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VAT in Ukraine: Would other indirect taxes perform better?

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VAT in Ukraine: Would other indirect taxes perform better?

Executive Summary

Currently, a discussion is taking place on whether the prevailing value added tax (VAT) is the appropriate indirect tax for Ukraine or whether it should be substituted by another indirect tax. In particular, critics of VAT highlight the extensive VAT fraud and evasion, as well as the problems to administer VAT. While this discussion is certainly not new in Ukraine, the current debate shows the need for a fresh assessment. Consequently, in this paper we try to answer the question whether substituting VAT by another indirect tax would be a good idea from a fiscal point of view or not.

As a first step, we shortly assess the fiscal performance of VAT in Ukraine. In 2011, VAT revenues in Ukraine accounted for 10% of GDP. The corresponding EU average amounts to only 7.1%. Thus, Ukraine compares rather good when compared to the EU. While this short comparison cannot replace a thorough and deep analysis of VAT performance in Ukraine, it nevertheless suggests that VAT performance cannot be very bad. This poses the question whether the critique on VAT performance is based on hard facts, or only on guesses. As long as no hard evidence exists on the presumed poor fiscal performance of VAT in Ukraine, no policy steps towards substituting should be even considered.

But even assuming that VAT's fiscal performance is poor, replacing it with another indirect tax would not necessarily be a good idea, as shown by our quantitative assessment. A general (retail) sales tax would generate less revenues for the government and is more susceptible for tax evasion, as the amount of taxes evaded is much higher than in the case of VAT, in which the seller of a good can deduct the input VAT. As for the turnover tax, the second major alternative to VAT, it would have major negative structural effects on the economy, due to its cumulative, cascading effect. Besides, it would hurt exports and economic growth, thus eroding its tax base. Finally, it should be emphasised that maintaining VAT is necessary for the conclusion of a DCFTA with the EU, which is a major priority of Ukraine's trade policy. Thus, VAT should not be replaced.

A much promising approach in our view would be the improvement of VAT administration. For this purpose, we recommend first to introduce measures to increase the probability to catch tax fraudsters. Second, VAT privileges should be cut. Third, data sharing between central executive bodies should be improved.

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1. Introduction

VAT was introduced in Ukraine in 1992 and replaced the previous, Soviet-type turnover tax. This tax is very important from a fiscal point of view, accounting for nearly one third of total consolidated fiscal revenues in recent years. However, VAT is also vulnerable to fraud, in particular in connection to VAT refunds as well as tax evasion. Besides, VAT administration is sometimes perceived as complicated and expensive. As a result, some officials raise questions on the need to replace VAT with another tax. Taking into account that VAT is an indirect tax, the possible approach could be to substitute it with another indirect tax. This could be either a general (retail) sales tax or a turnover tax. However, thorough analysis is required before such an important decision should be taken.

The purpose of this paper is to contribute to this discussion in Ukraine; in particular to compare VAT with other indirect taxes. The paper is structured as follows: In Chapter 2 we try to assess VAT performance in Ukraine. Chapter 3 outlines the major challenges for VAT administration. Alternatives to VAT are discussed in Chapter 4. In the final chapter we conclude.

2. The current performance of VAT from a fiscal point of view

Recently, the Ministry of Revenues and Duties has again raised a discussion on substituting VAT with another indirect tax. The major reason for this is perceived underperformance of VAT in terms of generating fiscal revenues. According to the Ministry's point of view, this is primarily explained by large-scale fraud by companies liable for VAT payments. As a result, the Government receives lower revenues, while spending substantial funds for VAT administration.

