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Value-added tax

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A **value-added tax** (**VAT**) or also **General Sales tax (GST)** is a form of consumption tax. From the perspective of the buyer, it is a tax on the purchase price. From that of the seller, it is a tax only on the value added to a product, material, or service, from an accounting point of view, by this stage of its manufacture or distribution. The manufacturer remits to the government the difference between these two amounts, and retains the rest for themselves to offset the taxes they had previously paid on the inputs.

The value added to a product by or with a business is the sale price charged to its customer, minus the cost of materials and other taxable inputs. A VAT is like a sales tax in that ultimately only the end consumer is taxed. It differs from the sales tax in that, with the latter, the tax is collected and remitted to the government only once, at the point of purchase by the end consumer. With the VAT, collections, remittances to the government, and credits for taxes already paid occur each time a business in the supply chain purchases products.

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Overview

Maurice Lauré, Joint Director of the France Tax Authority, the Direction Générale des Impôts, was first to introduce VAT on 10 April 1954, although German industrialist Dr. Wilhelm von Siemens proposed the concept in 1918. Initially directed at large businesses, it was extended over time to include all business sectors. In France, it is the most important source of state finance, accounting for nearly 50% of state revenues.[1]

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Personal end-consumers of products and services cannot recover VAT on purchases, but businesses are able to recover VAT (input tax) on the products and services that they buy in order to produce further goods or services that will be sold to yet another business in the supply chain or directly to a final consumer. In this way, the total tax levied at each stage in the economic chain of supply is a constant fraction of the value added by a business.

A Belgian VAT receipt.

Comparison with sales tax

Value-added tax avoids the cascade effect of sales tax by taxing only the *value added* at each stage of production. For this reason, throughout the world, VAT has been gaining favor over traditional sales taxes. In principle, VAT applies to all provisions of goods and services. VAT is assessed and collected on the value of goods or services that have been provided every time there is a transaction (sale/purchase). The seller charges VAT to the buyer, and the seller pays this VAT to the government. If, however, the purchaser is not an end user, but the goods or services purchased are costs to its business, the tax it has paid for such purchases can be deducted from the tax it charges to its customers. The government only receives the difference; in other words, it is paid tax on the gross margin of each transaction, by each participant in the sales chain.

In many developing countries such as India, sales tax/VAT are key revenue sources as high unemployment and low per capita income render other income sources inadequate. However, there is strong opposition to this by many sub-national governments as it leads to an overall reduction in the revenue they collect as well as of some autonomy.

In theory, sales tax is normally charged on end users (consumers). The VAT mechanism means that the end-user tax is the same as it would be with a sales tax. The main disadvantage of VAT is the extra accounting required by those in the middle of the supply chain; this is balanced by the simplicity of not requiring a set of rules to determine who is and is not considered an end user. When the VAT system has few, if any, exemptions such as with GST in New Zealand, payment of VAT is even simpler.

A general economic idea is that if sales taxes are high enough, people start engaging in widespread tax evading activity (like buying over the Internet, pretending to be a business, buying at wholesale, buying products through an employer etc.). On the other hand, total VAT rates can rise above 10% without widespread evasion because of the novel collection mechanism. However, because of its particular mechanism of collection, VAT becomes quite easily the target of specific frauds like carousel fraud, which can be very expensive in terms of loss of tax incomes for states.

Implementation

The standard way to implement a value-added tax involves assuming a business owes some fraction on the price of the product minus all taxes previously paid on the good.

By the method of **collection**, VAT can be accounts-based or invoice-based.[2] Under the invoice method of collection, each seller charges VAT rate on his output and passes the buyer a special invoice that indicates the amount of tax charged. Buyers who are subject to VAT on their own sales (output tax), consider the tax on the purchase invoices as input tax and can deduct the sum from their own VAT liability. The difference between output tax and input tax is paid to the government (or a refund is claimed, in the case of negative liability). Under the accounts based method, no such specific invoices are used. Instead, the tax is calculated on the value added, measured as a difference between revenues and allowable purchases. Most countries today use the invoice method, the only exception being Japan, which uses the accounts method.

By the timing of collection,[3] VAT (as well as accounting in general) can be either accrual or cash based. Cash basis accounting is a very simple form of accounting. When a payment is received for the sale of goods or services, a deposit is made, and the revenue is recorded as of the date of the receipt of funds—no matter when the sale had been made. Cheques are written when funds are available to pay bills, and the expense is recorded as of the cheque date—regardless of when the expense had been incurred. The primary focus is on the amount of cash in the bank, and the secondary focus is on making sure all bills are paid. Little effort is made to match revenues to the time period in which they are earned, or to match expenses to the time period in which they are incurred.

Accrual basis accounting matches revenues to the time period in which they are earned and matches expenses to the time period in which they are incurred. While it is more complex than cash basis accounting, it provides much more information about your business. The accrual basis allows you to track receivables (amounts due from customers on credit sales) and payables (amounts due to vendors on credit purchases). The accrual basis allows you to match revenues to the expenses incurred in earning them, giving you more meaningful financial reports.

Registration

In general, countries that have a VAT system require businesses to be registered for VAT purposes. VAT registered businesses can be natural persons or legal entities, but countries have different thresholds or regulations specifying at which turnover levels registration becomes compulsory. Businesses that are VAT registered are obliged to include VAT on goods and services that they supply to others (with some exceptions, which vary by country) and account for the VAT to the taxing authority. VAT-registered businesses are entitled to a VAT deduction for the VAT they pay on the goods and services they acquire from other VAT-registered businesses.

It has been argued that the introduction of a VAT reduces the cash economy because businesses that wish to buy and sell with other VAT-registered businesses must themselves be VAT-registered.

Examples

Consider the manufacture and sale of any item, which in this case we will call a widget. In what follows, the term "gross margin" is used rather than "profit". Profit is the remainder of what is left after paying other costs, such as rent and personnel costs.

Without any tax

- A widget manufacturer, for example, spends \$1.00 on raw materials and uses them to make a widget.
- The widget is sold wholesale to a widget retailer for \$1.20, making a gross profit of \$0.20.
- The widget retailer then sells the widget to a widget consumer for \$1.50, making a gross profit of \$0.30.

