Malaysian Management Journal 8 (2), 87-101 (2004)

Value Added Taxes in the ASEAN-Pacific Region

JONATHAN BALDRY
School of Economics
University of New England

ABSTRACT

The Value Added Tax (or Goods and Services Tax) is the most popular form of general indirect tax in the world today. Of the ASEAN countries, only Myanmar, Brunei, Laos and Malaysia do not currently have a VAT, though the latter will introduce one in 2007. In the neighbouring Pacific region, both Australia and New Zealand have GSTs in place. This paper surveys the main features of the VATs/GSTs currently found in the ASEAN-Pacific region. In terms of structure, they range from the very simple and comprehensive taxes found in Singapore and New Zealand, to the highly complex VAT of Vietnam, which has two main rates and a multitude of exempt commodities. The administrative arrangements used to assess and collect the tax differ in detail but include a number of common features, such as exemptions for small businesses, simple invoice requirements for low-value transactions, and assessment on an invoice basis for large business, with a cash basis available to small business. The information and comparisons presented here are highly relevant for countries contemplating or planning the introduction of a VAT, such as Malaysia, and for countries in the region considering modifications to the tax. In general, the more comprehensive the tax, the simpler the administrative procedures required, the less the explanatory material that needs to be produced to educate the business community, and the greater the revenue-raising power of the tax.

INTRODUCTION

The Value-Added Tax (VAT), also known as the Goods and Services Tax (GST) in some fiscal systems[1], is the most common form of general indirect tax in use in the world today. Over 60% of the 200 countries and semi-sovereign territories in the world today having autonomous tax systems currently utilise a VAT (Deloitte Touche Tohmatsu, 2004), and many more countries, including Malaysia and India, are actively considering or have made plans to introduce the tax in the future to replace some existing indirect taxes. In the ASEAN and neighbouring Pacific region, the VAT is currently used in all but six countries[2].

All VATs used today are of the *consumption type*: the base of a comprehensive VAT of this type is total value added (equal to the gross value of domestic production), plus imports, minus exports, domestic capital expenditure and government expenditure on goods and services. This is equivalent to taxing private domestic consumption. VAT is assessed via the *input tax credit* method: liable businesses charge tax on their sales at the required rate then deduct VAT included in the purchase price of inputs in order to determine their net VAT liability. This assessment method simplifies computation of tax liabilities and provides incentives and information that can assist in enforcement of the tax.[3]

Excluding exports from the tax base requires that all export sales are *zero rated*: no VAT is assessed on export sales, but input tax credits are granted on domestic inputs; a VAT refund is received and the product is exported VAT-free. Most VATs are not comprehensive, though the Singapore and New Zealand taxes get close to the ideal. In the first place, various goods and services, and certain businesses, are *VAT-exempt*. No tax is assessed on sales of exempt commodities, but no input tax credits can be claimed, the tax "misses out" on one stage of the supply chain. The effective tax rate will be lower than the full rate, but still positive.[4] Exemptions are sometimes used to lower effective tax rates on particular commodities on equity grounds or to encourage consumption of "merit goods", but also where the characteristics of the relevant commodity make it difficult to tax with a VAT; common examples are financial services and sales of second-hand residential accommodation.

Secondly, certain businesses may be exempt from VAT liabilities on all of their operations; no VAT is applied to sales and no input tax credits are claimable. Business exemption is commonly used as a means of relieving small businesses from VAT liability, with a consequent saving in compliance and administrative costs at only minimal cost to the revenue.

The third departure from comprehensiveness arises when zero-rating is extended beyond exported commodities. It is sometimes applied to particular commodities for equity or merit good reasons: by not taxing these commodities the cost to consumers is reduced and consumption encouraged. Australia's system is the notable regional example where zero-rating is employed for such purposes.

The final departure from comprehensiveness arises when multiple rates are used, normally for the same sorts of equity and merit good reasons that are used to justify zero rating or exemptions.

