Indirect taxes: some issues and an agenda for research

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This paper was prepared to provide background information for the panel discussion on the goods and services tax at the seminar on tax reform. It considers briefly some issues surrounding the introduction of the goods and services tax including the question of the appropriate role for indirect and direct taxation in the total tax system. It identifies some policy issues which require attention over the coming months and describes the Institute of Policy Studies work programme on indirect taxation.[1]

I. INTRODUCTION

One of the surprises contained in the 1984 Budget was the announcement of Government's intention to legislate in 1985 for a broadly based goods and services tax (GST) to take effect from 1 April 1986. Further details covering the administration of the tax will be revealed in a White Paper to be released soon and legislation will be passed later this year, following submissions from and consultations with interested groups. Sufficient information exists already to allow consideration of the GST — in particular, to identify issues which must be addressed by those who are concerned with the design and implementation of tax policy and its affect on different groups.

This brief canvassing of issues will examine the rationale for the GST, the basic characteristic of the proposed GST and the impact of the GST on economic efficiency and equity. The paper will then briefly consider the role of direct and indirect taxation in the total tax system before drawing some conclusions and indicating some topics for research which will be investigated at the Institute of Policy Studies over the coming months.

One of the features which will complicate the consideration of the GST is that this new tax is but a part of other tax changes which are in progress or under consideration. Apart from the announcement of a fringe benefits tax, the Government has signalled a major review of business taxation. A Budget Task Force has also been established to consider income maintenance schemes, including

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1 A list of selected references for further reading on the topic of this paper is presented in Appendix II.

the possibility of a closer integration of the tax and social security systems. These developments mean that the new tax must not be considered in isolation but rather as part of a broader package of tax reform over the next few years.

II. THE RATIONALE FOR THE GST

The present wholesale sales tax (WST) has, for a long time, been the subject of criticism. Its cited deficiencies include the large number and variability of rates charged on particular items (12 specific rates and 6 ad valorem rates ranging from 10%-50% of wholesale value), the large number of exemptions (for classes of goods, uses of goods and users of goods) and its failure to tax services. Some problems of the WST, such as the definition of the appropriate value on which to charge the tax, are inherent in the nature of the tax. Other problems, such as the narrowness of the base and the variability of rates stem more from the way in which the tax has been imposed and administered.

Table 1
New Zealand Tax Receipts*
($ thousands)

Year ended 31 March	1984	%	1985 (estimate)	%
Direct Taxation:				
Income tax	7,453,307	71.45	8,375,000	70.85
Estate & gift duty	33,052	0.32	35,000	0.30
Land tax	36,203	0.35	40,000	0.34
Property speculation tax	3	–	–	–
Total	7,522,565	72.12	8,450,000	71.49
Indirect taxation:				
Customs duty	606,291	5.81	770,000	6.51
Beer duty	199,264	1.91	210,000	1.78
Sales tax	1,312,287	12.58	1,510,000	12.77
Motor spirits duty	224,072	2.15	225,000	1.90
Motor vehicles fees & charges	97,441	0.93	100,000	0.85
Racing duty	62,599	0.60	70,000	0.59
Stamp duties	91,366	0.88	100,000	0.85
Energy resources levy	44,153	0.42	50,000	0.42
Other	28,882	0.28	35,000	0.30
Total	2,666,355	25.56	3,070,000	25.97
Total — taxation receipts:				
Consolidated Acc't	10,188,920	97.68	11,520,000	97.46
Highways taxation:				
Motor spirits duty	138.727	1.33	150,000	1.28
Road user charges	96,600	0.92	140,000	1.18
LPG/CNG sales tax	6,958	0.07	10,000	0.08
Total — Highways taxation:				
National Roads Fund	242,285	2.32	300,000	2.54
Total Taxation	10,431,205	100.00	11,820,000	100.00

* Source: 1984 Budget, Table 3

The current system which was inherited from the United Kingdom (and is shared with a number of British Commonwealth countries) confines the scope of indirect taxes largely to stamp taxes, import duties, and a range of selective excise taxes. Table 1 shows tax receipts in New Zealand in 1984 and 1985 (estimate).

