



FISCAL AFFAIRS

Twelfth IMF- Japan High-Level Tax Conference for Asian Countries

Value-Added Tax Policy

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IMF CONFERENCE



VAT Webinar Series



INTERNATIONAL MONETARY FUND



Partners



IMF/RMTF Webinar Series on the VAT

The IMF and the RMTF will host a series of virtual events on the VAT in the coming months. The series, comprising four webinars covering different aspects of the VAT, will be short, each running for up to two hours, and targeted at strategic-level VAT issues. The webinars will mainly entail an organized discussion among small panels, leading to an exchange of views and Q&A.

OVERVIEW ▾

WEBINARS ▾

PUBLICATIONS ▾

OBJECTIVES ▾

OPENING REMARKS VITOR GASPAR WEBINAR 1 ▾

Overview

BACK TO TOP ▲

It is time to refocus tax discussions on the fiscal contribution of the VAT. The workhorse of budgets in many countries has been the VAT for decades, and this will continue to be the case in the foreseeable future. However, in many countries, the VAT remains a source of controversy related to VAT policy design and legislation, difficulties in properly managing VAT compliance, and the overall distributional concerns. Key issues to be addressed in the webinars are: what have we learned in the last 20 years; the role of VAT in the post-COVID-19 recovery; equity, efficiency, and administrative complexity; and VAT compliance and administration.

Overview

- **Recent VAT trends**
 - ▶ Rates, bases, e-commerce
 - ▶ Response to pandemic, inflation

- **VAT for development**
 - ▶ VAT as critical factor for revenue mobilization – and state building

- **VAT agenda for Asian countries**
 - ▶ Improving core design of VAT
 - ▶ Exploit benefits from digitalization
 - ▶ Emerging/specific issues

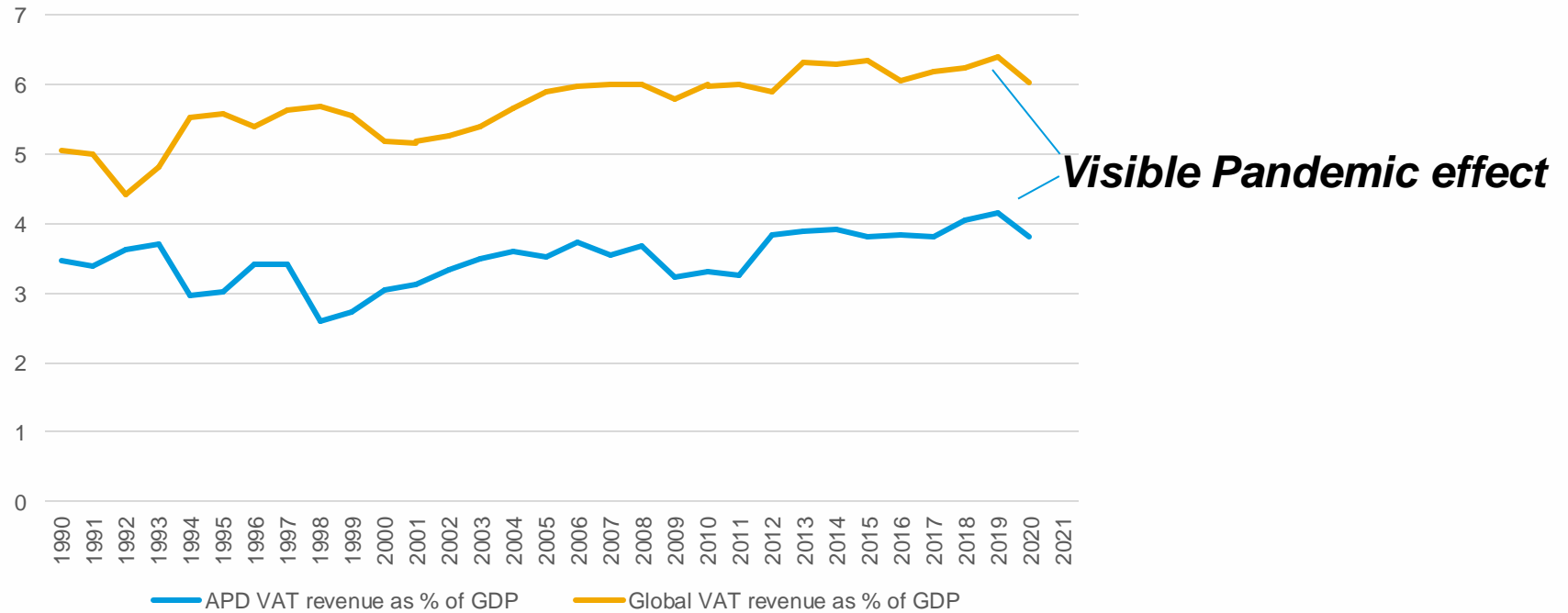


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Recent VAT trends

VAT Revenue Trends (% of GDP)

