



Value Added Taxation: A Modern Efficient Tax System for the UAE

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Agenda

- Objectives
- Why VAT & what is it?
- Advantages & Disadvantages of VAT
- Implementing VAT
- VAT Tax Law
- Action Plan

Objectives of New Tax System

- Develop a Rational, Modern, Efficient Tax System for the UAE
- Revenue Diversification
- Reduce & Replace International Trade Taxes
- Reduce volatility & Risk of Revenues
- GCC Fiscal Harmonization
- Design Neutral Tax System

Why VAT & What is it?

- Broad based Consumption Tax
- Tax levied on all sales of commodities and services at every stage of production. Credits taxes paid by enterprises on their material inputs against the taxes they must levy on their own sales.
- Contrast with General Sales Tax or Retail sales tax, where tax is collected only at the point of sale to the final consumer; with VAT revenue is collected throughout the production process.

VAT example

- Suppose Firm A sells its output (assumed, to keep the example simple, to be produced using no material inputs) for a price of Dh100 (excluding tax) to Firm B, which in turn sells its output for Dh400 final consumers. Assume VAT with a 10 percent rate. Firm A will then charge Firm B \$110, remitting \$10 to the government in tax. Firm B will charge final consumers \$440, remitting tax of \$30: tax of \$40 less a credit for the \$10 of tax charged on its inputs. The government thus collects a total of \$40 in revenue.

Trade Tax Revenues: Evidence

Region	Import Duties as % of Revenue	
	1992-1993	1999-2001
Developing Countries (avg)	18	15
Africa		
Least developed	29	34
Other	26	22
Asia		
Least developed	27	20
Other	18	11
Western Hemisphere		
Caribbean	27	23
Central America	20	10
Middle East	12	8

Table 4. Comparative VAT Rates in Selected Developing Countries 1/

	Standard rate	Significant other rate(s) 2/
	(In percent)	
Africa		
Côte d'Ivoire	20.0	11.1
Kenya	16.0	12.0
Mauritius	10.0	--
South Africa	14.0	--
Zambia	17.5	--
Asia		
Fiji	10.0	--
Indonesia	10.0	5.0, 20.0, 35.0
Korea	10.0	2.0, 3.5
Philippines	10.0	--
Singapore	3.0	--
Sri Lanka	12.5	--
Thailand	10.0	--
Middle East		
Egypt	10.0	5.0, 25.0
Jordan	10.0	20.0
Morocco	20.0	7.0, 10.0, 14.0
Pakistan	15.0	--
Tunisia	18.0	6.0, 10.0, 29.0
Western Hemisphere		
Argentina	21.0	10.5, 27.0
Bolivia	14.9	--
Chile	18.0	--
Colombia	16.0	8.0, 10.0, 20.0, 35.0, 45.6
Costa Rica	15.0	--
Dominican Republic	8.0	--
El Salvador	13.0	--
Mexico	15.0	10.0
Nicaragua	15.0	5.0, 6.0, 10.0
Panama	5.0	10.0
Peru	18.0	--
Uruguay	23.0	14.0
Venezuela	16.5	--

Source: Ebrill, et.al. (forthcoming).

Evidence on Taxation

- Ratio (Income /Consumption) Tax in Developing countries is equivalent to about twice the rate in developing countries.
- Ratio (Income/Corporate) Taxation is about 4 times the ratio in developing countries.
- Ratio (Trade/ Total Value) taxation is about 3 higher in developing countries

VAT: Advantages & Disadvantages

- Automatic Stabilizer
- Avoids Distortions of Trade Taxes
- Tax on Consumption
- Broad based
- Complex Tax
- Once and for all increase in inflation

VAT Design

- Keep it simple; avoid multiple tax rates
- Keep threshold levels high
- Zero rating—under which sales are not taxed, but tax paid on inputs can nevertheless be reclaimed—is recommended only for exports
- Ensure coordination between direct and indirect tax administrations
- Exemptions can lead to production and consumption distortions
- Give prompt refunds of excess credits

Efficiency

- “Efficiency ratio”—the ratio of VAT revenue to GDP, divided by the standard VAT rate
- C-efficiency ratio”—the ratio of VAT revenue to consumption, divided by the standard tax rate
- Factors linked with relatively high C-efficiency include:
- Relatively high ratio of trade to GDP (it is relatively easier to collect VAT at the point of import than domestically);
- High literacy rates; and
- Age of the VAT (the longer the tax has been in place, the better the performance).

Implementing VAT

3 Major Aspects:

- Legal & Regulatory
- Accounting
- Administration

Objectives:

- Raise up to 4% of GDP in VAT revenues
- Introduce low rate: 5%
- Share revenue on a 60:40 basis between Federal and Emirates

VAT Tax Law elements

- Definition: tax payers, registration, procedures
- Taxable Transactions
- Place of Taxable Transactions
- Chargeable Events and Chargeability of Tax
- Taxable Amount: taxable transaction, taxable import
- Tax Rate & Exemptions
- Procedures for Calculation & Payment of Tax; Obligation, Tax Credits, Invoices
- e-VAT
- Administration Procedures
- Revenue Sharing
- Penalties
- Appeal Procedures

VAT Action Plan

- Set-up Working Group
- Plan to Engage the Private Sector
- Transform Customs Administration into VAT administration
- Streamline administration; introduce e-VAT
- Accounting laws & regulations
- Prepare Draft VAT Law