With a sales tax

With a **10% sales tax**:

- The manufacturer spends \$1.00 for the raw materials, certifying it is not a final consumer.
- The manufacturer charges the retailer \$1.20, checking that the retailer is not a consumer, leaving the same gross margin of \$0.20.
- The retailer charges the consumer \$1.50 + (\$1.50 x 10%) = \$1.65 and pays the government \$0.15, leaving the gross margin of \$0.30.

So the consumer has paid 10% (\$0.15) extra, compared to the no taxation scheme, and the government has collected this amount in taxation. The retailers have not paid any tax directly (it is the consumer who has paid the tax), but the retailer has to do the paperwork in order to correctly pass on to the government the sales tax it has collected. Suppliers and manufacturers only have the administrative burden of supplying correct certifications, and checking that their customers (retailers) are not consumers.

A large exception to this state of affairs is online sales. Typically if the online retail firm has no "nexus" in the state where the merchandise will be delivered, no obligation is imposed upon the retailer to collect sales taxes from "out-of-state" purchasers. Generally, state law requires that the purchaser report such purchases to the state taxing authority and pay the sales tax. It is fair to say that many citizens are unaware of this obligation and that states make little effort to raise that awareness or provide a reasonably easy way of complying with the obligation.

With a value-added tax

With a **10% VAT**:

- The manufacturer spends (\$1 + (\$1 × 10%)) = **\$1.10** for the raw materials, and the seller of the raw materials pays the government \$0.10.
- The manufacturer charges the retailer (\$1.20 + (\$1.20 × 10%)) = **\$1.32** and pays the government (\$0.12 *minus* \$0.10) = **\$0.02**, leaving the same gross margin of (\$1.32 – \$1.10 – \$0.02) = **\$0.20**.
- The retailer charges the consumer (\$1.50 + (\$1.50 × 10%)) = **\$1.65** and pays the government (\$0.15 *minus* \$0.12) = **\$0.03**, leaving the same gross margin of (\$1.65 – \$1.32 – \$0.03) = **\$0.30**.
- The manufacturer and retailer realize less gross margin from a percentage perspective.
- Note that the taxes paid by both the manufacturer and the retailer to the government are 10% of the *values added* by their respective business practices (e.g. the *value added* by the manufacturer is \$1.20 minus \$1.00, thus the tax payable by the manufacturer is (\$1.20 – \$1.00) × 10% = \$0.02).

With VAT, the consumer has paid, and the government received, the same dollar amount as with a sales tax. The businesses have not incurred any tax themselves. Their obligation is limited to assuming the necessary paperwork in order to pass on to the government the difference between what they collect in VAT (output tax, an 11th of their sales) and what they spend in VAT (input VAT, an 11th of their expenditure on goods and services subject to VAT). However they are freed from any obligation to request certifications from purchasers who are not end users, and of providing such certifications to their suppliers.

On the other hand, they incur increased accounting costs for collecting the tax, which are not reimbursed by the taxing authority. For example, wholesale companies now have to hire staff and accountants to handle the VAT paperwork, which would not be required if they were collecting sales tax instead. If you calculate the added overhead required to collect VAT, businesses collecting VAT have less profits overall than businesses collecting sales tax.

The advantage of the VAT system over the sales tax system is that under sales tax, the seller has no incentive to disbelieve a purchaser who says it is not a final user. That is to say the payer of the tax has no incentive to collect the tax. Under VAT, all sellers collect tax and pay it to the government. A purchaser has an incentive to deduct input VAT, but must prove it has the right to do so, which is usually achieved by holding an invoice quoting the VAT paid on the purchase, and indicating the VAT registration number of the supplier.

Limitations to the examples

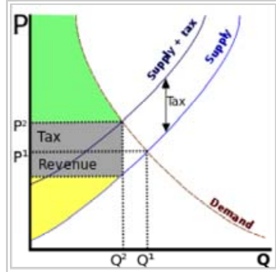
In the above examples, we assumed that the same number of widgets were made and sold both before and after the introduction of the tax. This is not true in real life.

The supply and demand economic model suggests that any tax raises the cost of transaction for *someone*, whether it is the seller or purchaser. In raising the cost, either the demand curve shifts leftward, or the supply curve shifts upward. The two are functionally equivalent. Consequently, the quantity of a good purchased decreases, and/or the price for which it is sold increases.

This shift in supply and demand is not incorporated into the above example, for simplicity and because these effects are different for every type of good. The above example assumes the tax is *non-distortionary*.

Limitations of VAT

A VAT, like most taxes, distorts what would have happened without it. Because the price for *someone* rises, the quantity of goods traded decreases. Correspondingly, some people are *worse* off by *more* than the government is made *better* off by tax income. That is, more is lost due to supply and demand shifts than is gained in tax. This is known as a deadweight loss. If the income lost by the economy is greater than the government's income; the tax is inefficient. It must be noted that a VAT and a Non-VAT has the same implications on the microeconomic model.



A Supply-Demand Analysis of a Taxed Market

The entire amount of the government's income (the tax revenue) may not be a deadweight drag, if the tax revenue is used for productive spending or has positive externalities – in other words, governments may do more than simply *consume* the tax income. While distortions occur, consumption taxes like VAT are often considered superior because they distort incentives to invest, save and work *less* than most other types of taxation – in other words, a VAT discourages consumption rather than production.

In the diagram on the right:

- Deadweight loss: the area of the triangle formed by the tax income box, the original supply curve, and the demand curve
- Governments tax income: the grey rectangle that says "tax revenue"
- Total consumer surplus after the shift: the green area
- Total producer surplus after the shift: the yellow area

Imports and exports

Being a consumption tax, VAT is usually used as a replacement for sales tax. Ultimately, it taxes the same people and businesses the same amounts of money, despite its internal mechanism being different. There is a significant difference between VAT and Sales Tax for goods that are imported and exported:

1. VAT is charged for a commodity that is exported while sales tax is not
2. Sales Tax is paid for the full price of the imported commodity, while VAT is expected to be charged only for value added to this commodity by the importer and the reseller

This means that, without special measures, goods will be taxed twice if they are exported from one country that does have VAT to another country that has sales tax instead. Vice versa, goods that are imported from a VAT-free country into another country with VAT will result in no sales tax and only a fraction of the usual VAT. There are also significant differences in taxation for goods that are being imported / exported between countries with different systems or rates of VAT. Sales tax does not have those problems – it is charged in the same way for both imported and domestic goods, and it is never charged twice.

