

Lessons from International Experiences with Multi-Level Indirect Taxation

Pierre-Pascal Gendron
*Humber Institute of Technology &
Advanced Learning, Toronto, Canada*

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1. Introduction

- World Bank project reports, 2007:
 - Background: Multi-Level Indirect Taxation (May);
 - International Experiences with Multi-Level Indirect Taxation (June);
 - International Best Practices with Multi-Level Indirect Taxation (June).
- Recent developments in Canada, India, and Brazil.

2. VAT Design: Key Issues

- Rates.
- Registration thresholds.
- Exemptions.
- Zero-rating.
- Coordination with excise taxes.
- Treatment of international trade.

2. VAT Design: Should We Tax It?

- Agriculture.
- Public sector, non-profit and charitable organizations.
- Aid and foreign-financed projects.
- Financial services.
- Real property.

2. VAT Design: New Issues

- Digital economy.
- Information technology in administration.
- “Administrability” as a planning criterion.
- Subnational VATs:
 - Interstate (or inter-provincial) trade;
 - Taxation of services (issue in India and Brazil).

3. VAT Coordination & Harmonization

Solutions to multi-level taxation problems:

- Centralization;
- Coordination and/or harmonization;
- Models to handle cross-border trade;
- Uncoordinated policies and procedures.

3. VAT Coordination & Harmonization

- Coordination: ex ante cooperation, maximizes the benefits of reform.
- Harmonization: ex post convergence in tax systems.

Costs of uncoordinated policies? Large resource costs from administration and compliance, and too much tax competition.

3. VAT Coordination & Harmonization

Principles for harmonization:

- Should lead to simplification;
- Should respect state autonomy;
- One agency should administer a given tax.

Process of harmonization acknowledges initial differences in tax systems in different jurisdictions.

3. VAT Coordination & Harmonization

- Oldest example: European Union.
- Limitation: there is no “EU” or federal VAT.

Let's turn to jurisdictions where different levels of government share the sales tax field...

4. Canadian Experience

- Multi-level taxation in both direct and indirect tax fields.
- Five different sales tax regimes:
 - Federal Goods and Services Tax (GST=VAT);
 - Retail Sales Taxes (RSTs);
 - “Harmonized Sales Tax” (HST=VAT);
 - Québec Sales Tax (QST=VAT);
 - Alberta (no tax!).

4. Canadian Experience

- Two very different harmonization models:
 - QST (1992): dual VAT;
 - HST (1997): common VAT with revenue-sharing.
- Despite a number of differences, there is consistency in rates, exemptions and zero-ratings.
- Discussions regarding harmonization of 5 remaining RST provinces are ongoing.

4. Canadian Experience

Success factors for harmonization:

- Federal-provincial cooperation;
- “Hitching” of federal and provincial reforms;
- Federal transitional assistance for revenue losses;
- Transition and adjustment period.

4. Indian Experience

- Complexity of structure and allocation of taxing powers similar to Brazil.
- Difficult partial harmonization in 2005, a work in progress.
- In spite of all this and serious constitutional obstacles, the government plans to adopt a GST by 2010.

4. Indian Experience

But state VATs have serious flaws:

- Narrow bases since states do not have the power to tax services in a comprehensive way;
- Poor design (multiple and differentiated rates, multiple exemptions, poor treatment of excisable goods, etc.);
- Residual element of origin taxation;
- Different definitions.

4. Argentinean Experience

- VAT at central level.
- “Gross Receipts Tax” (turnover tax) at provincial level.
- VAT revenue shared with provinces and City of Buenos Aires.

Obstacles to reform: Enabling provincial VATs based on destination principle, and federal compensation for revenue losses.

4. Australian & German Experiences

- Federal sales tax only: GST in Australia, VAT in Germany.
- Pure revenue-sharing based on:
 - Equalization (Australia);
 - Formula (Germany).

Despite the considerable advantages for administration and compliance, it's not for Brazil...

5. Concluding Remarks