All departures from a comprehensive tax base introduce economic distortions and so produce allocative inefficiency in the economy. The distortions are generally not great when specific commodities are exempted, but the compliance costs are likely to increase significantly, because exempt and fully-taxed sales and associated inputs must be accounted for separately, while joint inputs such as fuel, power and general cleaning and maintenance, need to be allocated in some way between exempt (no input tax credits claimable) and non-exempt (input tax credits claimable) sales. By contrast, small business exemptions reduce costs and produce minimal distortions, especially when small business is concentrated in the retail sector. Zero-rating produces larger distortions and increases compliance costs (Pope, 1999), but the cost saving is not as great as it is with exempt commodities. Multiple rates produce both significant distortions and high compliance costs.[5]

While all VATs in practice depart to some extent from a comprehensive tax base, those that do so only for pragmatic reasons have a tax that is less costly, less distorting, and generally far simpler than those that have exemptions and zero-rating for other reasons. Administrative procedures used to assess and collect the tax are also far simpler the more comprehensive the tax base.

The purpose of this paper is to summarise the key features of the VATs used in the relevant countries of the region. Key structural features examined include the tax rates used, the extent of zero-rated and exempt sales, and the range of exemptions available for particular classes of business. Other features of interest relate to the administration of the tax and include the timing of assessments and payments, registration requirements for related businesses, tax treatment of changes in business ownership, and any special treatment of particular types of supplies and purchases. This information is of clear interest and importance in countries, such as Malaysia, considering or planning for the introduction of a VAT. There is a wide range of models to use, from the simple and comprehensive VATs of Singapore and New Zealand, to the complex VAT of Vietnam that has multiple rates and multiple exemptions, and correspondingly complex administrative arrangements. Information on these structural and administrative matters can assist in the design of a good VAT.

Section 2 of this paper summarises and discusses the major structural features of VATs used in the region. Section 3 provides an outline of some of the key procedures used to assess and collect VAT in these systems. Finally, section 4 makes some comparisons, assesses the various VATs in terms of the information presented in the paper, and draws some conclusions for good design of a VAT.[6]

Table 1
Structural features of Value-Added Taxes in the ASEAN-Pacific Region

Country (Rate)	**Coverage**	**Small Business Exemption***
Australia (10%)	*Zero-rated*: Exports and similar; health supplies; fresh foods; precious metals; child care; education; cars for the disabled; sales of farm land; water and sewerage; religious services; raffles and similar fund-raising activities by charities *Exempt*: Financial services and transactions; life insurance; sale of used residential property; residential rents	VAT turnover < US$39,000 (For Nonprofits: GST turnover < US$78,000)
Cambodia[a] (10%)	*Zero-rated*: Exports and similar (Investment enterprises refunded input taxes relating to planned activities; refunds monthly) *Exempt*: Public postal services, hospital and medical services and supplies for these, public transport operated by owner-providers; insurance; certain financial services; non-profit activities "in the public interest"	VAT-exclusive turnover < US$129,900 (goods); < US$62,352 (services).
Indonesia (10%)	*Zero-rated*: Exports Exempt: Mining and drilling products (unprocessed); "basic services) commodities"; food and drinks sold in hotels, restaurants, etc.; money, gold bars, "valuable documents"; entertainment subject to theatre tax; healthcare; social services; education; mail services; financial services; religion; broadcasting; public transport; manpower services; hotels; general government services. (Relief from VAT on imports of cattle and poultry feeds effective exemption.)	Turnover < US$39,600 (if goods > 50% of turnover); < US$ 19,800 (if > 50% of turnover)
New Zealand (12.5%)	*Zero-rated*: Exports, international travel, sale of a going concern, first sale of refined gold, silver, platinum to dealer for investment purposes *Exempt*: Financial services, donated goods sold by non-profit organisations; residential rents; sales of rented residential dwellings (> 5 years rented); residential accommodation under a head lease; residential sales; sales of fine metals other than those zero-rated.	Turnover < US$28,320

(continued)