2.1. VAT in Ukraine

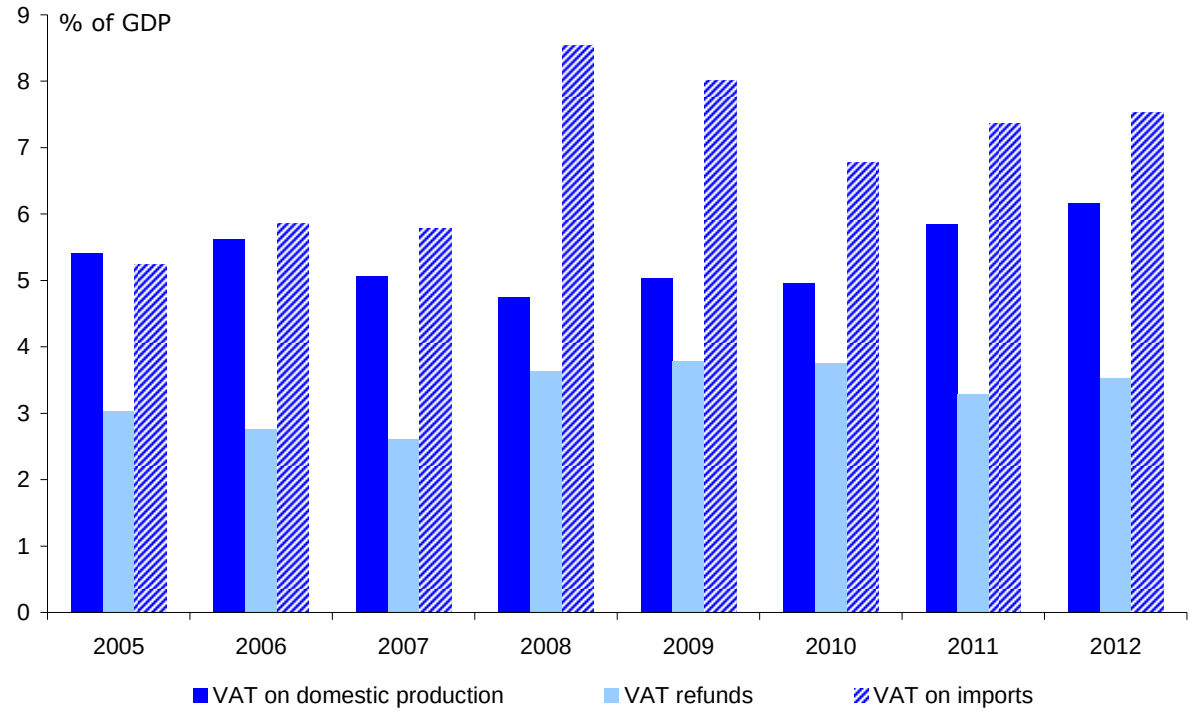
VAT in Ukraine was introduced in 1992 and replaced a Soviet-style turnover tax. Statutory tax rate is defined at 20%, which will be reduced to 17% in 2014. In 2012 VAT accounted for 31.2% of total consolidated fiscal revenues, and, as such, was the most important tax. As in all countries with VAT, exports in Ukraine are subject to zero-rate VAT to avoid double taxation of exporters. However, a timely and full VAT refund was not achieved, regardless the introduction of automatic VAT refunds, which harms exporters' position at the global market.[1] Throughout its history, VAT was traditionally criticised for its underperformance and improper administration.

Until now VAT in Ukraine has been administered by two bodies: the State Tax Service (STS) and the State Custom Service (SCS), whose functions are to be transferred to newly created Ministry of Revenues and Duties. The STS administered the VAT paid on domestically produced goods and was responsible for VAT refunds. At the same time, the SCS administered VAT paid on imports.

[1] Thus, for export-oriented business, the problem is not VAT itself, i.e. the current indirect tax system, but rather the imperfect VAT refunding as implemented by the government. This is a separate topic, which is not dealt with in the paper.

Figure 1

VAT revenues and refund in Ukraine



Sources: State Treasury, Ukrstat

As Figure 1 illustrates, imports were traditionally a major source of VAT revenues. Thus, efficient VAT administration at the border is essential. This relates to anti-smuggling measures including steps towards proper definition of import value.

At the same time, the VAT base is undermined by numerous VAT privileges granted in two types: zero-rate and exemptions. In particular, the Ministry of Finance estimates loss of fiscal revenues due to VAT privileges goods at UAH 22.3 bn for 2013,[2] which accounts for 14.4% of planned VAT collections.[3]

2.2. Comparison of VAT performance in Ukraine and the EU

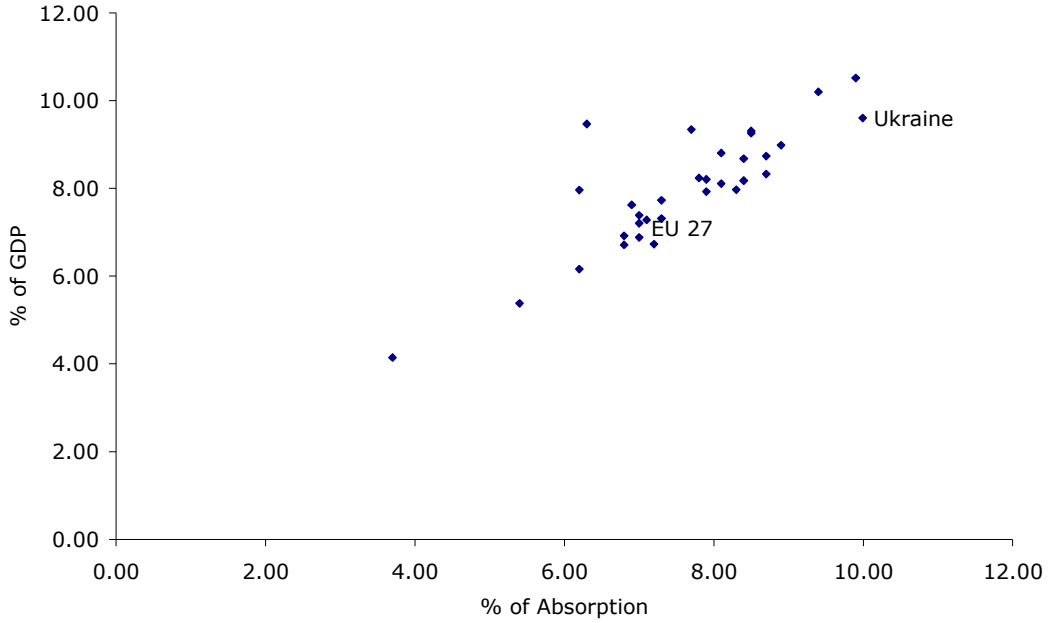
Regardless fraud and numerous privileges (see Chapter 3), the comparison of VAT revenues between Ukraine and EU member states reveals that collections from this tax perform relatively well in Ukraine (see Annex 1). In particular, VAT revenues in Ukraine accounted for 10% of GDP in 2011, while VAT collections in EU countries were on average at 7.1% of GDP, as shown in Figure 2. A similar picture results when we set VAT revenues in relation to domestic absorption (see Figure 2).