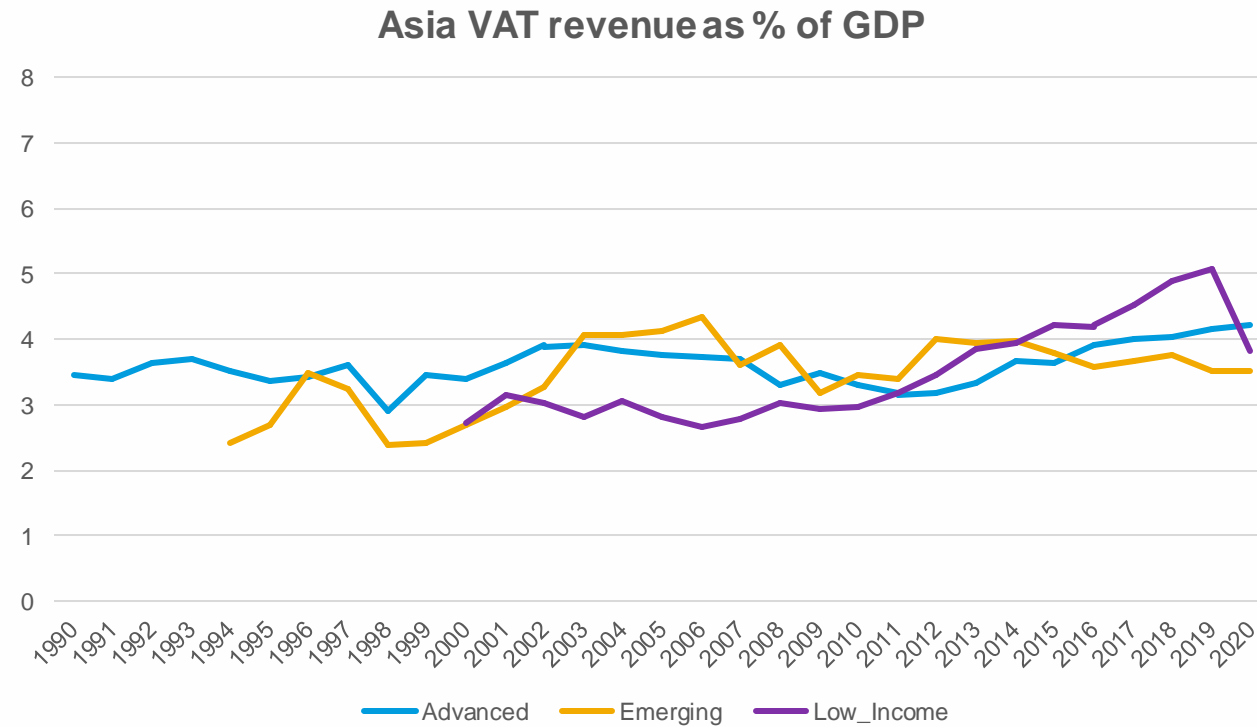
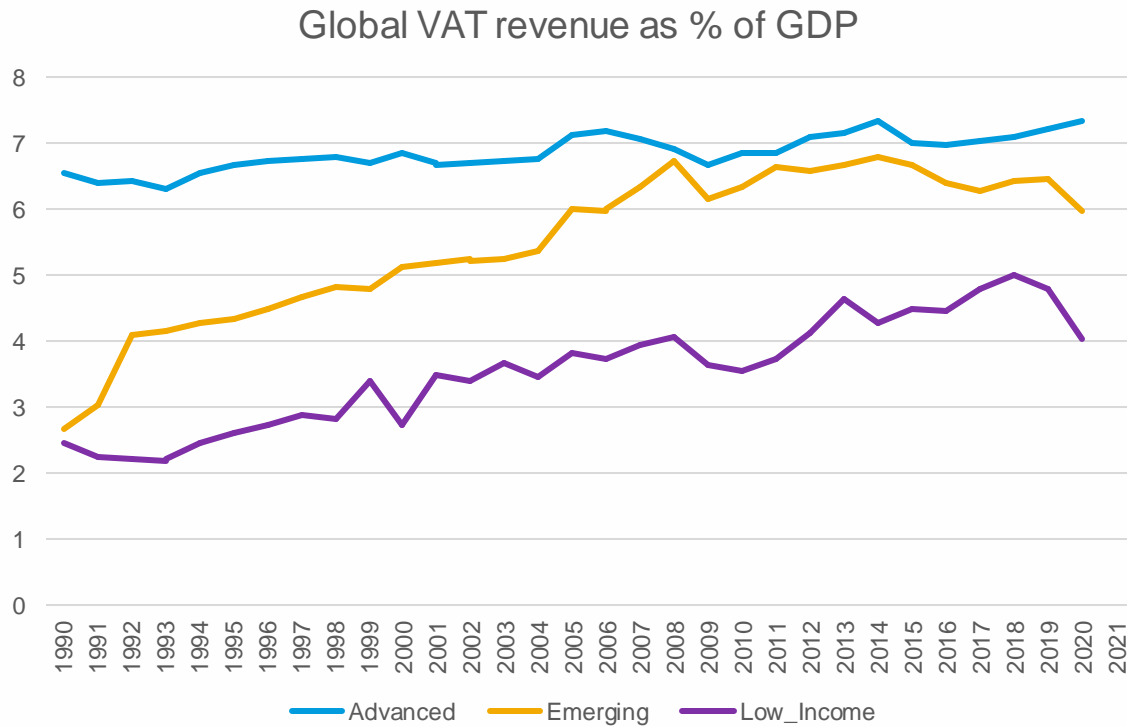
VAT Revenue in Asia has been gradually increasing until the Pandemic, but is lower than elsewhere in the world



Source: IMF WoRLD Database

VAT Revenue by Income Group (% of GDP)