Those close to discussions on tax reform can verify that proposals for a GST-type tax (commonly termed VAT or TVA — a tax on value added) are not of recent origin, nor is the idea of increasing the relative importance of indirect taxes in the total tax system.

Reports which have canvassed reforms to the current system of indirect taxation have considered —

a. a turnover tax;
b. a retail sales tax;
c. a value added tax; and
d. a modified WST tax with a wider base and less complicated rate structure, in conjunction with a selective services tax.

Turnover taxes find little support because of their cascading tax-on-tax effects, which result in tax burdens being related to the number of stages involved in production and distribution.

The Task Force on Tax Reform saw merit in an extension of the WST together with a selective services tax, perhaps as part of a transition to a VAT. Major extensions to indirect taxes were not pursued in the 1982 tax reform package and concerns were expressed by the then Minister of Finance that such moves would fuel inflation. It was deemed inappropriate to extend indirect taxes during an extended freeze on wages and prices.

Following a change of Government in July 1984, the reform of indirect taxes was raised in the Treasury's briefing papers to the incoming Minister of Finance. Like the Task Force, these papers favoured the extension of indirect taxes, with a preference for VAT over retail sales tax (RST) if major extensions in revenue were pursued.

The relative merits of a RST as against a value added tax have been difficult to assess in that the proposals have much in common. VAT taxes operate in 40 countries and there is considerable experience with RST in North America, Iceland, Zimbabwe and South Africa. The choice between the two in large part depends on the costs of operating the systems in relation to revenue raising. These costs involve the administrative costs to the revenue authorities of the tax system as well as the compliance costs which taxpayers and third parties must incur to comply with the tax.

At low rates of tax it is generally accepted that a VAT would have higher administrative costs than a RST. This arises largely in that there would be more collection points involving a more complicated return and larger numbers of firms producing returns of poorer quality. Conventional wisdom suggests that at higher tax rates and revenue yields, a VAT type tax is better because of its superior ability to control evasion owing to the audit trails which the tax creates by involving traders all along the production chain. This opportunity for revenue authorities to cross-check returns may be overstated; however a related more convincing argument suggests that a VAT is preferred in that it is self-policing. Those wishing to evade VAT must overstate input tax and understate output tax; however, as output tax for one trader becomes input tax for another, each trader's efforts to evade may be frustrated by others along the production and distribution chain.

Compliance costs are also considered to be higher for a VAT (relative to an RST) because of the large number of collection points and volume of (usually small) retailers whose auditing and accounting systems may be inadequate for making returns. However, both administrative and compliance costs must be judged relative to the role of the tax in raising revenue, since the higher the rates and revenue yield from the tax, the smaller will be the share of total revenue which is devoted to administrative and compliance costs.

It has been argued that emphasis on the high administrative and compliance costs of a VAT does not give adequate recognition to the likely decline in such costs over time (as revenue authorities and taxpayers gain experience) nor attention to certain benefits which a GST can give to traders to offset gross compliance costs. Sandford[2] identifies cash flow benefits which arise in that VAT traders normally collect more tax on their outputs than they pay on their inputs, therefore getting an interest free loan from the Government over some holding period. In addition managerial benefits may accrue as the decision making of firms is improved as a result of the superior record keeping demanded by the VAT.

III. THE BASIC CHARACTERISTIC OF THE GST

Material for this section is drawn directly from the Budget booklet on the Goods and Services Tax. The booklet reports that the tax will be administered by the Inland Revenue Department and that it will bring within its scope the widest range of goods and services sold in New Zealand. While exports will be zero-rated for tax, the GST will be payable on all imports, on the supply of goods and services for the domestic market by a taxable trader in the course of business, and on the use of goods and services for private and certain business purposes by a taxable trader. Taxable traders could include companies, individuals, partnerships, co-operatives, trusts, charities and clubs as well as state corporations, local authorities and some Government Departments in relation to business activities.

