



An Efficient VAT System

Gaëtan Nicodème

DG Taxation and Customs Union

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ANNUAL GROWTH SURVEY 2014

- *Pursuing Differentiated Growth-Friendly Fiscal Consolidation*
- «*Tax should be designed to be **more growth-friendly**, for instance by **shifting the tax burden away from labour on to tax bases linked to consumption, property, and combatting pollution**»*

TAXATION AND GROWTH

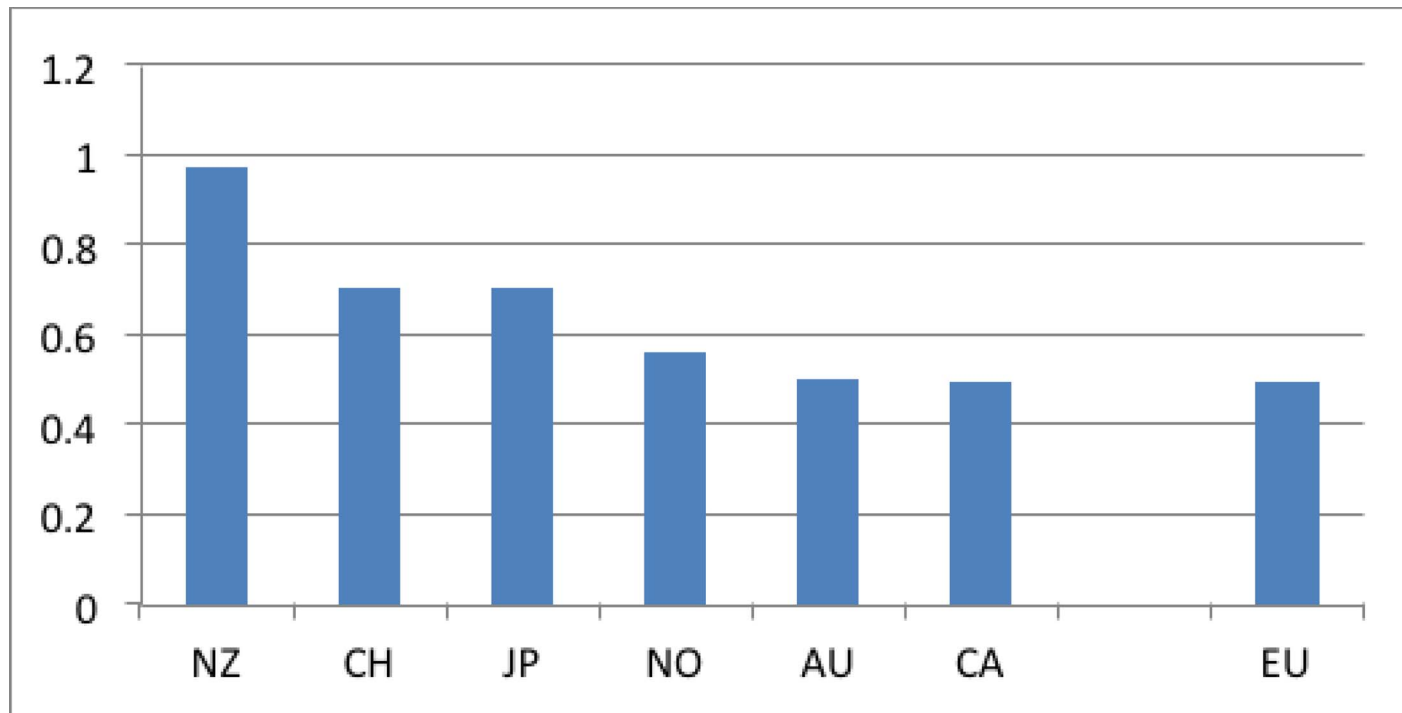
- *Growth regressions: ambiguous evidence that total tax reduces economic growth*
- *But stronger evidence that tax structures matter*
 - **Johansson et al. (2008): Taxation and Economic Growth**
 - **Ranking: recurrent property T > Consumption T > PIT > CIT**
- *Employment problems in EU27 : importance of shifting taxes away from Labour.*