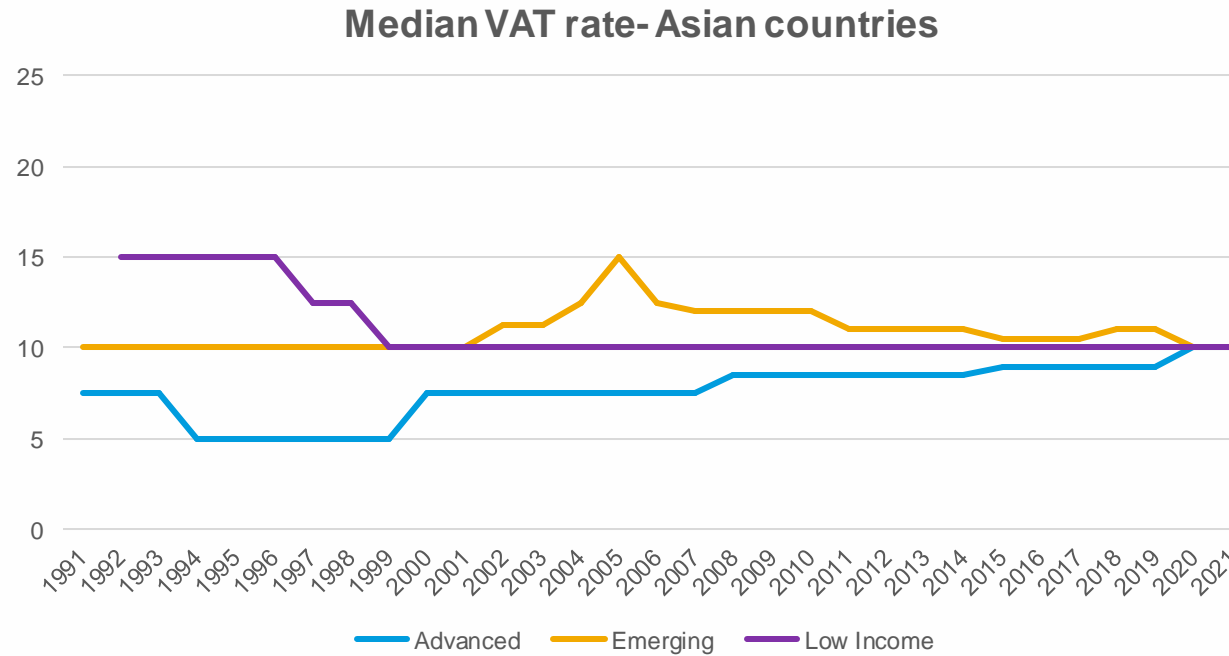
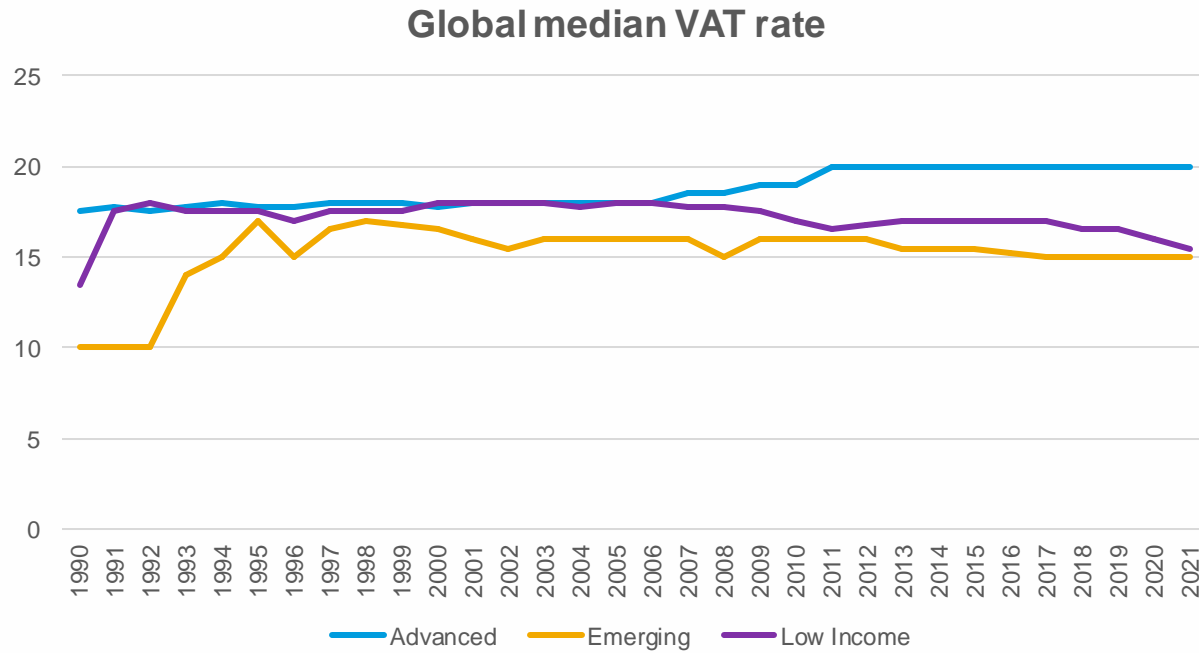
VAT Revenue is comparatively low in advanced and emerging Asia; in LICs revenue had increased significantly before the Pandemic



Source: IMF WoRLD Database

Standard VAT Rates (%)

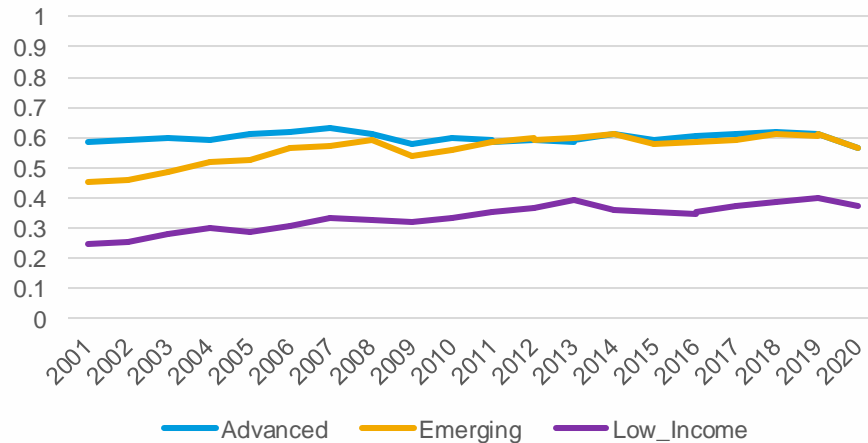
VAT rates are comparatively low in Asia, most notably in advanced Asia