[2] According to the explanatory note to the State Budget Law for 2013, losses of fiscal revenues due to VAT privileges were estimated at UAH 22.9 bn. At the same time, according to the information of State Custom Service tax privileges, most likely primarily VAT, resulted in loss of revenues at UAH 19.7 bn only in the first half of 2012.

[3] Nearly half of this estimate is attributed to special VAT regime for agricultural producers.

Figure 2

VAT collections in Ukraine and EU member states (2011)



Sources: Eurostat, Ukrstat, State Treasury

Therefore, VAT collections data does not seem to suggest significant problems with the VAT performance in Ukraine in relation to other countries.

3. VAT administration challenges: Tax evasion and fraud

One of the major challenges for VAT administration in Ukraine relates to revenue losses through non-compliance, particularly fraud and tax evasion. The major reasons for this are identified by international experience:[4]

- Non-registration for VAT.
- VAT credit is claimed for non-creditable purchases, such as a car used for non-business purposes.
- Understated sales.
- Inflated claims for VAT paid on inputs.
- Credit is claimed for tax paid on inputs used in producing goods exempt from VAT. This is especially possible if a firm sells both exempt and non-exempt goods and services, since it is not always possible to link specific inputs to specific outputs.
- Zero-rated exports are diverted to the domestic market. The producer obtains export papers, claims a refund, and then sells the goods locally.
- VAT is collected by a firm, which does not transfer it to the fiscal office, and then disappears. In Ukraine such firms are known as *one-day-survive firms*.[5]

Moreover, tax evasion in Ukraine is largely related to its significant shadow economy. In particular, the Ministry of Economic Development and Trade estimated the shadow economy at 34% of GDP in the first quarter of 2012 (it was 40% of GDP during the

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[4] See Policy Paper T36, *VAT replacement or better administration?*, German Advisory Group and Institute for Economic Research and Policy Consulting (IER), 2004.

[5] This type of fraud is expected to have been reduced recently with enforced changes in VAT legislation envisaged in the Tax Code. In particular, the company should have a turnover of least UAH 300 m.

economic crisis in 2009). Therefore, the tax base for VAT, both domestic production as well as imports, is below potential.

Tax evasion in Ukraine is also largely induced by numerous VAT privileges, which have recently increased due to granting privileges to some sectors (e.g. IT, airplanes, etc).

According to the European Commission, estimated losses from fraud - namely 'carousel fraud' - account for 10% of net VAT receipts in some member states.[6] However, it must be noted that this type of fraud in the EU is primarily attributed to the trade between EU member states due to the absence of borders, and thus constitutes a special case.[7]

At the same time, the EU does not raise the question of substituting VAT with another tax as VAT is recognised as an effective way to raise revenues. Thus, the European Commission launched the consultations on VAT aimed at looking for "the possible ways forward to strengthening VAT coherence with the single market and its capacity as a revenue raiser whilst reducing the cost of compliance".[8] The recent policy initiatives relate to the improvement of VAT administration and streamlining VAT regulation in EU member states to ensure better efficiency of this tax and lower fraud.[9] Overall, it is expected that a changed VAT system would result in a single set of clear and simple VAT rules. In this respect intensified, automated and rapid exchange of information between national tax authorities in the EU becomes essential.

4. Alternatives to VAT and their likely performance

4.1. Alternatives to VAT

As we argued in a previous paper[10], the only feasible approach could be replacing VAT with another consumption tax rather than increasing the burden of income and profit taxes. In particular, income and profit taxes are more distortive. Besides, such increases are harmful for saving and investment decisions as well as for international trade. In this respect the general (retail) sales tax (GST) could be considered a substitute for VAT. Another alternative often suggested is the introduction of a turnover tax (TT) instead of VAT.

Each of these two indirect taxes has advantages and disadvantages as compared to VAT, which makes a more detailed analysis necessary. Table 1 shortly summarises characteristics of these three taxes.

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6 The level of tax evasion differs between EU member states. VAT evasion rate is under 5% in the Netherlands, Great Britain, Denmark, and Germany. At the same time, it exceeds 15% in Belgium, Greece, Spain and Italy (for Italy it was estimated at 34.5% of potential VAT revenues). (see IMF working paper WP/07/31).

7 In Ukraine, some officials stated that VAT fraud and evasion approaches 25% of actual net VAT collections, which is much larger than fraud estimated for the EU. However, the methodology behind such estimates is not available.

8 See: *Green Paper: the future of VAT– Towards a simpler, more robust and efficient VAT system*, the European Commission, Brussels, 1.12.2010 COM(2010) 695 final.

