Executive Summary

Consumption tax revenues in OECD countries have remained stable at 10.3 % of GDP on average, equal to the record level reached in 2016 (and an increase of 0.1% compared to 2015). These taxes represent almost one-third (30.8%) of total tax revenues in the OECD. Although the overall share of taxes on consumption in total tax revenues has remained relatively stable since 1975, the composition of these taxes has changed fundamentally. OECD countries' reliance on taxes on general consumption (which includes VAT) has increased by more than 70%, from 4.1% in 1975 to 7.1% of GDP in 2018. This is primarily due to the introduction of VAT in most OECD countries. VAT is now the largest source of taxes on consumption, accounting for 6.8% of GDP and 20.4% of total tax revenue in OECD countries in 2018 on average.

Consumption taxes generally consist of general taxes on goods and services ("taxes on general consumption") and taxes on specific goods and services. Taxes on general consumption comprise value added tax (VAT) and its equivalent in several jurisdictions (goods and services tax, or GST), sales taxes, and other general taxes on goods and services. Taxes on specific goods and services consist primarily of excise taxes, customs and import duties, and taxes on specific services (such as insurance and financial services).

Main consumption tax trends in OECD countries

- Consumption tax revenues in OECD countries in 2018 ranged from 3.8% of GDP in the United States to 16.4% of GDP in Hungary. As a share of tax revenues in the OECD, these taxes represented between 15.4% of total taxes in the United States and 49.5% in Chile.
- VAT revenues have remained stable in 2018 as the largest source of taxes on consumption in the OECD on average. VAT accounts for one-fifth of total tax revenues (20.4%) on average, representing 20% or more of total taxes in 21 of the 36 OECD countries that operate a VAT. As a share of GDP, VAT revenues in 2018 ranged from 3.3% of GDP in Australia and Switzerland to 9.7% of GDP in Denmark and New Zealand. An increase in VAT-to-GDP levels was seen between 2015 and 2018 in 25 of the 36 OECD countries that operate a VAT, while these revenues fell as a share of GDP in 8 countries and 3 countries saw no change.
- Standard VAT rates across OECD countries stabilised in 2020 at the record level of 19.3% on average that was first reached in 2017. One OECD country increased its standard VAT rate in 2019 (Japan, from 8% to 10%). Two OECD countries (Germany and Ireland) introduced a temporary reduction of their standard VAT rate in 2020 (from 19% to 16 % and from 23% to 21% respectively) as part of their economic stimulus packages in response to the COVID-19 crisis.
- Most OECD countries' COVID-19 emergency responses included expansions of reduced VAT rates or further reductions of these rates to support the healthcare sector. Several countries introduced specific VAT rate reductions to support the sectors most affected by the crisis (primarily hospitality, tourism). Most OECD countries have included a range of broader VAT measures in

their short-term tax responses to the COVID-19 outbreak, which have been particularly important in supporting business cash flow and reducing tax compliance burdens.

- Almost all OECD countries with a VAT have now implemented the OECD standards for the collection of VAT on online sales of services and digital products from offshore e-commerce vendors. The surge in e-commerce following the COVID-19 outbreak has further emphasised the importance of reform to ensure the proper collection of VAT on these sales. Many OECD countries are now focusing on further expanding their e-commerce VAT regimes, in particular to include online sales of small parcels that are often imported from abroad by foreign electronic marketplaces and other digital vendors. Three OECD countries have already implemented such reform (Australia, New Zealand and Norway), supported by OECD guidance, while similar measures will enter into force in European Union countries and the United Kingdom in 2021.
- Revenues from taxes on specific goods and services, the bulk of which are excise taxes, have further declined both as a percentage of GDP (to 3.2% in 2018; a decline of 0.1 percentage point since 2015) and as a percentage of total tax revenue (to 9.6% in 2018; a decline of 0.5 percentage points since 2015).
- Excise duties are increasingly used to influence consumer behaviour, in particular to reduce pollution through taxes on motor fuels and improve health by heavier taxation of tobacco products. The total tax burden on cigarettes is above 60% of the consumer price in almost all the OECD countries and above 75% in 21 OECD countries. The total tax burden for premium unleaded gasoline exceeds 100% of pre-tax prices in all but nine OECD countries. Excise levels for diesel fuel remain lower than those for gasoline in all but five OECD countries. From an environmental point of view, this is peculiar, as diesel consumption in vehicles has a much greater environmental impact than unleaded gasoline, largely due to the significant differences in nitrogen oxides (NOx) and particulate emissions.
- Car taxation is increasingly used to influence customer behaviour and encourages the use of low polluting vehicles. In 2020, almost all OECD countries take environmental or fuel efficiency criteria into account when determining the level of taxation for the purchase or use of vehicles and 24 of these countries apply tax rebates or exemptions for electric or hybrid vehicles.

The VAT Revenue Ratio for OECD countries

Across the OECD, the unweighted average VAT Revenue Ratio (VRR) has remained stable at 0.56 in 2018, suggesting that 44% of the theoretical potential VAT revenue is not collected. The VRR provides a comparative measure of the difference between the VAT revenue collected and what would theoretically be raised if VAT was applied at the standard rate to the entire potential tax base in a “pure” VAT regime. It provides an indicator that combines the effect of loss of revenues as a consequence of exemptions and reduced rates, fraud and non-compliance. Although the VRR has to be interpreted with care and tax base erosion may be caused by a variety of factors, this VRR estimate suggests that there remains significant potential for raising additional revenues by improving VAT systems’ performance.

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