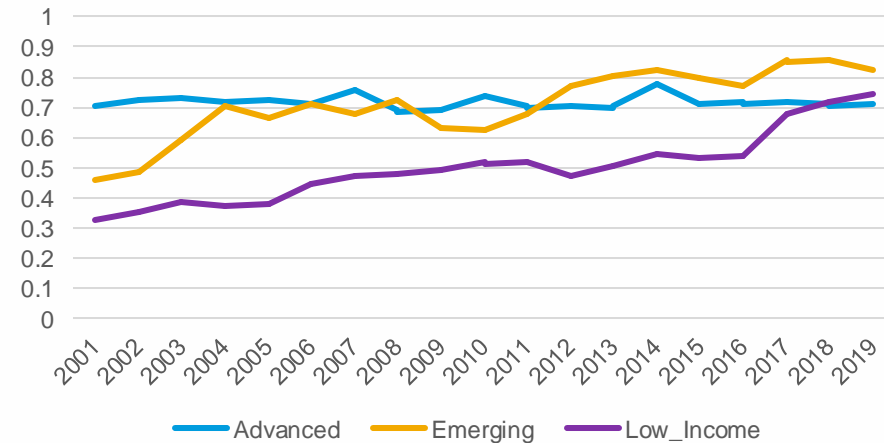
VAT C-efficiency

VAT C-efficiency is comparatively high in Asia, with remarkable progress in Asian LICs during past decades

Vat C-Efficiency Global by income group



Vat C-Efficiency-APD Countries by income



$$VAT\ C - efficiency = \frac{Actual\ VAT\ Revenue}{Standard\ VAT\ Rate \times Consumption}$$

Recent VAT issues

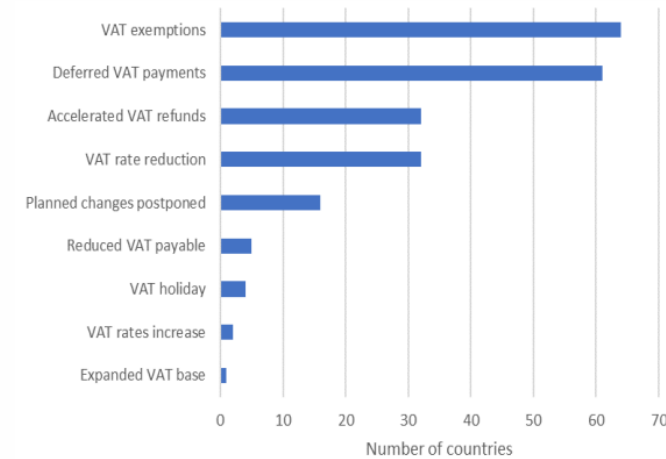
■ Pandemic response

- ▶ Multiple policy measures: exemptions, temporary rate cuts, targeted relief for small firms
- ▶ (Administrative measures: accelerate refunds, defer VAT payment)

■ Cost-of-living crisis

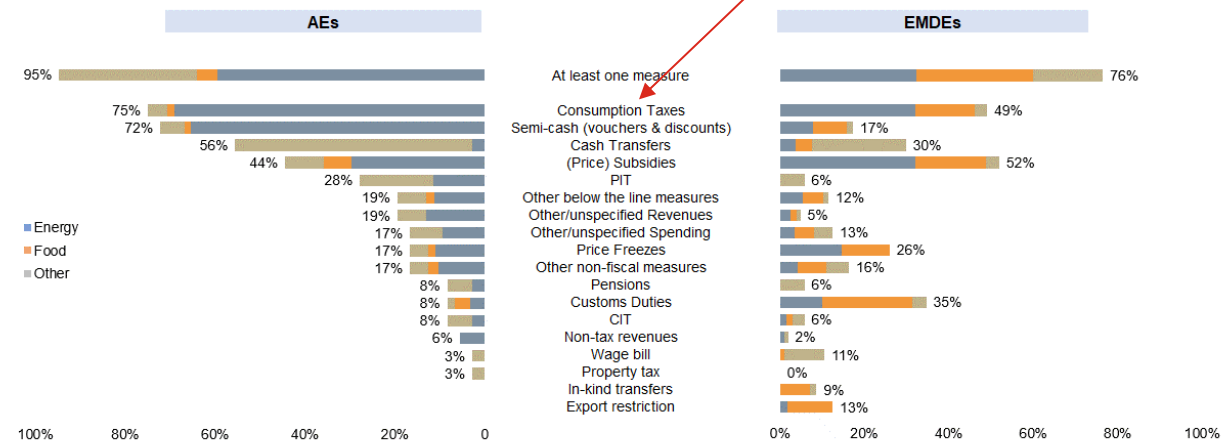
- ▶ (Temporary) VAT cuts or exemptions

VAT Response during Pandemic



Source: IMF / WB / OECD Policy Tracker, Avalara.com, R. Bird, (2020). *Vat in and after the pandemic, Tax Notes*