9 For the discussion of major VAT issues in the EU, see: *VAT: Current Issues of Interest Workshop, Report, Policy Department, Economic and Scientific Policy*, January 2008. Also, for the discussion on VAT in the EU and other countries see: *Indirect Tax Briefing: a review of global indirect tax developments and issues*, Issue 4, January 2012, Ernst&Young.

10 See Policy Paper T36, *VAT replacement or better administration?*, German Advisory Group and Institute for Economic Research and Policy Consulting (IER), 2004.

Table 1

VAT as compared to GST and TT

	VAT	TT	GST
Economic essence	Consumption tax, collected fractionally as a percentage of prices	Indirect tax on the sales of producers and traders	Consumption tax, collected as a percentage of price
Cumulative (cascade) effect	-	+	-
Tax base	Value added produced	Turnover (value added plus inputs)	Final consumption of goods
Deductions of the taxes previously paid	+	–	-
Taxation of investments	-	+	-
Impact on relative prices of different commodities and services	-	+	-
Neutrality in regard to organizational form of business	Neutral	Non-neutral	Neutral
Neutrality in regard to exports-imports	Neutral	Non-neutral	Neutral

Source: Own presentation

4.2. VAT vs. General Sales Tax

Economic theory indicates that a perfectly functioning VAT is likely to collect the same revenues as a perfectly functioning sales tax. However, in real world it is not the case as each tax is subject to fraud and evasion.

The tax base of the two taxes is generally the same: Final consumption of goods and services. There are some restrictions while taxing services in both cases. However, the most important difference relates to administration and compliance. In particular, fiscal revenues are more protected in case of VAT as this tax is levied at each stage of production. Therefore, if the final seller is not taxed, only VAT to be paid at the final stage would be lost. However, the same story in case of sales tax would mean that the entire tax is lost.

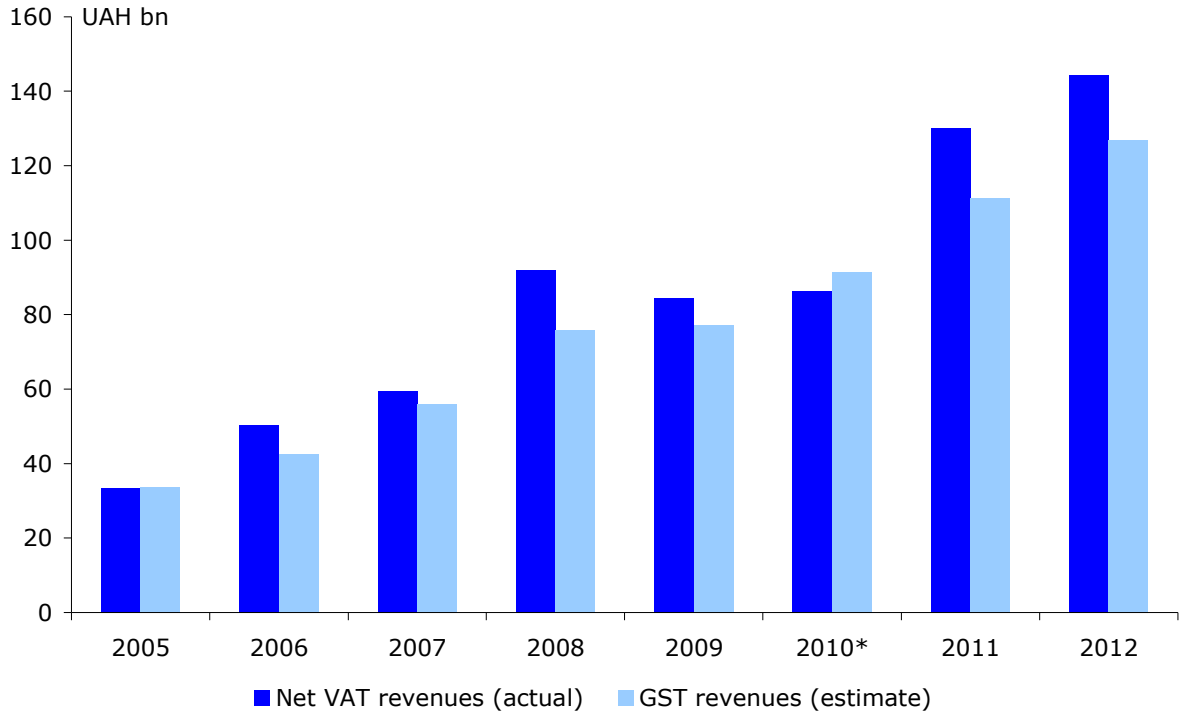
Moreover, VAT is sometimes considered as a 'self-enforcing' tax, as a honest taxpayer is interested in ensuring that its supplier paid full VAT, which would mean tax credit and lower tax liability.

At the same time, empirical evidence indicates that the evasion rate is lower for GST than for VAT. However, this is typically explained by relatively lower sales tax rates, which typically do not exceed 10%. If they would be higher, the tax evasion could surge. In particular, the GST is perceived as unworkable at rates exceeding 10-12%.

Moreover, rough estimates for Ukraine indicate that currently VAT brings to the budget larger revenues than a GST (with a 10% rate) would generate.