The GST will operate using credit offsets based on an invoice system. Tax invoiced to a trader is deducted from tax invoiced by the trader to determine the net tax liability. Each trader is therefore liable only for tax on the difference between his sales (outputs) and his purchases (inputs). If the path of a commodity is followed through the production and distribution system and the amounts of tax paid are summed, the total of GST paid is equal to the revenue from a RST levied at the same rate. The GST is inflation proofed: As an ad valorem

2 *Costs and Benefits of VAT* (Heinemann, London, 1981).

tax levied as a fixed percentage of the selling price, its revenue (in real terms) stays relatively constant over time.

Under consideration is the question of whether relief from the tax should be granted to particular goods or services or to particular classes (or sizes) of trader. Some main techniques used to achieve this in other countries are to reduce or zero-rate particular classes of goods and services or to grant an exemption to certain traders. Applying a zero rate of tax (rather than an exemption) allows the tax and credit mechanisms of GST to operate and lets traders claim as a refund the full amount of input tax paid, while bearing no tax on output. For this reason, a zero-rating rather than an exemption is often favoured by a trader.[3]

Treasury estimates suggest that for the year commencing 1 April 1986, a GST of around 4.2% would be required to replace the revenue which would be collected under existing WST provisions. This assumes around one-third of the revenue would be collected from specific excises such as tobacco, alcohol, motor vehicles and fuels at modified rates. A tax rate of 8.9% is estimated to generate $1,000m of extra revenue for 1986/87.

Policy statements that appeared in the Budget booklet on the goods and services tax have suggested —

1. that owing to the superiority of the GST as a revenue source (relative to other widely canvassed options such as an extended or modified WST) the GST tax will be levied commencing 1 April 1986 on a broad base at a uniform rate; that the existing WST would continue at modified rates on a range of commodities such as motor vehicles, alcoholic beverages, tobacco products, petroleum products, CNG and LPG;
2. that it is the Government's intention to increase the amount of revenue raised from indirect taxes and to increase the share of total tax revenue which is raised through indirect taxes (on goods and services, transactions) relative to direct taxes (on income, wealth and capital). The reduction in the level of tax revenue required from taxes on income will halt the growth in average rates of personal income tax and effect reforms which will reduce marginal rates of income tax;
3. that the additional revenue raised from a greater reliance on indirect tax (in addition to reducing direct taxes) will be used to finance additional income support measures for low income families and individuals and to contribute to the permanent reduction in the Government deficit before borrowing.
4. that the Government has undertaken to protect the position of low income families and those in need and that this commitment extends to the introduction of the GST. (The booklet advocates the use of the tax and benefit systems over proposals to exclude certain commodities from the base and/or operate the tax at more than one rate).

Any proposal for tax reform requires some principles or criteria as to whether the move is sound. Taxes and tax systems are often judged in terms of criteria

3 See Appendix I for information on the characteristics of VAT in several countries of Europe.

such as equity, efficiency and administrative efficiency. In practice, there is often a need to balance the various objectives. It is also common to describe a country's tax system in relation to those adopted in other countries. Whether taxes are too high or low or whether a tax system achieves a good balance of different kinds of taxes is sometimes discussed by comparing the New Zealand system with that of other countries. Such comparisons reveal that in 1982 New Zealand ranked 15 out of 23 countries in the OECD in terms of total revenue from central and local government as a share of gross domestic product. Relative to the OECD, New Zealand places considerable reliance on direct taxes and within this, a high share of taxes on wages and salaries.

The current definition of income in New Zealand for tax purposes which omits most capital gains and fringe benefits and the existence of investment tax incentives have provided opportunities for tax avoidance and the erosion of the tax base. A narrow base has also been a feature of the indirect tax system which taxes only around 27% of expenditure by households. Around 31% of all indirect tax revenue is raised from excises including taxes on alcoholic beverages, tobacco products, motor spirits and petroleum fuels.