To fix this problem, nearly all countries that use VAT use special rules for imported and exported goods:

1. All imported goods are charged VAT tax for their full price when they are sold for the first time
2. All exported goods are exempted from any VAT payments

For these reasons VAT on imports and VAT rebates on exports form a common practice approved by the World Trade Organization.

Example

Consider a Ford car that cost $25,000 to produce in the USA (that does not have a VAT, but does have 10% Sales Tax) and an Opel car that costs $25,000 to produce in Germany (that does have 20% VAT). Both prices are shown with all taxes imposed on *manufacturers* of these cars, including social taxes, income taxes, etc., but without taxes imposed on *consumers* – that is, Sales Tax in USA and VAT in Germany.

Without a special modification related to Export / Import, customer prices will be

	Price paid for Ford by consumer	Price paid for Opel by consumer	Taxes paid for Ford by consumer	Taxes paid for Opel by consumer
In the USA	$27,500	$33,000	$2,500 (Sales Tax only)	$8,000 (Sales tax and VAT)
In Germany	$25,000	$30,000	$0 (none)	$5,000 (VAT)

Note that Opel prices appear to be inherently higher than Ford ones. A common mistake in a lot of examples trying to prove that VAT rebates form as a trade barrier is, to set **retail prices** equal for both Ford and Opel. This way, prices are initially equal, but become different after all the additional VAT taxes and rebates described below. Such an approach does not take into account the simple fact that Opel prices in the table above always include VAT while Ford prices never include it. That's exactly why additional adjustments are made in VAT taxation.

One may try to object that this simply means that Germany has generally higher taxes but, in fact, this is not the case for *consumer* taxes. Consider a hypothetical situation where consumer tax remains exactly the same in Germany as in the example above, but now it is collected as 20% Sales Tax:

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	Price paid for Ford by consumer	Price paid for Opel by consumer	Taxes paid for Ford by consumer	Taxes paid for Opel by consumer
In the USA	$27,500	$27,500	$2,500 (Sales Tax only)	$2,500 (Sales Tax only)
In Germany	$30,000	$30,000	$5,000 (Sales Tax only)	$5,000 (Sales Tax only)

The amount of tax is clearly different in the USA and Germany, but the skew in taxes between Opel and Ford has gone. Now everything is taxed in same way: Opel is not taxed twice, and Ford is taxed when its cars are imported to Germany. Note that the price of Opel cars in Germany is the same for both examples.

Rebating VAT on imports allows the same retail prices & customer taxation without abandoning VAT. Instead, the seller of imported Fords in Germany is charged 20% VAT for the whole price of Fords sold ($5,000), and the exporter of Opels is rebated $5,000 out of $30,000 he spent to buy each.

Different systems

Bangladesh

Value-added tax in Bangladesh was introduced in 1991 replacing Sales Tax and most of Excise Duties. The Value Added Tax Act, 1991 was enacted that year and VAT started its passage from 10 July 1991. The 10 July is observed as National VAT Day in Bangladesh.

Within the passage of 22 years, VAT has become the largest source of Government Revenue. About 56% of total tax revenue is VAT revenue in Bangladesh.

Standard VAT rate is 15%. Export is Zero rated. Besides these rates, there are several reduced rates locally called Truncated Rate for service sector are available. Different rates for different services are applied. Truncated Rates are 1.5%, 2%, 2.25%, 3%, 4%, 4.5%, 5%, 6% and 9%.

Bangladesh VAT is characterized by many distortions. Value declaration for product and service, branch registration, tariff value, truncated rates, many restriction on credit system, advance payment of VAT, excessive exemption etc. For many distortion, VAT-GDP ratio is about 4% here. To increase productivity of VAT, Government has enacted new act namely Value Added Tax and Supplementary Duty Act, 2012. This law will be in operation from 2015 with an automated administration.

National Board of Revenue 1 (http://www.nbr.gov.bd) is the apex organization administering Value Added Tax.

European Union

The European Union value added tax (EU VAT) is a value-added tax encompassing member states in the European Union VAT area. Joining in this is compulsory for member states of the European Union. As a consumption tax, the EU VAT taxes the consumption of goods and services in the EU VAT area. The EU VAT's key issue asks where the supply and consumption occurs thereby determining which member state will collect the VAT and which VAT rate will be charged.

Each Member State's national VAT legislation must comply with the provisions of EU VAT law as set out in Directive 2006/112/EC. This Directive sets out the basic framework for EU VAT, but does allow Member States some degree of flexibility in implementation of VAT legislation. For example, different rates of VAT are allowed in different EU member states. However Directive 2006/112 requires Member States to have a minimum standard rate of VAT of 15% and one or two reduced rates not to be below 5%. Some Member States have a 0% VAT rate on certain supplies- these Member States would have agreed this as part of their EU Accession Treaty (for example, newspapers and certain magazines in Belgium). The highest rate currently in operation in the EU is 27% (Hungary), though Member States are free to set higher rates. There is, in fact only one Member State (Denmark) that does not have a reduced rate of VAT.[4]

VAT that is charged by a business and paid by its customers is known as "output VAT" (that is, VAT on its output supplies). VAT that is paid by a business to other businesses on the supplies that it receives is known as "input VAT" (that is, VAT on its input supplies). A business is generally able to recover input VAT to the extent that the input VAT is attributable to (that is, used to make) its taxable outputs. Input VAT is recovered by setting it against the output VAT for which the business is required to account to the government, or, if there is an excess, by claiming a repayment from the government.

The VAT Directive (prior to 1 January 2007 referred to as the Sixth VAT Directive) requires certain goods and services to be exempt from VAT (for example, postal services, medical care, lending, insurance, betting), and certain other goods and services to be exempt from VAT but subject to the ability of an EU member state to opt to charge VAT on those supplies (such as land and certain financial services). Input VAT that is attributable to exempt supplies is not recoverable, although a business can increase its prices so the customer effectively bears the cost of the 'sticking' VAT (the effective rate will be lower than the headline rate and depend on the balance between previously taxed input and labour at the exempt stage).