Recently Announced Measures in Response to Higher Energy and Food Prices



Source: IMF Fiscal Monitor

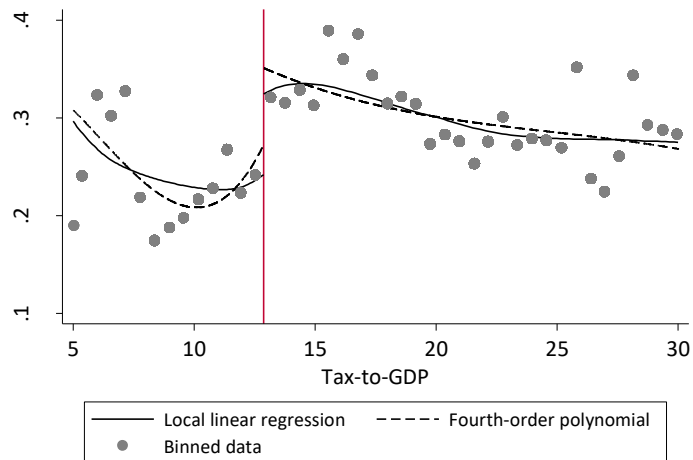


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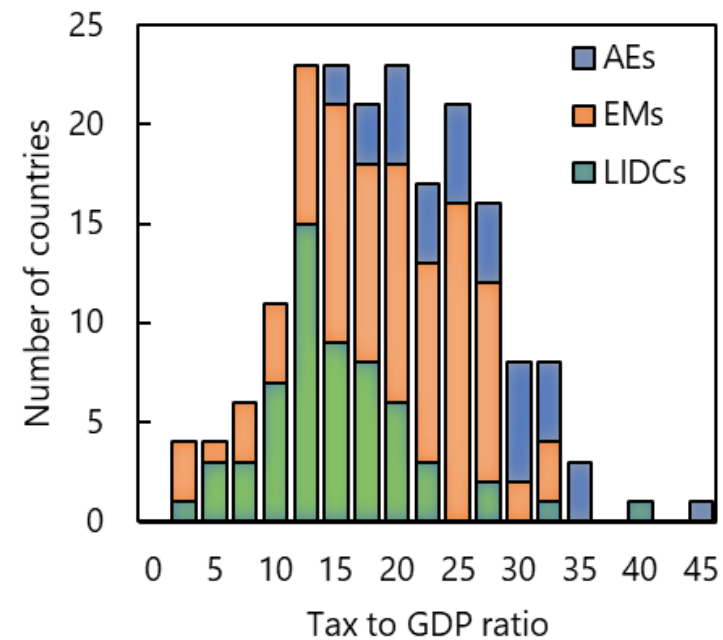
VAT for development

Low Tax/GDP ratios in several Asian countries are holding up growth

- Recall ‘tipping point’ at 15%
 - ▶ Gaspar et al. find that lower levels systematically hamper growth prospects

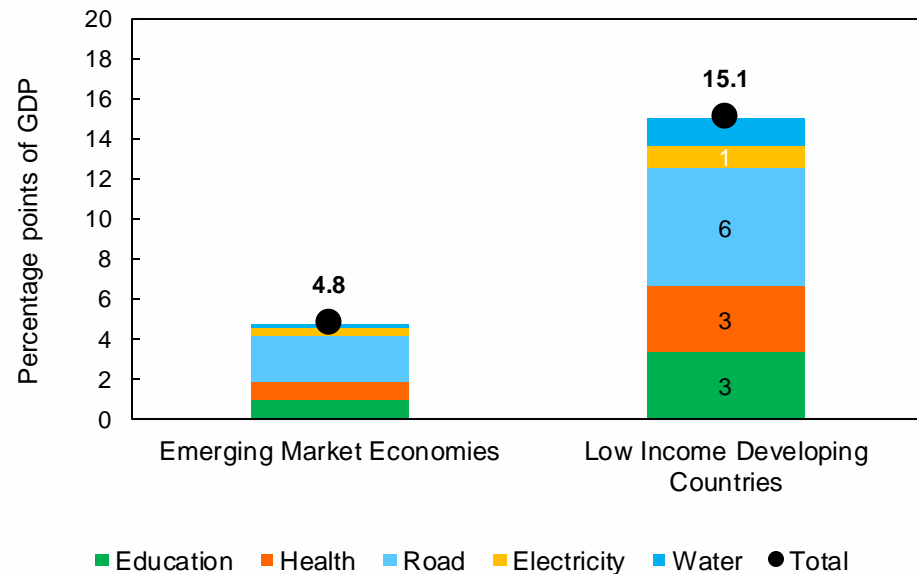


- Several countries still below this tipping point
 - ▶ Mostly LIC, yet also EMs

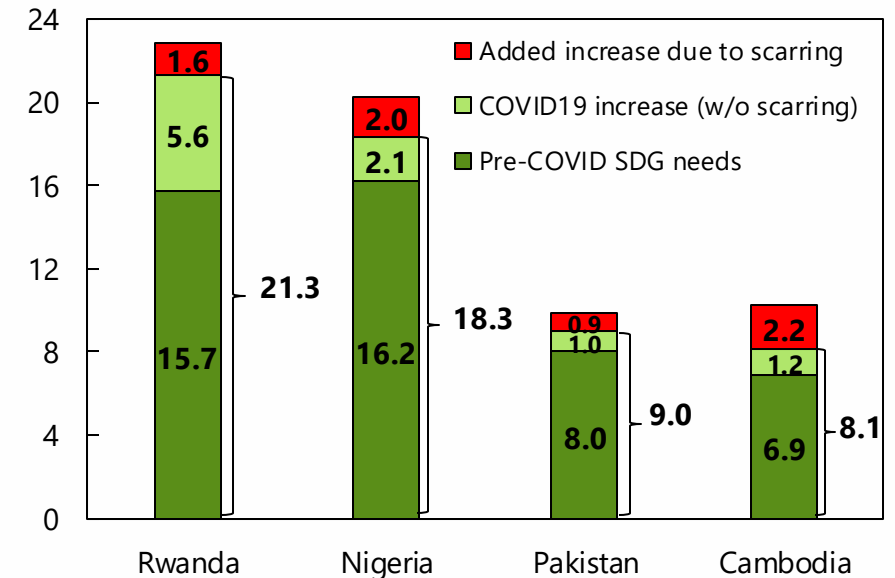


COVID-19: increased already sizeable financing needs to achieve SDGs

Pre-COVID assessment of additional spending needed in 2030 to achieve high outcomes in selected sectors of SDGs (% GDP)