Figure 3

VAT and GST revenues



Notes: * VAT revenues in 2010 are undermined by VAT refunds made in the form of VAT-bonds, which were aimed to eliminate previously accumulated VAT refund arrears

** Here, the broad tax base for GST was taken, namely the total final consumption of goods and services

Source: State Treasury, Ukrstat, own calculations

Therefore, VAT is likely to perform better in terms of administration and compliance than GST. However, an effective tax administration is required.

4.3. VAT vs. Turnover Tax

Turnover tax (TT) is a cumulative tax on sales of producers and traders. It is levied at each stage of the production and distribution chain. It is characterised by cascade effect, which is augmented with the number of economic transactions. Therefore, the government taxes not only value added, but also costs incurred by producer.

Therefore, TT taxes economic transactions and leads to a different tax burden on various sectors, as they differ by cost structure (see Annex 3). As a result, TT leads to distortions for final and intermediate products. Therefore, TT lacks an essential feature of VAT, namely its *neutrality* to the number of transactions involved in the value-added chain of a particular good.

The shift to TT would lead to more expensive fixed assets, as purchases of machines and equipment (essential for the current stage of Ukraine's development) would be taxed with TT. Moreover, the introduction of TT is likely to lead to changes in cost and price structures in the economy as different TT burden for different sectors would impact profitability. As TT impacts detrimentally manufacturing sectors located at the highest stages of the production chain, the resulting shifts are not welcome for Ukraine. This was one of the reasons why many countries replaced cascading TT with the VAT.

TT is also known for creating incentives to establish vertically integrated companies, involved in production, assembling, wholesale and retail sale, as such companies would

minimise their TT liabilities. Thus, TT would lead to efficiency losses as it changes decisions on the optimal organisational form of business.

Contrary to VAT, a cascading turnover tax is also not neutral to international trade. It would stimulate imports and harm exports, contributing to a further trade balance deterioration.

Therefore, TT is not neutral in regard to prices, resources allocation and consumption choice. Moreover, its capacities to generate more revenues than VAT are doubtful. According to a very simplified scenario, the TT revenues would account for 16.8% of GDP and 4.9% of GDP for tax rates at 7%[11] and 2%, respectively, in both cases lower than potential VAT revenues. Furthermore, a 7% tax rate is very high and will bring many distortions. Besides, these estimates do not take into account vertical integration. In turn, the vertical integration that would result after TT introduction as well as the increase in shadow transactions are likely to erode these revenues at least twofold, making it an inferior choice.

***The economy is likely to be heavily hurt by a TT, which would result in decline in economic growth and narrowing tax base, and finally tax revenues would also decline*.**

4.4. Further arguments against VAT substitution: DCFTA and international trends

A very important argument against the substitution of VAT lies in the intention of Ukraine to sign a deep and comprehensive free trade agreement (DCFTA) with the EU in the near future. One of the obligations envisaged in the *Association Agreement Between the European Union and its Member States, of the One Part, and Ukraine, of the Other Part* is a compliance with the Council Directive 2006/112/EC of 28 November 2006 on the common system of value added tax.[12]

Moreover, it should be emphasized that there is a clear trend towards VAT worldwide. Most countries in the world introduced VAT, which is an importance revenue source, while only few countries have other taxes instead (see Annex 2). In particular, an increasing number of emerging economies is adopting VAT in preference to single-stage sales taxes or various local sales taxes. As of now, the US remains the only developed economy that does not currently levy a VAT-type tax.[13]

5. Conclusions and recommendations

Our analysis indicates that Ukraine will benefit from keeping VAT instead of replacing it with another tax. However, serious efforts to improve VAT administration should be made in three general directions: Reducing the benefits from cheating, increasing in probability to be caught, and increasing the severity of punishment. How can this be implemented in practice?

The international experience suggests that full and timely VAT refunds as well as reduction of VAT rate might contribute to lower tax evasion.

An increase in the probability to be caught is directly linked to the quality and efficiency of tax audits. This does not imply that the number of tax police officers should be increased. Instead, the Ministry of Revenues and Duties should start investing in capacity

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[11] The TT rate at 7% was discussed several years ago as an alternative for VAT.

[12] See: Annex XXVIII, Chapter 4: Taxation of Title V: Economic and Sector Cooperation Indirect taxation, *Association Agreement Between the European Union and its Member States, of the One Part, and Ukraine, of the Other Part.*

[13] See *Managing indirect taxes in supply chain. Supporting growth and reducing cost and risk,* Ernst&Young, 2012.

building of its staff and increase wages, which would improve their ability to prevent fraud as well as reduce incentives for corruption.

Cutting VAT privileges will also likely contribute to reduction of tax evasion. Recent enlargement of privileges is in our view not a movement in the right direction.

Overall, the VAT system in Ukraine should have a broader tax base and follow the principle of taxation at the standard rate. Therefore, zero-rating for some operations or sectors should be eliminated.

Data sharing between Ukrainian central executive bodies is also important. In this respect, the creation of a single entity responsible for administrating custom duties and taxes is beneficial for Ukraine.

