

Highlights of [GAO-08-566](#), a report to congressional requesters

Why GAO Did This Study

Dissatisfaction with the federal tax system has led to a debate about U.S. tax reform, including proposals for a national consumption tax. One type of proposed consumption tax is a value-added tax (VAT), widely used around the world. A VAT is levied on the difference between a business's sales and its purchases of goods and services. Typically, a business calculates the tax due on its sales, subtracts a credit for taxes paid on its purchases, and remits the difference to the government. While the economic and distributional effects of a U.S. VAT type tax have been studied, GAO was asked to identify the lessons learned from other countries' experiences in administering a VAT. This report describes (1) how VAT design choices, such as exemptions and enforcement mechanisms, have affected compliance, administrative costs, and compliance burden; (2) how countries with federal systems administer a VAT; and (3) how countries that recently transitioned to a VAT implemented the new tax.

GAO selected five countries to study—Australia, Canada, France, New Zealand, and the United Kingdom—that provided a range of VAT designs from relatively simple to more complex with multiple exemptions and tax rates. The study countries also included some with federal systems and some that recently implemented a VAT.

GAO does not make any recommendations in this report.

To view the full product, including the scope and methodology, click on [GAO-08-566](#). For more information, contact Jim White at (202) 512-5594 or whitej@gao.gov.

VALUE-ADDED TAXES

Lessons Learned from Other Countries on Compliance Risks, Administrative Costs, Compliance Burden, and Transition

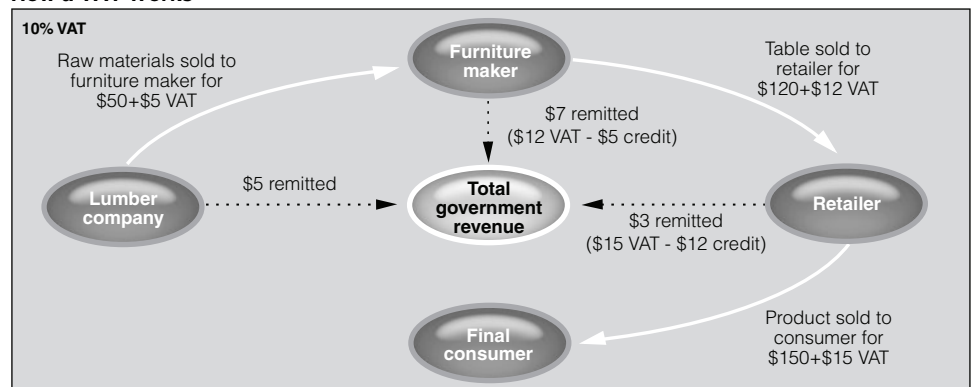
What GAO Found

Like other tax systems, even a simple VAT—one that exempts few goods or services—has compliance risks and, largely as a consequence, generates administrative costs and compliance burden. For example, all of the study countries reported that they devoted significant enforcement resources to addressing compliance. Businesses whose taxable purchases exceed their taxable sales are entitled to a refund under a VAT, which makes VATs vulnerable to fraudsters creating phony invoices in order to falsely claim refunds. Also, similar to other taxes, adding complexity through exemptions of some goods or services and reduced tax rates generally decreases revenue and increases compliance risks because of the incentive to misclassify purchases and sales. Such complexity also increases the record-keeping burden on businesses and increases the government resources devoted to enforcement.

Canada's experience administering a national VAT along with a variety of provincial VATs and sales taxes demonstrates that multiple arrangements in a federal system are feasible, but increase administrative costs and compliance challenges for both the governments and businesses. Businesses, particularly retailers, in provinces with a sales tax face greater compliance burdens than those in other provinces because they are subject to dual reporting, filing, and remittance requirements.

Australia, Canada, and New Zealand, all with relatively new VATs, built on preexisting consumption tax administrative structures to implement the new tax. Nevertheless, they devoted considerable resources to educate, assist, and register businesses and implementation took from 15 to 24 months. Both Australia and Canada provided monetary assistance to qualifying small businesses to help meet new bookkeeping and reporting requirements. Despite their efforts, Australia and Canada had some difficulty getting businesses to register for the VAT by the implementation date.

How a VAT Works



Source: GAO.