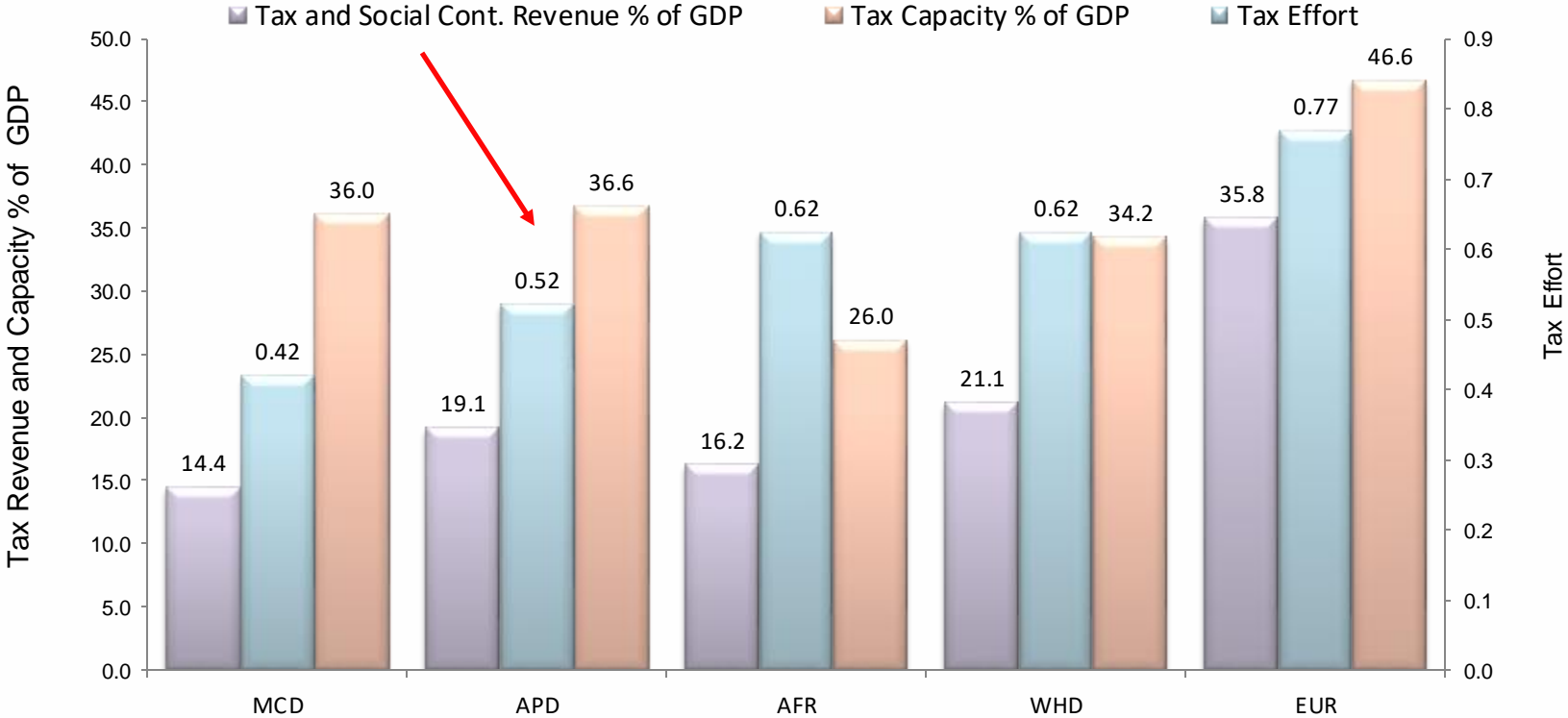
Additional spending needs pre- and post COVID-19 (% GDP)



Source: IMF staff calculations

IMF Staff Discussion Note: A Post-Pandemic Assessment of the Sustainable Development Goals, April 2021

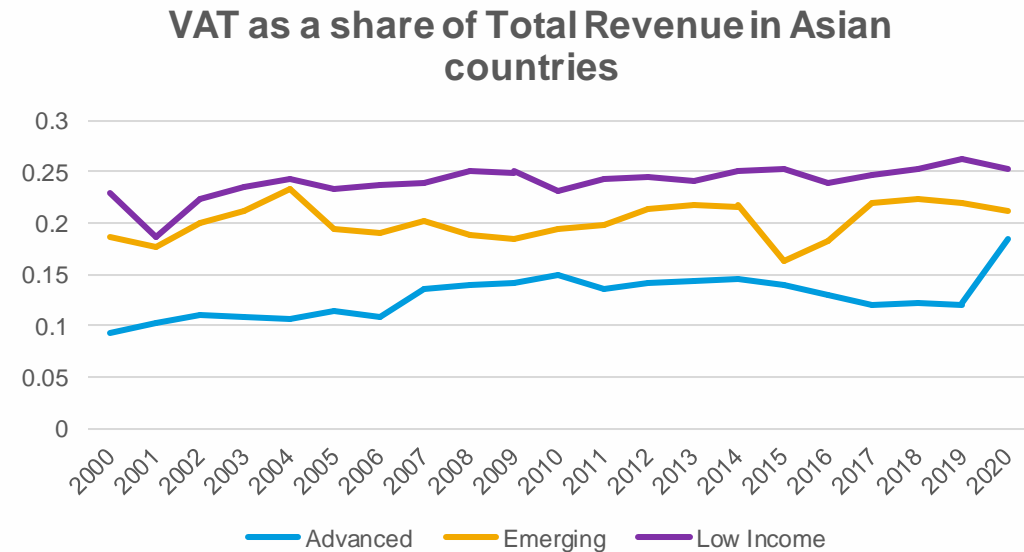
Tax effort in most Asian countries is considerably below tax capacity



IMF Staff Discussion Note: A Post-Pandemic Assessment of the Sustainable Development Goals, April 2021 (background note)

VAT is essential to achieve ambitions

- **VAT effectiveness (money machine)**
 - ▶ Approximately 20-25% of total revenue in Asia – which is lower than elsewhere but rising
- **VAT efficiency**
 - ▶ VAT appears less distortive to economic growth – especially if base is broad (see recent [IMF paper](#))
- **VAT equity**
 - ▶ Compromising VAT system to pursue equity is ill-advised