IV. THE IMPACT OF GST ON EFFICIENCY AND EQUITY

Despite the shortcomings of the existing system, a strong advocate of major tax reform must be careful. Bold proposals — particularly for new forms of tax — may look appealing alongside a well-worn tax which has survived years of experience and substantial modification and change. Such thoughts stand behind the adage that "an old tax is a good tax". In a world which is often governed by substantial political compromise it is inappropriate to consider proposals for reform which imply the redesigning of the tax system de novo within the existing imperfect system. The problems and costs of transition are also important when assessing the net benefits of major change.

The current proposals for reform of the direct and indirect tax system can be expected to have certain impacts on the efficiency, equity and administrative efficiency of the tax system.

Administrative efficiency has been discussed earlier with regard to the question of administrative and compliance costs and their relationship to the revenue raising goals of the tax. Sandford[4] provides some interesting estimates in this regard for the United Kingdom in 1977-78 and 1980-81, which showed that administrative costs dropped from 2.0 to 1.1%, the compliance costs from 9.3 to 4.8% and the net compliance costs from 7.1 to 0.89%, where all costs were expressed as a percentage of tax revenue. Such substantial drops were attributable to the abolition of a separate higher rate of VAT, the raising of the standard rate from 8 to 15% and a rise in interest rates.

The impact on economic efficiency of the introduction of a GST and a shift from direct to indirect taxation has been the subject of considerable discussion. Major gains are anticipated through the introduction of a broadly based con-

4 Op.cit. supra n.2, 12.

sumption tax at a uniform rate which covers both goods and services. Efficiency gains from the introduction of a tax are often measured with reference to the benchmark of neutrality — by which is meant that the tax system raises revenues in ways which avoid distortionary substitution effects (between goods and services, and between work and leisure) which alter the economic behaviour of individuals or groups within the economy.

Despite the goals of economic efficiency and the benchmark of neutrality, many taxes affect economic behaviour. If taxes on income are reduced, then people may feel better off and so reduce the amount they work. However, if income tax rates are lowered, there is an encouragement to work more and to reduce leisure. It is sometimes suggested that by increasing taxes on consumption and reducing taxes on income people will have greater incentives to save and invest. Another sometimes overstated claim is that a shift from direct to indirect tax is believed to confer benefits on exporters and therefore improve the competitiveness of New Zealand exports. Such gains, if they occur, may be shortlived and quickly reflected in relative prices in the economy.

The effects of a tax switch on prices and inflation is the subject of much debate. It has been suggested that a tax on consumption as opposed to income may tend to contain spending power, thereby reducing aggregate demand and inflationary pressures. However, if higher taxes on consumption are passed on in prices and wage demands then such changes will maintain aggregate demand and be inflationary.

A shift from income to consumption taxes will have a once and for all impact on prices generally in addition to its effects on relative prices. While it is true that proper conduct of monetary and fiscal policies can correct such tendencies, the pressures on prices are, nonetheless, substantial. In the United Kingdom in 1979 when a shift from direct to indirect tax was made by raising the standard rate to 15%, there was a direct increase in the retail price index of 7% despite the fact that income taxes were reduced and those on social security benefits were compensated.

A final major concern is the impact of the proposed reforms on equity by which is meant whether the resulting distribution of the tax is deemed to be fair and just. One important concern in introducing a broadly based consumption tax to replace taxes on income concerns the overall impact on the distribution of the tax burden among groups. When sales taxes are introduced which make the tax system more regressive than previously, the measure is sometimes accompanied by compensatory measures to alleviate its effects on low income earners, families or other groups. There are three different approaches —

1. the sales tax system can be altered through the application of exemptions or differential rating;

2. compensation may be achieved through tax credits or deductions; or

3. adjustments may be made to Government expenditures, wages and social security benefit levels. To the extent that a GST results in higher prices there is some automatic adjustment for social security beneficiaries whose benefit levels are linked to the CPI.