China

VAT was implemented in China in 1984 and is administered by the State Administration of Taxation. In 2007, the revenue from VAT was 15.47 billion yuan ($2.2 billion) which made up 33.9 percent of China's total tax revenue for the year. The standard rate of VAT in China is 17%. There is a reduced rate of 13% that applies to products such as books and types of oils.[5]

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The Nordic countries

MOMS (Danish: *merværdiafgift*, formerly *meromsætningsafgift*), Norwegian: *merverdiavgift* (bokmål) or *meirverdiavgift* (nynorsk) (abbreviated *MVA*), Swedish: *Mervärdes och OMSättningsskatt* (until the early 1970s labeled as OMS *OMSättningsskatt* only), Icelandic: *virðisaukaskattur* (abbreviated *VSK*), Faroese: *meirvirðisgjald* (abbreviated *MVG*) or Finnish: *arvonlisävero* (abbreviated *ALV*) are the Nordic terms for VAT. Like other countries' sales and VAT taxes, it is an indirect tax.

Year	**Tax level (Denmark)**	Name
1962	9%	OMS
1967	10%	MOMS
1968	12.5658	
1970	15%	MOMS
1977	18%	MOMS
1978	20.25%	MOMS
1980	22%	MOMS
1992	25%	MOMS

In Denmark, VAT is generally applied at one rate, and with few exceptions is not split into two or more rates as in other countries (e.g. Germany), where reduced rates apply to essential goods such as foodstuffs. The current standard rate of VAT in Denmark is 25%. That makes Denmark one of the countries with the highest value-added tax, alongside Norway, Sweden and Croatia. A number of services have reduced VAT, for instance public transportation of private persons, health care services, publishing newspapers, rent of premises (the lessor can, though, voluntarily register as VAT payer, except for residential premises), and travel agency operations.

In Finland, the standard rate of VAT is 24% as of 1 January 2013 (raised from previous 23%), along with all other VAT rates, excluding the zero rate.[6] In addition, two reduced rates are in use: 14% (up from previous 13% starting 1 January 2013), which is applied on food and animal feed, and 10%, (increased from 9% 1 January 2013) which is applied on passenger transportation services, cinema performances, physical exercise services, books, pharmaceuticals, entrance fees to commercial cultural and entertainment events and facilities. Supplies of some goods and services are exempt under the conditions defined in the Finnish VAT Act: hospital and medical care; social welfare services; educational, financial and insurance services; lotteries and money games; transactions concerning bank notes and coins used as legal tender; real property including building land; certain transactions carried out by blind persons and interpretation services for deaf persons. The seller of these tax-exempt services or goods is not subject to VAT and does not pay tax on sales. Such sellers therefore may not deduct VAT included in the purchase prices of his inputs.

In Iceland, VAT is split into two levels: 24% for most goods and services but 11% for certain goods and services. The 11% level is applied for hotel and guesthouse stays, licence fees for radio stations (namely RÚV), newspapers and magazines, books; hot water, electricity and oil for heating houses, food for human consumption (but not alcoholic beverages), access to toll roads and music.[7]

In Norway, VAT is split into three levels: 25% general rate, 15% on foodstuffs and 8% on the supply of passenger transport services and the procurement of such services, on the letting of hotel rooms and holiday homes, and on transport services regarding the ferrying of vehicles as part of the domestic road network. The same rate applies to cinema tickets and to the television licence.[8] Financial services, health services, social services and educational services are all outside the scope of the VAT Act.[9] Newspapers, books and periodicals are zero-rated.[10] Svalbard has no VAT because of a clause in the Svalbard Treaty.

In Sweden, VAT is split into three levels: 25% for most goods and services, 12% for foods including restaurants bills and hotel stays and 6% for printed matter, cultural services, and transport of private persons. Some services are not taxable for example education of children and adults if public utility, and health and dental care, but education is taxable at 25% in case of courses for adults at a private school. Dance events (for the guests) have 25%, concerts and stage shows have 6%, and some types of cultural events have 0%.

MOMS replaced OMS (Danish "*omsætningsafgift*", Swedish "*omsättningsskatt*") in 1967, which was a tax applied exclusively for retailers.

India

VAT was introduced into the Indian taxation system from 1 April 2005. Of the 29 Indian states, eight did not introduce VAT at first instance including five states ruled by BJP. There is uniform VAT rate of 5% and 12.5% allover India. The government of Tamil Nadu introduced an act by the name Tamil Nadu Value Added Tax Act 2006 which came into effect from the 1 January 2007. It was also known as the TNVAT.

Gulf Cooperation Council

Increased growth and pressure on the GCC's governments to provide infrastructure to support growing urban centers, the Member States of the Arabic Gulf Cooperation Treaty, which together make up the Gulf Cooperation Council (GCC), have felt the need to introduce a tax system in the region.

In particular, the United Arab Emirates (UAE) has clarified that government officials are studying the situation and considering implementation of a value-added tax. [11]

Malaysia

Value-added tax which is called goods and services tax (GST) (in Malay: *Cukai Barangan dan Perkhidmatan*) was implemented on 1 April 2015 on most supply of goods and services; with 6% rate. GST replaced the sales and services tax (SST).

Mexico

Value-added tax (Spanish: *Impuesto al Valor Agregado*, IVA) is a tax applied in Mexico and other countries of Latin America. In Chile, it is also called *Impuesto al Valor Agregado* and, in Peru, it is called *Impuesto General a las Ventas* or *IGV*.

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Prior to the IVA, a sales tax (Spanish: *impuesto a las ventas*) had been applied in Mexico. In September 1966, the first attempt to apply the IVA took place when revenue experts declared that the IVA should be a modern equivalent of the sales tax as it occurred in France. At the convention of the Inter-American Center of Revenue Administrators in April and May 1967, the Mexican representation declared that the application of a value-added tax would not be possible in Mexico at the time. In November 1967, other experts declared that although this is one of the most equitable indirect taxes, its application in Mexico could not take place.

In response to these statements, direct sampling of members in the private sector took place as well as field trips to European countries where this tax was applied or soon to be applied. In 1969, the first attempt to substitute the mercantile-revenue tax for the value-added tax took place. On 29 December 1978 the Federal government published the official application of the tax beginning on 1 January 1980 in the Official Journal of the Federation.