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VAT agenda for Asia

Policy priorities

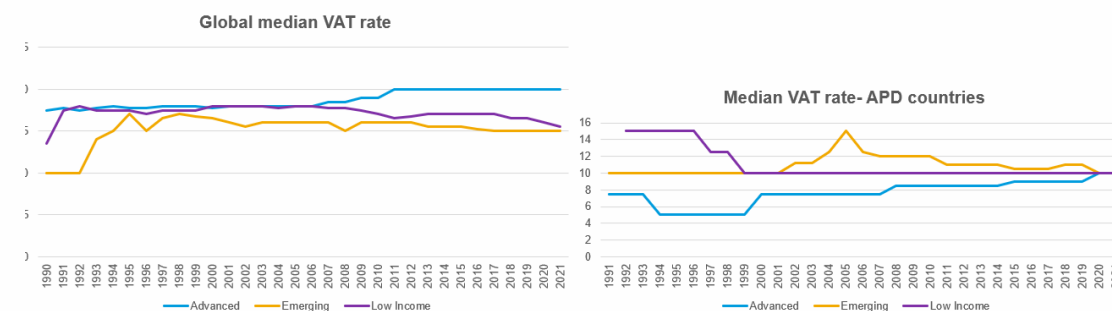
■ VAT rates

- ▶ Scope for higher rates as part of medium-term revenue strategy, see e.g. Japan – Indonesia – Singapore
- ▶ Several Asian countries have withstood pressures to introduce multiple VAT rates

■ VAT bases

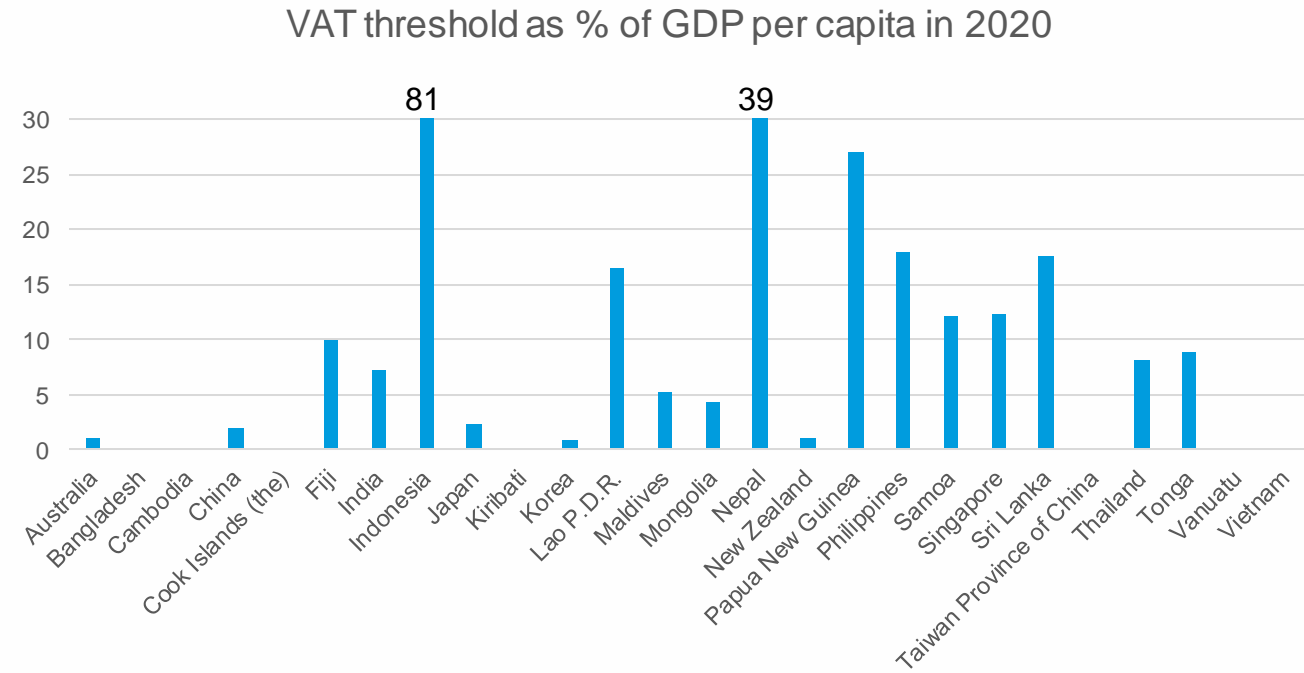
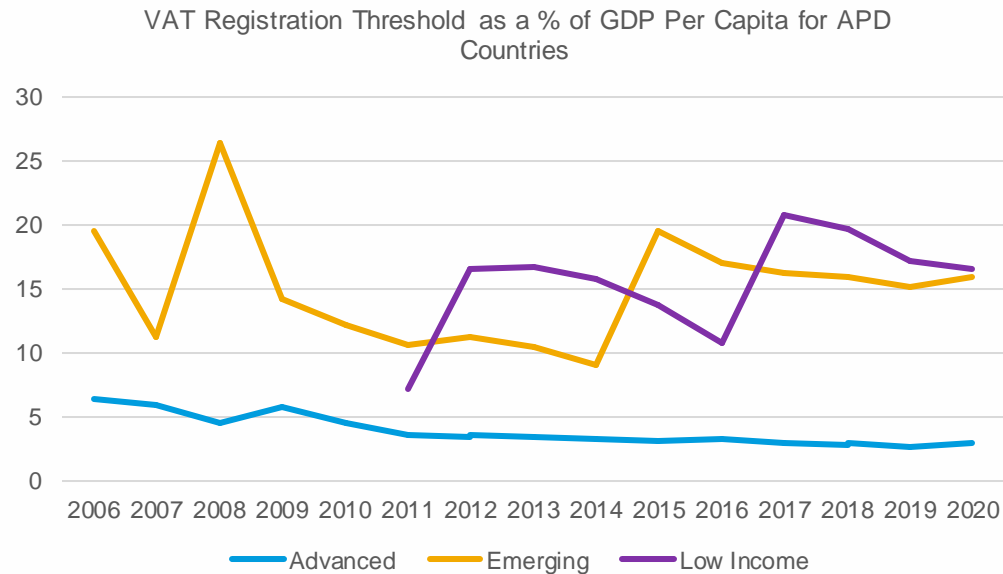
- ▶ Exemption creep still looming, which creates distortions and compliance risks
- ▶ Spending policies and PIT (much) more efficient to address equity concerns (as e.g. Singapore has done)