Annex

Annex 1. VAT revenues in Ukraine and European countries

	2007		2008		2009		2010		2011	
	% of GDP	% of A*	% of GDP	% of A*	% of GDP	% of A*	% of GDP	% of A*	% of GDP	% of A*
UKRAINE	**8.2**	**7.8**	**9.7**	**9.1**	**9.2**	**9.0**	**8.0****	**7.8**	**10.0**	**9.6**
European Union (27 countries)	7.0	7.1	6.9	7.0	6.7	6.7	7.0	7.1	7.1	7.3
Belgium	7.1	7.5	7.0	7.1	6.9	7.0	7.1	7.3	7.0	7.2
Bulgaria	10.4	9.1	10.9	9.4	9.0	8.3	9.2	9.0	8.7	8.7
Czech Republic	6.3	6.7	6.8	7.1	6.9	7.1	6.9	7.2	7.0	7.4
Denmark	10.4	10.8	10.1	10.5	10.2	10.4	9.8	10.4	9.9	10.5
Germany	7.0	7.6	7.1	7.6	7.5	7.8	7.2	7.6	7.3	7.7
Estonia	8.9	8.3	7.9	7.6	8.9	9.1	8.8	9.5	8.5	9.3
Ireland	7.6	8.4	7.3	8.0	6.4	7.5	6.4	7.9	6.2	8.0
Greece	7.4	6.5	7.3	6.5	6.5	5.7	7.3	6.7	7.2	6.7
Spain	6.0	5.6	5.1	4.8	4.1	4.1	5.6	5.5	5.4	5.4
France	7.2	7.2	7.1	7.0	6.9	6.8	7.0	6.8	7.0	6.9
Italy	6.2	6.2	5.9	5.9	5.7	5.6	6.3	6.2	6.2	6.2
Cyprus	10.2	9.6	10.6	9.6	9.2	8.6	9.2	8.7	8.4	8.2
Latvia	8.2	7.2	6.7	6.0	6.0	5.8	6.6	6.6	6.8	6.7
Lithuania	8.1	7.4	8.0	7.3	7.4	6.8	7.9	7.9	7.9	7.9
Luxembourg	5.7	8.5	6.3	9.0	6.7	9.5	6.3	9.4	6.3	9.5
Hungary	8.1	8.2	7.8	8.0	8.6	8.7	8.7	9.4	8.5	9.3
Malta	7.5	7.5	7.7	7.7	7.6	7.6	7.6	7.7	7.9	8.2
Netherlands	7.5	8.2	7.3	7.9	7.0	7.5	7.2	7.9	6.9	7.6
Austria	7.7	8.3	7.8	8.3	8.0	8.4	7.9	8.4	7.8	8.2
Poland	8.3	8.3	8.0	7.8	7.4	7.4	7.8	7.8	8.1	8.1
Portugal	8.5	7.9	8.4	7.7	7.1	6.6	7.8	7.3	8.3	8.0
Romania	8.1	7.1	7.9	6.9	6.6	6.3	7.6	7.3	8.7	8.3
Slovenia	8.4	8.7	8.5	8.6	8.4	8.5	8.6	8.7	8.4	8.7
Slovakia	6.7	6.8	6.9	6.9	6.7	6.6	6.3	6.4	6.8	6.9
Finland	8.4	9.0	8.4	8.8	8.7	8.7	8.5	8.6	8.9	9.0
Sweden	9.0	9.8	9.3	10.0	9.6	10.1	9.7	10.4	9.4	10.2
United Kingdom	6.5	6.4	6.4	6.3	5.7	5.6	6.5	6.4	7.3	7.3
Iceland	10.5	9.5	9.1	8.9	8.0	8.8	8.0	8.8	8.1	8.8
Norway	8.2	9.9	7.2	9.1	7.8	9.0	7.9	9.4	7.7	9.3
Switzerland	3.6	4.1	3.6	4.1	3.6	4.0	3.6	4.0	3.7	4.1

Notes: * "A" stands for domestic absorption

** The share of VAT declined due to VAT refund made in the form of VAT-bonds

Sources: Eurostat, Ukrstat, State Treasur

Annex 2. VAT rates: Standard vs. reduced[14]

EU countries

Country	Standard rate	Reduced rate
Austria	20%	10% for rental for the purpose of habitation, transportation of passengers, garbage collection, books and periodicals, food, revenues from artistic works.
Belgium	21%	12% or 6% or 0% in some cases
Bulgaria	20%	7% or 0%
Cyprus	17%	5% (8% for taxi and bus transportation)
Czech Republic	21%	15% (food, medicines, books, public transport)
Denmark	25%	0%
Estonia	20%	9%
Finland	24%	14% or 10%
France	19.6%	5.5% or 2.1% or 7%
Germany	19% (Heligoland 0%)	7% or 0% (Heligoland always 0%)
Greece	23% (16% on Aegean islands)	13% (6.5% for hotels and pharmacies) (8% and 4% on Aegean islands)
Hungary	27%	18% or 5%
Ireland	23%	13.5% or 9.0% or 4.8% or 0%
Italy	21%	10% or 4%
Latvia	21%	12% or 0%
Lithuania	21%	9% or 5%
Luxembourg	15%	12% or 9% or 6% or 3%
Malta	18%	5% or 0%
Netherlands	21%	6% or 0%
Poland	23%	8% or 5% or 0%
Portugal	23% 22% in Madeira and 16% in Azores (Minimum 70% of mainland rate)	13% or 6% 12% or 5% in Madeira and 9% or 4% in Azores (Minimum 70% of mainland rate)
Romania	24%	9% (medication and books) or 5% (first time buyers of new homes under special conditions)
Slovakia	20%	10%
Slovenia	20%	8.5%
Spain	21% 7% in Canary Islands (not part of EU VAT area)	10% (10% from 1 September 2012) or 4% 3% or 0% in Canary Islands
Sweden	25%	12% (e.g. food, hotels and restaurants) or 6% (e.g. public transport and books)
United Kingdom	20% 0% on Channel Islands and Gibraltar (not part of EU VAT area)	5% for home energy and renovations and 0% for life necessities – groceries, water, prescription medications, medical supplies and equipment, children clothing, public transport, books and periodicals