Policies which alleviate regressivity (through the exemption of commodities or differential rating of goods) appear to sacrifice much in the way of economic and administrative efficiency. Exemption of children's clothing is a case where policies have been enacted which defeat their original purpose since, contrary to popular opinion, exemption of children's clothing makes a VAT more, rather than less, regressive.

Evidence from overseas shows that VAT taxes are roughly proportional and sometimes progressive rather than highly regressive. These results are sensitive to whether or not the tax incidence is measured relative to pre- or post-tax and benefit income and whether the base of the VAT has food and other commodities exempted or zero-rated.

V. THE ROLE OF DIRECT AND INDIRECT TAXES IN THE TOTAL TAX SYSTEM

In order to assess the role of indirect taxes in the total tax system it will be necessary to compare them to direct taxes in terms of their impact on efficiency and equity, and to consider whether there is a basis for suggesting some appropriate balance between direct and indirect taxes within the total tax system. In considering the effects of tax changes on income distribution attention should be given to distribution of burdens and benefits from the total tax and expenditure system.

Both the theoretical literature and more popular writing on tax policy have failed to provide an unambigious statement regarding the net benefits of a direct tax system over a mixed (direct/indirect) system. The merits of a uniform rate of taxation on goods and services has been countered by the suggestion that higher taxes on commodities whose demand is relatively inelastic will serve to minimise excess burdens.

A review of the international literature on tax policy shows a marked change in attitude toward indirect taxes on consumption. Traditionally, progressive personal income taxes served as a cornerstone of both ideal and actual tax systems because of their ability to promote neutrality and horizontal and vertical equity. In this environment, general sales taxes were seen as, at best, a necessary evil. Recent literature often looks more favourably upon broadly based indirect consumption taxes.

The explanations for this change of emphasis are varied. Greater interest in indirect taxes could reflect, in part, the realisation that few countries have succeeded in implementing a comprehensive income tax strategy. Taxpayer opposition to direct taxes has led to a search for less visible forms of taxation. Rapid growth in personal income taxes (under the influence of double digit inflation) has stimulated renewed concerns in many countries regarding the effects of taxes on labour supply and on wage claims. The introduction in New Zealand of greater uniformity in marginal tax rates across income groups has reduced the formal progressivity of the tax structure and challenged its role in promoting vertical equity.

Some shift in emphasis from the "ability-to-pay" to the "benefit principle" of taxation, together with the recognition that redistribution can be achieved through government expenditures and transfers (as well as through taxes) have produced a wider range of options for achieving both equity and efficiency goals. Further support for taxes on consumption has been stimulated by the Meade Committee's interest in expenditure taxes, including proposals for a two-tier expenditure tax consisting of a broadly based indirect consumption tax, supplemented by a progressive tax on expenditure (which is confined to high expenditure levels).

V. CONCLUSIONS

This paper has raised more issues than it has resolved. Hopefully it has provided some basis for considering proposals for the GST and the interaction of these with the balance of the tax and expenditure system. From the preceding discussion it is possible to identify certain features which are important to preserve in the design of a goods and services tax for New Zealand. These features include —

— applying the GST to the widest possible base covering goods and services;

— setting the GST at a single rate in order to minimise distortions and administrative and compliance costs; where necessary use should be made of selective excises to allow higher levels of taxation on commodities such as alcohol, tobacco, motor vehicles and fuels;

— allowing very few (if any) exemptions for uses or users of goods and services, and useing reduced or zero-rating in preference to exemptions;

— if required, compensation for the burden of the tax on particular groups should be achieved through changes to the tax and benefit provisions rather than by the use of exemptions or multiple rates;

— GST should be introduced in a form which minimises the net administrative and compliance costs for a given revenue goal. Revenue authorities must undertake extensive programmes of education to ease the transition to this new tax and some compensation may be required for traders who incur substantial net compliance costs.

