markets with limited monetary instruments at their disposal.

- **Potential behavioral change**
  - Depending on the design of the VAT, it may be used to effect behavioural change by altering the incentives of consumers.
  - For example, the taxation of educational goods and services at lower rates can increase spending in these areas.
Advantages of a VAT

VAT is efficient and non-distortive compared to other forms of taxation

General principles of taxation from the OECD and IMF

- **TRANSPARENT**
  - Taxes should be clear and simple to reduce the burden of compliance.

- **BROAD-BASED**
  - Broad-based taxes promote revenue stability and reduce distortions.

- **NON-DISTORTIVE**
  - Taxes should avoid distorting incentives of consumers and firms in which may reduce efficiency in the economy.

- **EQUITABLE**
  - Taxes should not unduly effect certain groups of segments of society.

Advantages of a VAT against these objectives

- Broad-based so minimises distortive impacts on the economy.
- Less likely to distort decision-making or have a detrimental effect on savings and investment compared to income taxes.
- Neutral tax as it has a limited impact on the allocation of resources.
- More stable source of revenue than corporate taxes.
- Transparent system that limits the ability to evade taxes.

**Downsides**

- Potentially regressive – VAT leads to an increase in the price level that may disproportionately impact low-income households.
Global Indirect Tax Reset
Emerging trends of global consumption taxes

**OECD**
- The International VAT and GST Guidelines (not confined to e-commerce) address the two fundamental issues: the place of taxation; and the person liable for tax
- Aim to ensure that VAT does not distort cross-border trade in services and intangibles and remove current exposure to arbitrage

**European Commission**
- Detailed analysis of VAT system resulted in a shortlist of five options being examined
- B2B supplies of goods first
- Destination based system likely
International VAT and GST guidelines

• Global VAT and GST guidelines were unanimously adopted last year during OECD’s third Global forum on VAT

• OECD VAT and GST guidelines increasingly used as a basis for VAT reforms in both developed and developing countries, especially outside the OECD

• Recent examples on implementation of OECD Guidelines on B2C services
  • South Africa, Japan, South Korea, New Zealand, Australia

• The third Global forum on VAT – future actions that are particularly interesting in the light of BEPS
  • Identify approaches to further improve neutrality and overall efficiency of the VAT systems around the world
  • Develop a framework for exchange of information and administrative cooperation
  • Improve interaction between VAT and international direct tax framework, notably in the area of Transfer Pricing
EU VAT action plan of 7 April 2016

• The VAT action plan consist of 4 main building blocks
  1. Urgent measures to tackle the VAT gap - Fight fraud through conventional and short term measures
  2. A robust single European VAT area - Definitive B2B VAT regime
  3. A solution to e-commerce trade, removing “VAT obstacles” and taking away disproportionate VAT burden from small businesses
  4. Modernization of the approach regarding VAT rates

• Dutch ECOFIN presidency is driving results on this topic
  • During last week’s (25 May 2016) meeting of the ECOFIN council, conclusions were adopted on the Commission’s action plan and a special report of the Court of Auditors “Tackling intra-Community fraud: more action needed”
Recent developments of countries moving to a VAT system

- Malaysia - Implemented 1 April 2015
- China - Rolling out the final stages of its implementation as per 1 May 2016
- Puerto Rico – Not going to happen...!? 
- India GST implementation – Will happen, question is when!
Malaysian GST: First Birthday Party, or One Year Wake?

• Some definite benefit for the Government
  • Revenue collections are higher than they thought
  • Number of registrations higher than originally expected
  • No major problems for the economy with the implementation

• For Businesses, no real benefit but no major hurdles either…
  • Overall, implementation did not create too many problems
  • Businesses are largely coping with GST now
  • However the “devil is in the detail” – there are still a number of areas where there are problems that need to be addressed
  • The first major audits have not yet struck home
China’s completion of the VAT Reform

• Circular 36 supersedes Circular 106, which was the legislation that contained the detailed implementation rules for the VAT Reform

• Issued on the 24 March for implementation by 1 May 2016 – a significant piece of regulation at 92 pages long

• Structure of Circular 36 mirrors Circular 106
  • Appendix I - the Implementing Measures for the Pilot VAT Reform
  • Appendix II - the Provisions on Matters Concerning the Pilot VAT Reform
  • Appendix III - the Provisions on the Transition Policies for the Pilot VAT Reform
  • Appendix IV - the Provisions on VAT Zero Rate and Tax Exemption Policy Applicable to Taxable Services