As of 2010, the general VAT rate was 16%. This rate was applied all over Mexico except for bordering regions (i.e. the United States border, or Belize and Guatemala), where the rate was 11%. The main exemptions are for books, food, and medicines on a 0% basis. Also some services are exempt like a doctor's medical attention. In 2014 Mexico Tax Reforms eliminated the favorable tax rate for border regions and increased the VAT to 16% across the country.

Nepal

Concept of VAT in Nepal was introduced in FY 2049/50 but the act was developed in BS 2050. VAT was implemented in 1998 and is the major source of government revenue. It is administered by Inland Revenue Department of Nepal. Nepal has been levying two rates of VAT: Normal 13% and zero rate, in addition some goods and services are exempt from VAT.

New Zealand

The goods and services tax (GST) is a value-added tax that was introduced in New Zealand in 1986, currently levied at 15%. It is notable for exempting few items from the tax. From July 1989 to September 2010, GST was levied at 12.5%, and prior to that at 10%.

Australia

The goods and services tax (GST) is a value-added tax introduced in Australia in 2000, which is collected by the Australian Tax Office. The revenue is then redistributed to the states and territories via the Commonwealth Grants Commission process. In essence, this is Australia's program of horizontal fiscal equalisation. Whilst the rate is currently set at 10%, there are many domestically consumed items that are effectively zero-rated (GST-free) such as fresh food, education, and health services, as well as exemptions for Government charges and fees that are themselves in the nature of taxes.

Canada

Goods and Services Tax (GST) is a value-added tax introduced by the Federal Government in 1991 at a rate of 7%, later reduced to the current rate of 5%. A Harmonized Sales Tax (HST; combined GST and provincial sales tax) is collected in New Brunswick (13%), Newfoundland (13%), Nova Scotia (15%), Ontario (13%), Prince Edward Island (14%), and, for a short time until 2013, British Columbia (12%). (Quebec has a de facto 14.975% HST: its provincial sales tax follows the same rules as the GST, and both are collected together by Revenu Québec.) Advertised and posted prices generally exclude taxes, which are calculated at time of payment; exceptions are motor fuels, the posted prices for which include sales and excise taxes, and items in vending machines as well as alcohol in monopoly stores. Basic groceries, prescription drugs, inward/outbound transportation and medical devices are exempt.

Vietnam

Value-added tax (VAT) in Vietnam is a broadly based consumption tax assessed on the value added to goods and services arising through the process of production, circulation, and consumption. It's an indirect tax in Vietnam on domestic consumption applied nationwide rather than at different levels such as state, provincial or local taxes. It is a multi-stage tax which is collected at every stage of the production and distribution chain and passed on to the final customer. It is applicable to the majority of goods and services bought and sold for use in the country. Goods that are sold for export and services that are sold to customers abroad are normally not subject to VAT.

All organizations and individuals producing and trading VAT taxable goods and services in Vietnam have to pay VAT, regardless of whether they have Vietnam-based resident establishments or not.

Vietnam has three VAT rates: 0 percent, 5 percent and 10 percent. 10 percent is the standard rate applied to most goods and services unless otherwise stipulated.
A variety of goods and service transactions may qualify for VAT exemption.

United States

In the United States, currently, there is no federal value-added tax (VAT) on goods or services. Instead, sales tax is common in most US states.

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The state of Michigan used a form of VAT known as the "Single Business Tax" (SBT) as its form of general business taxation. It is the only state in the United States to have used a VAT. When it was adopted in 1975, it replaced seven business taxes, including a corporate income tax. On 9 August 2006, the Michigan Legislature approved voter-initiated legislation to repeal the Single Business Tax, which was replaced by the Michigan Business Tax on 1 January 2008.[12]

The state of Hawaii has a 4% General Excise Tax (GET) that is charged on the gross income of any business entity generating income within the State of Hawaii. The State allows businesses to optionally pass on their tax burden by charging their customers a quasi sales tax rate of 4.166%.[13] The total tax burden on each item sold is more than the 4.166% charged at the register since GET was charged earlier up the sales chain (such as manufacturers and wholesalers), making the GET less transparent than a retail sales tax.

In Puerto Rico, a United States territory, a 16% VAT has been proposed, but debate is ongoing.[14]

Discussions about a national US VAT

Soon after President Richard Nixon took office in 1969, it was widely reported that his administration was considering a federal VAT with the revenue to be shared with state and local governments to reduce their reliance on property taxes and to fund education spending.