— wherever possible the visibility of the GST should be fostered by a separate detailing of the GST component of prices, to ensure that people are fully aware of the costs of Government and are able to form views regarding the appropriate balance between private and public consumption.

The Institute of Policy Studies project on indirect taxation has commenced its research programme with a view to the preparation of four papers over the next six months. These papers will be —

1. The Gist of GST — this paper will traverse many of the issues raised in this background paper in greater detail and will be completed in April;[5]
2. The Incidence of Sales Taxes — a theoretical and empirical examination of the economic incidence of sales taxes. The paper will also investigate different approaches to modifying the burden of sales taxes on particular groups;
3. The administrative and compliance costs of the GST — a canvassing of administrative and compliance issues surrounding the introduction of GST, drawing on the experiences of other countries;
4. The reform of indirect taxes — a paper which discusses the role of direct and indirect taxes in the total tax system, including the consideration of excise taxes and the use of different tax bases.

5 Scott and Davis *The Gist of GST* (V.U.P., Wellington, 1985). Additionally the Institute has published Bakker and Chronican *Financial Services and the GST* (V.U.P., Wellington, 1985).

APPENDIX I

SELECTED FEATURE OF VAT SYSTEMS IN EUROPE

(1983 data unless noted otherwise)

DEFINITIONS

Tax rate summary — the number of rates includes positive rates only i.e. does not include zero rate.

The *standard rate* generally applicable on all transactions involving goods and services, except where a transaction is exempt, zero rated or taxable at another rate.

The coverage presented here for each variation from the standard rate is not exhaustive.

Exemptions — no VAT charged on sales; no credit allowed for VAT paid on purchases.

Zero rating — zero rate of VAT on sales; credit allowed for VAT paid on purchases.

AUSTRIA

Date of introduction: 1/1/73

Tax Rate Summary: 3 rates; standard rate 18%

VARIATIONS FROM THE STANDARD RATE			
Exemptions	Zero Rating	Lower Rates	Higher Rate
— Transfers of immovable property generally exempt; supply of newly constructed buildings *not* exempt — a wide range of financial transactions — public telecommunications — certain educational cultural welfare activities — small business	— Exports and related activities	*8% Rate* — a wide range of foodstuffs — books, newspapers, periodicals etc. — the leasing or hiring of certain types of immovable property; accommodation included — service of doctors, lawyers, architects etc — turnovers of hospitals & other nursing institutions *13% Rate* — fuel & energy	— perfumery, jewellery, furskins — cameras & photographic equipment — audio & audio visual equipment — sport and luxury boats

BELGIUM

Date of introduction: 1/1/71

Tax Rate Summary: 5 rates, standard rate 19%

VARIATIONS FROM THE STANDARD RATE			
Exemptions	Zero Rating	*6% Rate*	Higher Rates
— supply of immovable property generally exempt (the exemption does not apply to certain new buildings) — leasing & renting of immovable property generally exempt; an exception to this for leasing of immovable property for com-	— exports and related activities — some newspapers & magazines — supply of goods & services to the armed forces — supply of goods & services to recognised humanitarian & charitable organisations Lower Rates	— wide range of goods and services e.g. some live animals — a wide range of foodstuffs — pharmaceutical products — books & magazines — agricultural services — maintenance & repair of goods which are taxable at 6%	*25% Rate* — vehicles — some jewellery, furs & watces — audio & audio visual equipment — photographic equipment — household appliances — a limited range of services

mercial or industrial purposes — financial transactions very limited exemptions (almost all activities etc taxable. Insurance transactions not subject to VAT— a separate tax is levied on premiums received) — legal, medical, educational, welfare, cultural services — small businesses		*17% Rate* — supply of meals & drinks for consumption on the premises — fuel & energy — original works of art — most footwear — cleaning, maintenance, repair of clothes	*33% Rate* (comprises the 25% Rate plus a 'luxury' tax of 8%) — perfumes — some furs, jewellery