[14] Source: http://en.wikipedia.org/wiki/Value_added_tax

Non-EU countries

Country	Standard rate	Reduced rate
Albania	20%	10% (pharmacies and medical services)
Kosovo	16%	
Andorra	4.5%	1%
Azerbaijan	18%	10.5% or 0%
Argentina	21%	10.5% or 0%
Armenia	20%	0%
Australia	10%	0%
Belarus	20%	10% or 0.5%
Barbados	17.5%	
Bosnia and Herzegovina	17%	
Brazil	12% + 25% + 5%	0%
Bolivia	13%	
Canada	5% + 0–10% HST[1] (GST + PST)	5%/0%[2]
Chile	19%	
Colombia	16%	
People's Republic of China[3]	17%	13% for foods, printed matter, and households fuels; 6% or 3%
Croatia	25%	10% or 5% (since January 1, 2013)
Dominican Republic	16%	12% or 0%
Ecuador	12%	
Egypt	10% (15% on Communication Services)	
El Salvador	13%	
Ethiopia	15%	
Fiji	15%	0%
Faroe Islands	25%	
Georgia	18%	0%
Ghana	13%	
Guatemala	12%	
Guyana	16%	0%
Iran	5%	
Iceland	25.5%	7%[4]
India[5]	13.5%	12.5%,5%, 1%, or 0%
Indonesia	10%	5%
Israel[6]	17%[7](Eilat 0%)	0% (fruits and vegetables, tourism services, diamonds, flights and apartments renting)
Japan	5%	
Jersey[8]	5%	0%
Jordan	16%	
Kazakhstan	12%	
Lebanon	10%	
Liechtenstein	8.0%	3.8% (lodging services) or 2.5%
Morocco	20%	
Republic of Moldova	20%	8%, 5% or 0%
Macedonia	18%	5%

Country	Standard rate	Reduced rate
Malaysia[9]	10%	
Maldives	6%	0%
Mexico	16%	11%, 0%
Monaco	19.6%	5.6%
Montenegro	17%	
Mauritius	15%	
Namibia	15%	0%
Nepal	13%	0%
New Zealand	15%	
Norway	25%	15% (food) or 8% (public transport, hotel, cinema)
Palestinian Territory	14.5%	
Pakistan	16%	1% or 0%
Panama	7%	0%
Paraguay	10%	5%
Peru	16%+2%	
Philippines	12%[10]	6% Fuel, Electricity and water
Russia	18%	10% or 0%
Saint Kitts and Nevis	17%	
Serbia	20%	8% or 0%
Singapore	7%	
South Africa	14%	0%
South Korea	10%	
Sri Lanka	12%	0%
Switzerland	8%	3.8% (hotel sector) and 2.5% (essential foodstuff, books, newspapers, medical supplies)
Taiwan	5%	
Thailand	7%	
Trinidad and Tobago	15%	0%
Tunisia	18%	
Turkey	18%	8% or 1%
Ukraine	**20% (17% from January 2014)**	**0%**
Uruguay	22%	10%
Uzbekistan	20 %	
Vietnam	10%	5% or 0%
Venezuela	12%	11%

Note 1: 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.

Note 2: No real "reduced rate", but rebates generally available for new housing effectively reduce the tax to 4.5%.

Note 3: These taxes do not apply in Hong Kong and Macau, which are financially independent as special administrative regions.

Note 4: 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.

Note 5: VAT is not implemented in 2 of India's 28 states.

Note 6: Except Eilat, where VAT is not raised.

Note 7: 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.

Note 8: 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.

Note 9: In the 2005 Budget, the government announced that GST would be introduced in January 2007. Many details have not yet been confirmed but it has been stated that essential goods and small businesses would be exempted or zero rated. Rates have not yet been established as of June 2007.

Note 10: 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.

Countries and territories that are VAT free

As of November 2011, only 11 countries and 9 territories under 2 countries remain VAT free in the World.