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Tax rates

EU states

Standard VAT or Sales Tax rate

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Country	Standard rate	Reduced rate	Abbr.	Name
Austria	20%[15]	10% for rental for the purpose of habitation, transportation of passengers, garbage collection, books and periodicals, food, revenues from artistic works.	MwSt./USt.	Mehrwertsteuer/Umsatzsteuer
Belgium	21%[15]	12% or 6% (for food or live necessary consumables) or 0% in some cases	BTW TVA MWSt	Belasting over de toegevoegde waarde Taxe sur la Valeur Ajoutée Mehrwertsteuer
Bulgaria	20%[15]	9% (hotels) or 0%	ДДС	Данък добавена стойност
Croatia	25%[15]	13% (since 1 January 2014) or 5% (since 1 January 2013)	PDV	Porez na dodanu vrijednost
Cyprus	19%[15]	5% (8% for taxi and bus transportation)	ΦΠΑ	Φόρος Προστιθέμενης Αξίας
Czech Republic	21%[15][16]	15% (food, public transport) or 10% (medicines, pharmaceuticals, books and baby foodstuffs)	DPH	Daň z přidané hodnoty
Denmark	25%[15][17]	0%	moms	Meromsætningsafgift
Estonia	20%[15]	9%	km	käibemaks
Finland	24% [15]	14% (foodstuffs, restaurants) or 10% (medicines, cultural services and events, passenger transport, hotels, books and magazines)	ALV Moms	Arvonlisävero (Finnish) Mervärdesskatt (Swedish)
France	20%[15]	10% or 5.5% or 2.1%	TVA	Taxe sur la valeur ajoutée
Germany	19% (Heligoland 0%)[15]	7% for foodstuffs (except luxury-), books, flowers etc., 0% for postage stamps. (Heligoland always 0%)	MwSt./USt.	Mehrwertsteuer/Umsatzsteuer
Greece	23%[15][18] (16% on Aegean islands)	13% (6.5% for hotels, books and pharmaceutical products) (8% and 4% on Aegean islands)	ΦΠΑ	Φόρος Προστιθέμενης Αξίας
Hungary	27%[19]	18% or 5%	ÁFA	Általános forgalmi adó
Ireland	23%[15][20]	13.5% or 9.0% or 4.8% or 0%	CBL VAT	Cáin Bhreisluacha (Irish) Value Added Tax (English)
Italy	22%[15] (Livigno 0%)[15]	10% (hotels, bars, restaurants and other tourism products, certain foodstuffs, plant protection products and special works of building restoration) or 4% (e.g. grocery staples, daily or periodical press and books, works for the elimination of architectural barriers, some kinds of seeds, fertilizers)	IVA	Imposta sul Valore Aggiunto
Latvia	21%[15]	12% or 0%	PVN	Pievienotās vērtības nodoklis
Lithuania	21%[15]	9% or 5%	PVM	Pridėtinės vertės mokestis
Luxembourg	15%[15]	12% or 9% or 6% or 3%	TVA	Taxe sur la Valeur Ajoutée
Malta	18%[15]	5% or 0%	VAT	Taxxa tal-Valur Miżjud
Netherlands	21%[15]	6% or 0%	BTW	Belasting over de toegevoegde waarde
Poland	23%[21]	8% or 5% or 0%	PTU/VAT	Podatek od towarów i usług
Portugal	23%[22] 22% in Madeira and 18% in Azores (Minimum 70% of mainland rate)[23]	13% or 6% 12% or 5% in Madeira and 9% or 4% in Azores (Minimum 70% of mainland rate)[23]	IVA	Imposto sobre o Valor Acrescentado
Romania	24%[24]	9% (medication, books, food) or 5% (first time buyers of new homes under special conditions)	TVA	Taxa pe valoarea adăugată
Slovakia	20%[15]	10%	DPH	Daň z pridanej hodnoty
Slovenia	22%[25]	9.5%	DDV	Davek na dodano vrednost
Spain	21%[15] 7% in Canary Islands (not part of EU VAT area)	10% (10% from 1 September 2012[26]) or 4%[27][28] 3% or 0% in Canary Islands	IVA IGIC	Impuesto sobre el Valor Añadido Impuesto General Indirecto Canario
Sweden	25%[15]	12% (e.g. food, hotels and restaurants), 6% (e.g. books, passenger transport, cultural events and activities), 0% (e.g. insurance, financial services, health care, dental care, prescription drugs, education, immovable property)[29][30]	Moms	Mervärdesskatt

Country	Standard rate	Reduced rate	Abbr.	Name
United Kingdom	20%[31] 0% on Channel Islands and Gibraltar (not part of EU VAT area)	5% residential energy/insulation/renovations, feminine hygiene products, child safety seats and mobility aids and 0% for life necessities – basic food, water, prescription medications, medical equipment and medical supply, public transport, children's clothing, books and periodicals. Also 0% for new building construction (but standard rate for building demolition, modifications, renovation etc.)	VAT	Value Added Tax

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Non-EU countries

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Country	Standard rate	Reduced rate	Local name
Albania	20%	10% (pharmacies and medical services)	TVSH = *Tatimi mbi Vlerën e Shtuar*
Kosovo	16%		TVSH = *Tatimi mbi Vlerën e Shtuar*
Andorra[32]	4.5%	1%	IGI = *Impost General Indirecte*
Azerbaijan	18%	10.5% or 0%	ƏDV = *Əlavə dəyər vergisi*
Argentina	21%	10.5% or 0%	IVA = *Impuesto al Valor Agregado*
Armenia	20%	0%	*AAH = Avelacvats Arzheqi Hark* ԱԱՀ = Ավելացված արժեքի հարկ
Australia	10%	0% fresh food, medical services, medicines and medical devices, education services, childcare, water and sewerage, government taxes & permits and many government charges, precious metals, second-hand goods and many other types of goods. Rebates for exported goods and GST taxed business inputs are also available	GST = *Goods and Services Tax*
Bahamas[33]	7.5%	0%	VAT = Value Added Tax
Belarus	20%	10% or 0.5%	ПДВ = *Падатак на дададзеную вартасьць*
Bangladesh	15%	4% for Supplier, 4.5% for ITES, 5% for electricity, 5.5% for construction firm, etc.	VAT = Value Added Tax মূসক = মূল্য সংযোজন কর
Barbados	17.5%		VAT = Value Added Tax
Bosnia and Herzegovina	17%		PDV = *Porez na dodanu vrijednost*
Brazil	12% + 25% + 5%	0%	*IPI – 12% = *Imposto sobre produtos industrializados (Tax over industrialized products) – Federal Tax* ICMS – 25% = *Imposto sobre circulação e serviços (Tax over commercialization and services) – State Tax* ISS – 5% = *Imposto sobre serviço de qualquer natureza (Tax over any service) – City tax* **IPI = Imposto sobre produtos industrializados (Tax over industrialized products) can reach 60% over imported products.*
Bolivia	13%		IVA = *Impuesto al Valor Agregado*
Canada	5% + 0–10% HST (GST + PVAT)	5%/0%[a]	GST = *Goods and Services Tax*, TPS = *Taxe sur les produits et services*; HST[b] = *Harmonized Sales Tax*, TVH = *Taxe de vente harmonisée*
Chile	19%		IVA = *Impuesto al Valor Agregado*
Colombia	16%		IVA = *Impuesto al Valor Agregado*
People's Republic of China[c]	17%	13% for foods, printed matter, and households fuels; 6% or 3%	增值税 (pinyin:*zēng zhí shuì*)
Dominican Republic	18%	12% or 0%	ITBIS = *Impuesto sobre Transferencia de Bienes Industrializados y Servicios*
Ecuador	12%		IVA = *Impuesto al Valor Agregado*
Egypt	10% (15% on Communication Services)		*VAT = Value Added Tax* (الضريبة على القيمة المضافة)
El Salvador	13%		IVA = *Impuesto al Valor Agregado* o "Impuesto a la Transferencia de Bienes Muebles y a la Prestación de Servicios"
Ethiopia	15%		*VAT = Value Added Tax*
Fiji	15%	0%	VAT = *Value Added Tax*
Faroe Islands	25%		MVG = *Meirvirðisgjald*
	15%		VAT = Value Added Tax