Notes
— In addition a 1% rate applies to the supply of gold for investment purpose.
— Rate for the building industry reduced to 6% from 1/3/82 to 31/12/85.
— The conditions relating to the VAT status of immovable property are complex — refer *VAT in Europe.*

DENMARK
Date of introduction: 3/7/67
Data as at 1980
Tax Rate Summary: 1 rate, 22%

VARIATIONS FROM THE STANDARD RATE			
Exemptions	Zero Rating	Lower Rates	Higher Rates
— Immovable property — some letting, leasing, & administration of immovable property — finance & insurance activities — passenger transport — some postal services — health, social, educational services — some cultural & sports activities, works of art	— Exports and related activities — sale & hire of large ships & aircraft. Goods & services for the repair & maintenance thereof		

FEDERAL REPUBLIC OF GERMANY
Date of introduction: 1/1/68
Tax Rate Summary: 2 rates, standard rate 14%

VARIATIONS FROM THE STANDARD RATE			
Exemptions	Zero Rating	Lower Rates	Higher Rates
— in general, the supply of immovable property — certain financial & insurance transactions	— exports and related activities — supply of goods & services to the armed forces	*7% Rates* — some species of live animals — a wide range of foodstuffs	

— most medical, educational, certain welfare, cultural & scientific services — some goods & services associated with transport & communications — small businesses		— books, newspapers, periodicals etc — works of art — goods for the disabled	

Notes

— In addition, as part of an optional special regime for agriculture and forestry, special tax rates apply (8% and 5% respectively). Refer *VAT in Europe.*

FRANCE

Date of introduction — elements of the VAT system operative since 1948, since reformed, extended to the retail stage effective 1/1/68

Data as at 8/82

Tax Rate Summary — 4 rates, standard rate 18.6%

VARIATIONS FROM THE STANDARD RATE			
Exemptions	Zero Rating	Lower Rates	Higher Rates
— some transactions related to immovable property (most such transactions are subject to VAT) — most financial & banking services are in practice exempt — Insurance transactions — Medical, educational, artistic, legal services — transactions with social objectives e.g. non-profitable charities	— Exports & related activities	*5.5% Rate* — foodstuffs not otherwise taxable *7% Rate* — passenger transport — books — medicine — concert, theatre, circus etc performances — some accommodation	*33.3% Rate* — jewellery — perfumery — photographic equipment — audio & audio visual equipment — tobacco products

IRELAND

Date of introduction: 1/11/72

Tax Rate Summary: 5 Rates; standard rate 35%

VARIATIONS FROM THE STANDARD RATE			
Exemptions	Zero Rating	Lower Rate	Higher Rates
— some transactions involving immovable property — financial transactions — medical, welfare, educational services — small businesses	— export & related activities — most foodstuffs — medicine — most clothing — books	— an effective rate of 2.3% applies to the supply of live cattle, sheep & pigs *5% Rate* — immovable goods in some circumstances &	

		services connected with their repair, maintenance etc — some agricultural services — fuels *32% Rate* applies to a wide range of goods & services eg: — building materials & machinery — furniture — some medical supplies — T.V. sets — newspapers, periodicals — beer, spirits & wine — a wide range of services	

Notes
- In addition, as part of an optional special regime for farmers, a flat rate of 2.3% applies to agricultural produce or services supplied by them.
- The conditions relating to the VAT status of immovable property are complex — refer ***VAT in Europe.***

