

Executive summary

Consumption taxes generally consist of *general taxes on goods and services* (“taxes on general consumption”), consisting of 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; and *taxes on specific goods and services*, consisting primarily of excise taxes, customs and import duties, and taxes on specific services (such as insurance premiums and financial services).

Consumption taxes accounted for 30.5% of total tax revenues in OECD countries in 2014, on average. While the share of all taxes on consumption (taxes on general consumption plus taxes on specific goods and services) as a percentage of total tax revenue has remained relatively stable since 1975, the composition of consumption taxes has fundamentally changed. Over time, OECD countries have relied increasingly on taxes on general consumption. Since 1965, the share of these taxes as a percentage of GDP in OECD countries has more than doubled, from 3.2% to 7.0%. They presently raise 20.7% of total tax revenue on average, compared with 11.9% in 1965. VAT has become the largest source of taxes on general consumption, accounting on average for 6.8% of GDP and 20.1% of total tax revenue in OECD countries in 2014. While revenues from taxes on general consumption fell between 2005 and 2009, as a consequence of the global economic crisis, they have now returned to the pre-crisis levels largely due to the rise in standard VAT rates in many countries. In contrast to this increase, revenues from taxes on specific goods and services, the bulk of which are excise taxes, have fallen over time as a percentage of GDP (from 5.6% in 1965 to 3.3% in 2014) and as a percentage of total tax revenue (from 24.3% in 1965 to 9.6% in 2014).

Key trends

- VAT revenues are at an all-time high in OECD countries at 6.8% of GDP and at 20.1% of total tax revenue on average (excl. the United States which do not have a VAT system), up from respectively 6.6% of GDP and 19.8% of total tax revenue in 2012. Revenues from VAT rose as a percentage of GDP in 22 of the 34 OECD countries that operate a VAT and fell, only slightly, in 5 countries compared to 2012.
- Standard VAT rates in the OECD reached a record level of 19.2% on average in 2015 and have remained stable since. Ten OECD countries now have a standard VAT rate above 22%, against only four in 2008. The average standard rate of the 22 OECD countries that are members of the European Union (21.7%) is significantly above the OECD average.
- Countries increasingly look at base broadening measures to raise additional revenue from VAT, notably by increasing reduced VAT rates and/or narrowing their scope in line with OECD recommendations.

- Most OECD countries have implemented or announced measures to collect the VAT on the ever-rising volume of online sales by offshore sellers in line with the International VAT/GST Guidelines and the BEPS Action 1 Report on *Addressing the Tax Challenges of the Digital Economy*.
- The International VAT/GST Guidelines are the first-ever global standard for the application of VAT to cross-border trade. They were completed in 2015 and were endorsed by over 100 countries, jurisdictions and international organisations at the OECD Global Forum on VAT in November 2015. They were adopted as a Recommendation by the OECD Council in September 2016.
- The total tax burden on cigarettes is now above 50% of the consumer price in almost all OECD countries and has reached 80% or more in 10 countries. Countries increasingly use excise duties to influence customer behaviour.

Key findings

- Many OECD countries continue to apply reduced rates to a broad range of products such as basic essentials, pharmaceuticals and healthcare services, cultural and sporting events, etc. to pursue equity or other non-distributional goals (e.g. supporting cultural objectives, promoting locally supplied labour-intensive activities or correcting environmental or other externalities). This notwithstanding evidence that reduced rates are not an effective tool to achieve redistribution or to pursue the other non-distributional goals as mentioned above. They also continue to make considerable use of exemptions to pursue distributional objectives (such as exemptions for basic health, charities and education) and for activities that are considered hard to tax (for example, financial services).
- The VAT Revenue Ratio (VRR) for OECD countries suggests that there is still potential for additional revenue by improving the performance of VAT. The VRR provides a comparative measure of how exemptions and reduced rates affect tax revenues and countries' ability to secure effectively the potential tax base for VAT. It measures 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. Across the OECD, the unweighted average VRR has remained relatively stable at 0.56 in 2014, compared to 0.55 in 2012, meaning that 44% of the potential VAT revenue is not collected. 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 is significant potential for raising additional revenues by improving VAT systems' performance.
- The share of excise duties in total tax revenue has been subject to a long decline since 1965, when they accounted for 14.2% on average, compared to 7.6% in 2014. 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.
- Car taxation is increasingly used to influence customer behaviour and encourage the use of low polluting vehicles. In 2016, more than three quarters of OECD countries apply lower taxes or exemptions on purchase or use/ownership for vehicles according to environmental or fuel efficiency criteria.



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