Country	Standard rate	Reduced rate	Local name
The Gambia [34]			
Georgia	18%	0%	DGhG = *Damatebuli Ghirebulebis gadasakhadi* დღგ = დამატებული ღირებულების გადასახადი
Ghana	15%		VAT = Value Added Tax plus National Health Insurance Levy (NHIL; 2.5%)
Guatemala	12%		IVA = *Impuesto al Valor Agregado*
Guyana[35]	16%	0%	VAT = *Value Added Tax*
Iran	9%	Goods and Services Tax	VAT = *Value Added Tax* (مالیات بر ارزش افزوده)
Iceland	25.5%	7%[d]	VSK, VASK = *Virðisaukaskattur*
India[e]	5.5%	5.5%	VAT = *Valued Added Tax*
Indonesia	10%	10%, 0% for primary groceries, medical services, financial services, education and also insurance	PPN = *Pajak Pertambahan Nilai*
Israel[f]	18%[g] (Eilat 0%)	0% (fruits and vegetables, tourism services for foreign citizens, intellectual property, diamonds, flights and apartments renting)	Ma'am = מס ערך מוסף, מע״מ
Japan	8%		*shōhizei* (消費税) ("consumption tax")
Jersey[h]	5%	0%	GST = *Goods and Services Tax*
Jordan	16%		GST = *Goods and Sales Tax*
Kazakhstan	12%		ҚСҚ = *Қосымша салық құны* (Kazakh) НДС = *Налог на добавленную стоимость* (Russian) VAT = *Value Added Tax*
Lebanon	10%		TVA = *Taxe sur la valeur ajoutée*
Liechtenstein[37]	8.0%	3.8% (lodging services) or 2.5%	MWST = *Mehrwertsteuer*
Morocco	20%		*GST = Goods and Sales Tax* (الضريبة على القيمة المضافة)
Republic of Moldova	20%	8%, 5% or 0%	TVA = *Taxa pe Valoarea Adăugată*
Macedonia	18%	5% or 0%	ДДВ = *Данок на Додадена Вредност*, DDV = *Danok na Dodadena Vrednost*
Malaysia[i]	6%		GST = *Goods and Services Tax*
Maldives	6%	0%	GST = *Goods and Services Tax* (Government Tax)
Mexico	16%	0% on books, food and medicines.	IVA = *Impuesto al Valor Agregado*
Monaco[39]	19.6%	5.6%	TVA = *Taxe sur la valeur ajoutée*
Mongolia	10%	0%	VAT = *Нэмэгдсэн өртгийн албан татвар*
Montenegro	19%		PDV = *Porez na dodatu vrijednost*
Mauritius	15%		VAT = *Value Added Tax*
Namibia	15%	0%	VAT = *Value Added Tax*
Nepal	13%	0%	VAT = *Value Added Taxes*
New Zealand	15%		GST = *Goods and Services Tax*
Norway	25%	15% (food), 8% (public transport, hotel, cinema) and 0% for electric cars (until 2018) [40]	MVA = *Merverdiavgift* (bokmål) or *meirverdiavgift* (nynorsk) (informally *moms*)
Palestine	16%		VAT = *Value Added Tax*
Pakistan	17%	1% or 0%	GST = *General Sales Tax*
Panama	7%	0%	ITBMS = *Impuesto de Transferencia de Bienes Muebles y Servicios*
Paraguay	10%	5%	IVA= *Impuesto al Valor Agregado*

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Country	Standard rate	Reduced rate	Local name
Peru	16%+2%		IGV – 16% = *Impuesto General a la Ventas* IPM – 2% *Impuesto de Promocion Municipal*
Philippines	12%[j]	6% on petroleum products, and electricity and water services 0% for senior citizens (all who are aged 60 and above) on medicines, professional fees for physicians, medical and dental services, transportation fares, admission fees charged by theaters and amusement centers, and funeral and burial services after the death of the senior citizen	RVAT = *Reformed Value Added Tax*, locally known as *Karagdagang Buwis / Dungag nga Buhis*
Russia	18%	10% or 0%	НДС = *Налог на добавленную стоимость*, NDS = *Nalog na dobavlennuyu stoimost'*
Rwanda	18%	0%	VAT = *Value Added Tax*
Saint Kitts and Nevis	17%		VAT = *Value Added Tax*
Serbia	20%[42]	10%[43] or 0%	ПДВ = *Порез на додату вредност*, PDV = *Porez na dodatu vrednost*
Singapore	7%		GST = *Goods and Services Tax*
South Africa	14%	0%	VAT = *Valued Added Tax*; BTW = *Belasting op toegevoegde waarde*
South Korea	10%		VAT = 부가세(附加稅, *Bugase*) = 부가가치세(附加價値稅, *Bugagachise*)
Sri Lanka	12%	0%	VAT = *Valued Added Tax* has been in effect in Sri Lanka since 2001. On the 2001 budget, the rates have been revised to 12% and 0% from the previous 20%, 12% and 0%
Switzerland	8%[27]	3.8% (hotel sector) and 2.5% (essential foodstuff, books, newspapers, medical supplies)[27]	MWST = *Mehrwertsteuer*, TVA = *Taxe sur la valeur ajoutée*, IVA = *Imposta sul valore aggiunto*, TPV = *Taglia sin la Plivalur*
Taiwan	5%		增值稅 (pinyin:*zēng zhí shuì*)
Thailand	10%	7%	VAT = *Value Added Tax*, ภาษีมูลค่าเพิ่ม
Trinidad and Tobago	15%	0%	
Tunisia	18%		TVA = *Taxe sur la Valeur Ajoutée* أداء على القيمة المضافة
Turkey	18%	8% or 1%	KDV = *Katma değer vergisi*
Ukraine	20%	0%	ПДВ = *Податок на додану вартість*, PDV = *Podatok na dodanu vartist'*.
Uruguay	22%	11% or 0%	IVA = *Impuesto al Valor Agregado*
Uzbekistan	20 %		НДС = Налог на добавленную стоимость
Vietnam	10%	5% or 0%	GTGT = *Giá Trị Gia Tăng*
Venezuela	12%	11%	IVA = *Impuesto al Valor Agregado*