VAT rates are comparatively low in Asia (6%), most notably in advanced Asia

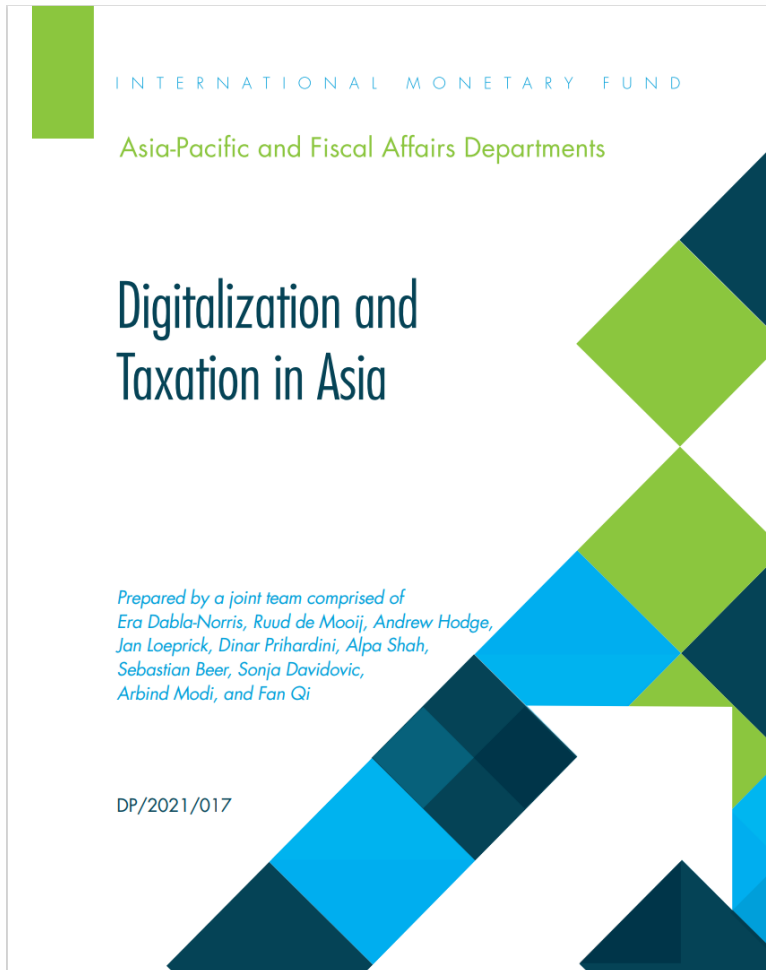


VAT Thresholds

Thresholds differ between advanced and emerging/LIC Asia; variation between individual countries is large

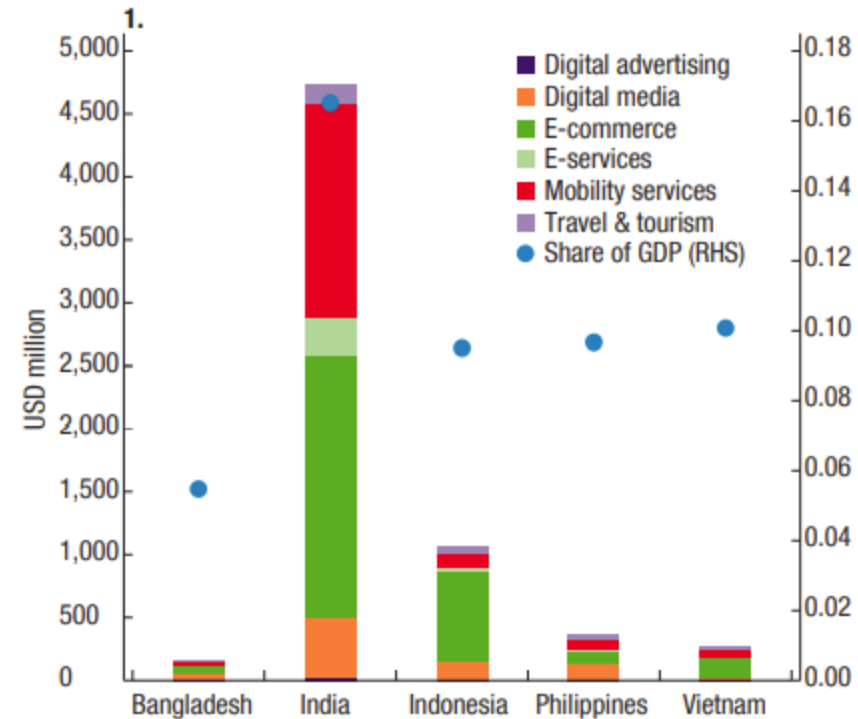


VAT and e-commerce – scope for raising revenue (more about this in session on Administration)



Asian countries could significantly expand VAT revenue by effectively taxing imported digital services (0.05 – 0.17% GDP)

Expanding VAT regimes can contribute directly to revenue collection ...



Sources: Statista; and Tax Policy Assessment Framework.
Note: Statista estimates are for 2019.

Specific VAT issues

- **Sectoral issues**

- ▶ Agriculture – special treatment beyond VAT threshold?
- ▶ Construction – pre-tax on sale of new residences

- **VAT across borders**

- ▶ Structure decentralized VAT in federations – taxing trade between states
- ▶ Coordination of policies between countries – e.g. to address tax competition in tourism between Island states



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Thank You!

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