

# OECD launches its Global Forum on VAT

2012

Piet Battiau discusses the increasing importance of VAT  
as a source of government revenue

**V**alue Added Taxes (also referred to as goods and services taxes) have become a truly global phenomenon. Such taxes were used in less than ten countries in the late 1960s. By contrast, over 150 countries now operate a VAT and its importance as a major source of revenue for governments continues to increase. In the 33 OECD member countries that operate a VAT, the share of VAT as a percentage of total taxation has grown by more than 70% since the mid eighties, passing from 11.2% on average in 1985 to 19.2% in 2009. This makes VAT globally the third important source of revenue (figures for 2009) behind personal income taxes (25%) and social security contributions (27%) but far above corporate income tax (8%), specific consumption taxes (incl. excise duties; 11%) and property taxes (5%).

The importance of VAT as a source of government revenue is likely to increase further as countries deal with fiscal consolidation pressures in the wake of the economic crisis. A growing number of countries are looking at ways to improve the performance of their VAT, to increase its revenue raising capacity and to address inefficiencies. Meanwhile, the economic globalisation creates increasing challenges for the application of VAT on international trade. Many of these issues are similar across countries and the scope for “learning from each other” is enormous.

In this context, the OECD’s Committee on Fiscal Affairs (CFA) decided in May 2012 to launch its Global Forum on VAT as a platform for a structured global dialogue on the design and operation of VAT. The creation of this Global Forum is a logical step in the evolution of the OECD’s work on VAT. This article gives a brief overview of this work and describes the role the Global Forum on VAT.

### **VAT in cross border trade: from the Ottawa Taxation Framework to the VAT/GST Guidelines**

The development of internationally agreed principles for the application of VAT on international trade, particularly in the area of services and intangibles is a key priority for the OECD’s Committee on Fiscal Affairs. Combined with the spread of VAT globally, the growth of cross border economic activities has increased the interaction between VAT systems leading to an increased risk of double taxation and unintended non-taxation. The most common caus-

es of double (non) taxation are the use of different rules to determine the place of taxation and different interpretation of similar rules, different characterization of transactions and non-recoverability of tax.

Countries broadly agree that “taxation at destination” is the standard for applying VAT in an international context: no VAT is levied on exported products and imports are taxed in the importing country as if they had been domestic production. This principle is generally easily applicable for international trade in goods. However, the strong growth of international trade in services has created particular challenges for VAT systems. Services cannot be subject to border controls in the same way as goods, so administrative procedures for ensuring that the right amount of tax is paid in the right place are more complex and differ across jurisdictions.

*The Global Forum on VAT... will offer a platform for structured dialogue with non-OECD economies and other stakeholders*

Since the late 1990s, governments and tax administrations recognised that greater coherence was required for the application of VAT in an international context. The OECD first developed international standards on consumption taxation in the context of electronic commerce in 1998, which has become known as the Ottawa Taxation Framework. Destination based taxation of cross-border e-business was the governing principle of this framework. It has since then served as a basis for the European VAT-rules on e-business and telecommunication and broadcasting services, adopted in 2008. Also the World Trade Organization (WTO) and the Asia-Pacific Economic Cooperation (APEC) have adopted it as the standard for taxing electronic commerce.

However, evidence grew that VAT could distort international trade in services and intangibles more generally and the OECD therefore launched a project for the development of the OECD International VAT/GST Guidelines, as an internationally agreed standard for applying VAT to cross-border trade. Guidelines on the VAT treatment of business-to-business supplies of services and intangibles were adopted in 2010 and International VAT Neutrality Guidelines were adopted in 2011. A Commentary on the Neutrality Guidelines has been recently released for public consultation.

The OECD is now developing Guidelines on the VAT treatment of cross-border supplies of services and intangibles in specific scenarios, including transactions involving businesses that operate cross-border on the basis of a branch structure and transactions in connection with immovable property. This work is scheduled to be released for public consultation in early 2013. The OECD aims to finalise the International VAT/GST Guidelines as an internationally agreed framework for the application of VAT to international trade, in the course of 2014.

### **VAT policy design**

VAT is a major source of revenue and the design of VAT regimes can thus potentially have a significant impact on a country's economic performance. An increasing number of countries are starting to consider reform of their VAT

system as a result of the pressures for fiscal consolidation. It is a priority for the OECD to actively support countries in this exercise. Economic analysis suggests that broadening the tax base, limiting the use of reduced rates and exemptions could increase output and social welfare. However, the political obstacles to raising and perhaps ultimately eliminating reduced rates and exemptions are often considerable. The OECD supports countries through policy analysis and by facilitating the exchange of experiences to strengthen national assessments of the desirability, or otherwise, of reforms.

### **The Global Forum on VAT**

The global reach of VAT means that not only OECD countries but also much of the rest of the world has an interest in policy exchange and development of best practices for the design and operation of VAT. Brazil, China and India for instance are seeking to reform their VAT regimes to remove cascading and provide more uniform taxation of goods and services. Notably at the OECD's 50<sup>th</sup> Anniversary Tax Conference on *Challenges in Designing Competitive Tax Systems* in June 2011, senior tax officials and decisions makers stressed the need for a real global dialogue involving all major players on the design and application of VAT.

Against this background, the OECD's Committee on Fiscal Affairs decided in May 2012 to create a Global Forum on VAT. Like the OECD's Global Forums on Treaties and on Transfer Pricing, the Global Forum on VAT will play a key role for the OECD's cooperation with non-OECD economies on international taxation. It will offer a platform for structured dialogue with non-OECD economies and other stakeholders. It will offer the opportunity for sharing policy analysis and experience, for identifying best practices and for strengthening international cooperation among industrialised, emerging and developing economies, and international and regional organisations. Businesses and academia will also be invited for discussions at Global Forum meetings.

The first meeting of the Global Forum on VAT will be held on 7-8 November 2012 in Paris. Participants will explore key policy trends and their impact for policy makers, tax administrations and businesses. They will discuss the de-

sign of efficient and equitable VAT systems and compare approaches. They will look at the challenges of applying VAT in an international context and consider the OECD International VAT/GST Guidelines that are being developed as a set of international standards for the application of VAT to international trade. They will share views and experiences about the challenge of administering and complying with VAT in practice.

These are exciting times for VAT professionals. The OECD's Global Forum on VAT now offers the opportunity for stakeholders across the globe to engage in a constructive dialogue around the development of international agreed standards and policies for the design and operation of efficient and equitable VAT systems. ■

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