ITALY
Date of introduction: 1/1/73
Tax Rate Summary: 8 Rates, standard rate 18%

VARIATIONS FROM THE STANDARD RATE			
Exemptions	Zero Rating	Lower Rates	Higher Rates
— some leasing & renting of immovable property — finance & insurance activities — some passenger transport; post & telegraph services — medical, educational, welfare services	— exports and related activities — some transactions involving immovable property — supply of some foodstuffs — a limited range of services	*2% Rate* — some foodstuffs — fertilizer — books & some other printed material — some buildings — supply of services related to some construction activities *8% Rate* — some foodstuffs — pharmaceutical products — gas & electricity for domestic use — agricultural services — some telephone services *10% Rate* — a wide range of food products — building materials — beer, some wines	*20% Rate* — some motor vehicles (under 2000 cc) — small pleasure boats — audio & audio visual equipment — cameras & related products *38% Rate* — some motor vehicles (over 2000 cc) — some foodstuffs eg. caviar, lobster — large pleasure boats — precious stones, furs, skins — some wines, spirits

		14% Rate — some live animals *15% Rate* — some meat	

Notes
— Proposals put forward (1983) to reduce the number of rates to 4.

LUXEMBOURG
Date of introduction: 1/1/70
Tax Rate Summary: 3 Rates, standard rate 12%

VARIATIONS FROM THE STANDARD RATE			
Exemptions	Zero Rating	Lower Rates	Higher Rates
— some transactions involving immovable property — most finance & insurance services — medical, educational, welfare services — small businesses	— exports & related activities	*3% Rate* — some foodstuffs — some pharmaceutical products *6% Rate* — other foodstuffs — other pharmaceutical products — books, newspapers etc — some passenger transport — agricultural services	

THE NETHERLANDS
Date of introduction: 1/1/69
Data as at 1982 (tax rates as at 1984)
Tax Rate Summary: 2 Rates, standard rate 19%

Exemptions	Zero Rating	Lower Rates	Higher Rates
— some transactions involving immovable property — financial & insurance transactions — health, education, welfare, cultural services — small businesses	— exports & related activities	*5% Rate* — a wide range of foodstuffs — designated medicines — books, newspapers, periodicals — works of art — agricultural machinery — some legal services — some passenger transport — some services rendered	

Notes
— In 1984 the Government was considering a single rate VAT (about 15%).

NORWAY
Date of introduction: 1/1/70
Data as at 1982
Tax Rate Summary: 1 rate 20%

Exemptions	Zero Rating	Lower Rates	Higher Rates
— a wide range of services including: — health, education, welfare — financial services — Post Office services — small businesses	— exports & related activities — most newspapers, books, periodicals — electrical power		

Notes
— A special rate of 11.11% applies to the activities of fishermen.

SWEDEN
Date of introduction: 1/1/69
Data as at 1980 (tax rates as at 1983)
Tax Rate Summary: 1 rate 23.46%

	VARIATIONS FROM THE STANDARD RATE		
Exemptions	Zero Rating	Lower Rates	Higher Rates
— medical services — some publications — some Post Office, transport & advertising services	— exports & related activities — medicines — most newspapers — most fuels, electricity		

Notes
— The standard tax rate of 23.46% equates to a tax *inclusive* rate of 19%.
— In respect of certain transactions, the tax rate is effectively reduced by way of reductions in the value for tax, mainly in respect of immovable property and the hotel and restaurant trade.

UNITED KINGDOM
Date of introduction: 1/4/73
Tax Rate Summary: 1 rate 15%

	VARIATIONS FROM THE STANDARD RATE		
Exemptions	Zero Rating	Lower Rates	Higher Rates
— some transactions involving immovable property — financial transactions — insurance — postal services — health, education services — small businesses	— zero rating is extensive & includes: — most foodstuffs — books, newspapers, periodicals etc — newspaper advertising — fuel & power — construction of		

buildings
— a wide range of transport services
— caravans & house-boats
— drugs, medicine, aids for the handi-capped
— children's foot-wear & clothing

Sources
Guides to European Taxation Volume IV: *Value Added Taxation in Europe* (International Bureau of Fiscal Documentation, Amsterdam, The Netherlands).
Tax News Service (International Bureau of Fiscal Documentation, Amsterdam, The Netherlands).

APPENDIX II

Selected references

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