a. No real "reduced rate", but rebates generally available for new housing effectively reduce the tax to 4.5%.
b. HST is a combined federal/provincial VAT collected in some provinces. In the rest of Canada, the GST is a 5% federal VAT and if there is a *Provincial Sales Tax* (PST) it is a separate non-VAT tax.
c. These taxes do not apply in Hong Kong and Macau, which are financially independent as special administrative regions.
d. The reduced rate was 14% until 1 March 2007, when it was lowered to 7%. The reduced rate applies to heating costs, printed matter, restaurant bills, hotel stays, and most food.
e. VAT is not implemented in 2 of India's 28 states.
f. Except Eilat, where VAT is not raised.[36]
g. The VAT in Israel is in a state of flux. It was reduced from 18% to 17% in March 2004, to 16.5% in September 2005, then to 15.5% in July 2006. It was then raised back to 16.5% in July 2009, and lowered to the rate of 16% in January 2010. It was then raised again to 17% on 1 September 2012, and once again on 2 June 2013, to 18%.
h. The introduction of a goods and sales tax of 3% on 6 May 2008 was to replace revenue from Company Income Tax following a reduction in rates.
i. In the 2014 Budget, the government announced that GST would be introduced in April 2015. Piped water, power supply (the first 200 units per month for domestic consumers), transportation services, education, and health services are tax-exempt. However, many details have not yet been confirmed.[38]
j. The President of the Philippines has the power to raise the tax to 12% after 1 January 2006. The tax was raised to 12% on 1 February.[41]

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Countries and territories VAT free

As of November 2011, 11 countries and nine territories under two countries remained VAT free.

Country[44]	Notes
United States	Most states charge a sales tax on products. The US federal government does not. There are a few states, such as Oregon and New Hampshire, that do not charge.
San Marino	
Vatican City	
Saudi Arabia	Gulf Cooperation Council
Qatar	Gulf Cooperation Council
United Arab Emirates	Gulf Cooperation Council
Kuwait	Gulf Cooperation Council
Bahrain	Gulf Cooperation Council
Oman	Gulf Cooperation Council
Libya	
Brunei	
Maldives	
Hong Kong	Special Administrative Region of China
Macao	Special Administrative Region of China
British Virgin Islands	British Overseas Territory
Bermuda	British Overseas Territory
Cayman Islands	British Overseas Territory
Anguilla	British Overseas Territory
Gibraltar	British Overseas Territory
Turks and Caicos Islands	British Overseas Territory
Guernsey	British Crown Dependency

Criticisms

The "value-added tax" has been criticized as the burden of it falls on personal end-consumers of products. Some critics consider it to be a regressive tax, meaning that the poor pay more, as a percentage of their income, than the rich. Defenders argue that relating taxation levels to income is an arbitrary standard, and that the value-added tax is in fact a proportional tax in that people with higher income pay more in that they consume more. The effective progressiveness or regressiveness of a VAT system can also be affected when different classes of goods are taxed at different rates. To maintain the progressive nature of total taxes on individuals, countries implementing VAT have reduced income tax on lower income-earners as well as instituted direct transfer payments to lower-income groups, resulting in lower tax burdens on the poor.[45]

4 May 2010 "Campaña no más IVA" in Spain

Revenues from a value-added tax are frequently lower than expected because they are difficult and costly to administer and collect. In many countries, however, where collection of personal income taxes and corporate profit taxes has been historically weak, VAT collection has been more successful than other types of taxes. VAT has become more important in many jurisdictions as tariff levels have fallen worldwide due to trade liberalization, as VAT has essentially replaced lost tariff revenues. Whether the costs and distortions of value-added taxes are lower than the economic inefficiencies and enforcement issues (e.g. smuggling) from high import tariffs is debated, but theory suggests value-added taxes are far more efficient.

Certain industries (small-scale services, for example) tend to have more VAT avoidance, particularly where cash transactions predominate, and VAT may be criticized for encouraging this. From the perspective of government, however, VAT may be preferable because it captures at least some of the value added. For example, a building contractor may offer to provide services *for cash* (i.e. without a receipt, and without VAT) to a homeowner, who usually cannot claim input VAT back. The homeowner will thus bear lower costs and the building contractor may be able to avoid other taxes (profit or payroll taxes).

Because exports are generally zero-rated (and VAT refunded or offset against other taxes), this is often where VAT fraud occurs. In Europe, the main source of problems is called carousel fraud. This kind of fraud originated in the 1970s in the Benelux countries. Today, VAT fraud is a major problem in the UK.[46] There are also similar fraud possibilities inside a country. To avoid this, in some countries like Sweden, the major owner of a limited company is personally responsible for taxes.

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Under a sales tax system, only businesses selling to the end-user are required to collect tax and bear the accounting cost of collecting the tax. Under VAT, however, manufacturers and wholesale companies also have to hire accountants and incur accounting expenses to handle the additional paperwork required for collecting VAT, increasing overhead costs that in turn get incorporated into the cost of the item, possibly creating a cascading effect of higher prices throughout the chain of production. Manufacturers and wholesalers have a choice of retaining less profits overall, or passing on the additional cost to their customers in the form of increased prices.

Many politicians and economists in the United States consider VAT taxation on US goods and VAT rebates for goods from other countries to be unfair practice. E.g. the American Manufacturing Trade Action Coalition claims that any rebates or special taxes on imported goods should not be allowed by the rules of the World Trade Organisation. AMTAC claims that so-called "border tax disadvantage" is the greatest contributing factor to the $5.8 trillion US current account deficit for the decade of the 2000s, and estimated this disadvantage to US producers and service providers to be $518 billion in 2008 alone. Some US politicians, such as congressman Bill Pascrell, are advocating either changing WTO rules relating to VAT or rebating VAT charged on US exporters by passing the Border Tax Equity Act.[47]

Another avenue of criticism of implementing a VAT is that the increased tax passed to the consumer will increase the ultimate price paid by the consumer. However, a study in Canada reveals that in fact when replacing a traditional sales tax with a VAT consumer prices actually fell.[48]

See also

- Excise
- Flat tax
- Gross receipts tax
- Income tax
- Indirect tax
- Land value tax
- Missing Trader Fraud (Carousel VAT Fraud)
- Progressive tax
- Single tax
- Turnover tax
- X tax

General:

- List of tax rates around the world

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- International VAT Calculator (http://www.thevatcalculator.com/international-vat-and-gst-calculator/)
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