TAX SHIFTS

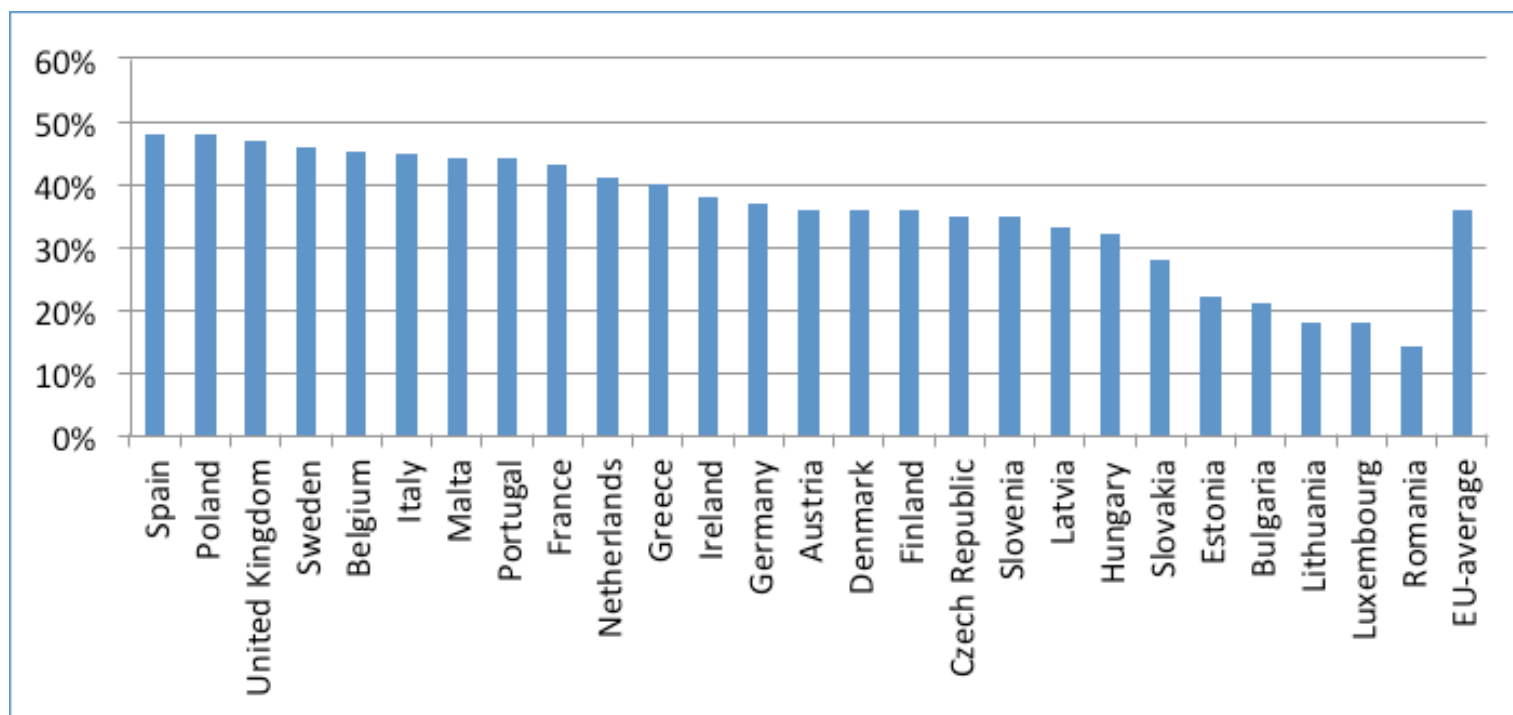
- *VAT: a candidate of choice*
- *Room for widening the scope of standard rates*
- *Many reduced rates, super reduced rates, zero-rating, exemptions, etc.*
- *Inefficiencies, administrative costs, VAT fraud, etc.*
- *Redistribution: design of the reforms (e.g. CPB study on devaluation)*

VAT EFFICIENCY (2011)

Collection to theoretical revenues



VAT POLICY GAP (Theoretical revenues at standard rates not collected due to reduced rates and exemptions, 2000 – 2011, CPB-CASE)



EMPIRICAL RESULTS (e.g. CE, 2007)

- Employment:
 - no empirical support, LT effect nihil
- Merit goods:
 - no strong empirical support; often contradicts redistributive argument
- Efficiency:
 - Kleven (2004), Sorensen (2006)
 - Avoid the diversion of activities that could be produced in the market by activities produced in the household sector
 - (Some) empirical evidence of this effect

EMPIRICAL RESULTS (e.g. CE, 2007)

- Redistribution:

- Goods are more extensively consumed by low-income only when countries have a high initial inequality
- Little empirical support, many of these goods are relatively inelastic and a lower rate therefore benefit high-income individuals a lot
- VAT far from being best instrument to redistribute (see e.g. Mirrlees Review). a non-linear income tax is more optimal for redistribution purposes than differentiated commodity tax rates (Atkinson & Stiglitz, 1976)