Country	Remark
United States	Most states charge a sales tax on products. The US Federal government doesn't. There are a few states, such as New Hampshire, that don't charge.
Bahamas	
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

Annex 3. Potential VAT and TT revenues (2010)*

	TT, 7%			TT, 2%			Potential VAT revenues *(UAH m)***
Sector	TT revenues, 7% *(UAH m)*	TT effective tax rate	TT revenues on dom. production, % of GDP	TT, 2%, *(UAH m)*	TT effective tax rate	TT revenues on dom. production, % of GDP	
Agriculture, hunting and related service activities	14282.7	7.0	26.8	4080.8	2.00	24.7	12465.8
Forestry, logging and related service activities	214.1	7.0	18.8	61.2	2.00	11.4	131.4
Fishing, fish farming and related service activities	362.1	7.0	36.8	103.5	2.00	104.9	722.4
Mining of coal and lignite; extraction of peat; mining of uranium and thorium ores	4131.7	7.0	21.9	1180.5	2.00	26.2	6168.8
Extraction of crude petroleum and natural gas	9352.1	7.0	13.9	2672.0	2.00	75.7	24453.6
Mining of quarrying, except of energy producing materials	3482.4	7.0	20.1	995.0	2.00	15.8	3553.8
Manufacture of food products, beverages and tobacco	21315.1	7.6	33.9	6090.0	2.18	31.5	4948.0
Manufacture of textiles and textile products; manufacture of wearing apparel; dressing and dyeing of fur	3630.3	7.9	25.5	1037.2	2.26	32.3	3396.0
Manufacture of wood and wood products; manufacture of pulp, paper and paper products; publishing and printing	4276.5	8.1	36.7	1221.9	2.30	39.5	3023.4
Manufacture of coke oven products; processing of nuclear fuel	2055.6	7.7	76.9	587.3	2.20	68.7	121.2
Manufacture of refined petroleum products	6684.3	7.6	51.3	1909.8	2.16	60.2	3401.4
Manufacture of chemicals and chemical products; manufacture of rubber and plastic products	11601.5	7.9	48.2	3314.7	2.25	69.8	11570.8
Manufacture of other non-metallic mineral products	4035.2	8.1	46.5	1152.9	2.31	52.3	2706.0
Manufacture of basic metals and fabricated metal products	13611.8	9.3	115.9	3889.1	2.66	67.9	-16740.6
Manufacture of machinery and equipment	16641.4	8.6	33.7	4754.7	2.47	37.0	11371.4
Manufacturing n.e.c.	1890.0	7.5	26.3	540.0	2.13	28.5	1758.0
Production and distribution of electricity	5058.2	7.4	21.9	1445.2	2.12	21.3	5305.4
Manufacture of gas; distribution of gaseous fuels through mains	502.1	7.4	20.1	143.5	2.11	20.1	625.8
Steam and hot water supply	1573.1	7.7	52.2	449.5	2.19	52.0	241.0
Collection, purification and distribution of water	445.0	7.4	21.9	127.1	2.13	21.8	447.0
Construction	7849.7	8.0	27.1	2242.8	2.28	26.9	6362.4
Trade; repair of motor vehicles, household appliances and personal demand items	20579.4	7.0	17.7	5879.8	2.00	17.7	33055.6
Activity of hotels and restaurants	1714.5	7.8	18.9	489.9	2.24	18.4	1929.0
Activity of transport	10679.9	7.8	18.1	3051.4	2.24	14.8	11518.4
Post and telecommunications	3105.0	7.7	16.4	887.2	2.21	15.2	4046.8
Financial activity	7415.7	7.4	13.4	2118.8	2.10	14.1	15190.6
Real estate activities	6902.1	7.6	16.9	1972.0	2.18	16.7	10238.2
Renting of machinery and equipment without operator and of personal and household goods	424.5	7.3	16.9	121.3	2.07	19.5	734.0
Computer and related activities	1019.6	7.8	18.0	291.3	2.22	16.2	1278.8
Research and development	680.8	7.8	16.9	194.5	2.22	13.1	812.2
Other business activities	5018.4	7.7	19.0	1433.8	2.19	20.7	7172.2
Public administration	1038.7	1.4	14.0	296.8	0.40	14.3	10782.0
Education	1467.8	1.8	14.6	419.4	0.50	14.5	11061.4
Health care and provision of social aid	1130.5	1.8	15.0	323.0	0.50	14.9	8373.0
Sewage and refuse disposal, sanitation and similar activities	554.1	5.9	22.5	158.3	1.68	22.4	746.8
Activities of membership organisations n.e.c.	320.1	7.7	18.6	91.4	2.19	18.6	447.4
Recreational, cultural and sporting activities	1055.0	5.3	17.4	301.4	1.51	18.8	2238.8
Other services activities	362.2	7.5	14.1	103.5	2.14	14.0	0.0
TOTAL	**196,463**	**-**	**16.8**	**56,132**	**-**	**4.9**	**197,148**

Notes:

* The methodology of estimates follows the one suggested in Policy Paper U7 (2005), *To change or not to change? Economic and fiscal implications of Turnover Taxation*, GAG/IER.

** TT revenues and TT effective rates includes an increment in tax obligations. In particular, intermediate consumption multiplied by number of links and TT tax rate gives us the increment in tax obligations on TT induced by inputs taxation.

** Potential VAT revenues are estimated under the assumption of no privileges and absent tax evasion and fraud.

Source: Ukrstat, own estimates

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