Country (Rate)	Coverage	Small Business Exemption*
Philippines[b] (10%)	*Zero-rated*: Exports; subcontractors manufacturing or processing for firms with exports 70% or more of sales. *Exempt*: Non-food agricultural, marine, forestry products sold by producers; cotton seeds, copra; raw or unprocessed foods; fertilizers, seeds, animal feeds; coal, natural gas, most petroleum products not subject to excise tax; imports of vessels < 5000 tons; medical, dental, hospital, veterinary services (excluding services supplied by self-employed professionals); education services; original (new) art and similar cultural works; low-cost housing sales and residential leases; books, newspapers and magazines; all firms paying "percentage taxes", including financial institutions, car hire and transport contractors, performance artists, nightclubs, etc.; international carriers, international communications (except for communications of diplomatic missions, UN, government, news services, etc.)	VAT-exclusive turnover < US$9790 (Voluntary registration if turnover > US$1,780)
Singapore[c] (5%)	*Zero-rated*: Exports and similar. *Exempt*: Financial supplies; sale or lease of residential properties and land for residential development	VAT-inclusive turnover of taxable supplies < US$607,400
Thailand (10%)	*Zero-rated*: Exports; supplies to government agencies, foreign embassies, UN agencies and similar. *Exempt*: Unprocessed agricultural products and inputs (feed, fertilizers, etc.); newspapers, magazines, textbooks; domestic transport, international land transport; health care (hospitals, clinics, etc.); professional services (medical, auditing, lawyers in court, etc.); renting of immoveable properties; cultural and sporting activities and services (libraries, museums, zoos, etc.); "services in the nature of employment", research and technical services, public entertainers, etc.; religious, charitable, government, local authorities, etc.; financial services, real estate, life insurance, pawnbrokers	Turnover < US$29,880

Table 1 (contd.): Structural features of Value-Added Taxes in the ASEAN-Pacific Region

(continued)

Country (Rate)	Coverage	Small Business Exemption*
Vietnam[d] (10%, 5%)	*Zero-rated:* Exports, goods processed for export by third parties; banking, insurance and other services sold to export processing industries. *Exempt*: Include: unprocessed and semi-processed primary products; salt products; seeds, breeding stock, genetic materials, etc. for agriculture/aquaculture/forestry; imports of machinery, equipment, aircraft, vessels, etc. currently not produced in Vietnam; most insurance; medical and veterinary services; certain cultural and sporting services; broadcasting, newspapers, magazines and imports of films/videos/discs of news, documentary, political or scientific nature; education, child care; public sewerage, drainage, garbage collection; maintenance of public spaces, infrastructure, cultural buildings, etc; urban public transport; arms, weaponry required for national defence; gifts to state, political organisations or professional bodies; purchases for diplomats, etc.; international transport, post, telecommunications; unprocessed exported minerals; prostheses; imported gold bars. *5%*: Includes: non-exempt clean water supplies; fertilizers, pesticides, etc.; medical supplies and medicines; teaching aids; printing; toys; books, tapes and discs not exempt; semi-processed primary products not exempt; forestry products (except wood and bamboo shoots); fresh foods (cereals), sugar products, jute and coconut products, semi-processed cotton; animal feeds; basic chemicals; mechanical and electrical products not for consumers; automobiles, ships, spare parts, production tools, fencing, explosives; distribution and screening of video films.	Individual and household businesses with average incomes (business revenue less "reasonable expenses") less than the minimum wage applicable to State employees.

Table 1 (contd.): Structural features of Value-Added Taxes in SE Asia and Australasia

Notes:
- * Voluntary registration available for all other businesses unless otherwise indicated.
- a. No exemptions for incorporated firms, import-export businesses, investment enterprises, firms with govt. contract > US$7,794 over 3 months.
- b. Registered cooperatives also exempt; banks pay taxes at various rates (to 5%) on interest, rental and other receipts; exempt small business subject to 3% turnover tax.
- c. Exemption also possible for businesses if supplies wholly or largely exports; turnover taxes applied (various rates) to financial services, insurance, real estate, pawnbrokers, etc.
- d. The 10% rate lists specific products, but is essentially the default rate applicable to goods and services not explicitly covered in zero-rated, exempt or 5% schedules.

Sources: Tax Authority Websites; see References

STRUCTURAL FEATURES OF VATS IN THE REGION

Table 1 summarises the main structural features of the VATs in the region.

Rates

All of the countries in the region, except for Vietnam, have only one VAT rate applied to all non-exempt, non zero-rated sales. The rate ranges from Singapore's 5 percent to the 12.5 percent of New Zealand, a 10 percent rate being used by all other countries in the region. Vietnam alone has two VAT rates: 5 percent and 10 percent .

Zero-rating

All of the countries zero-rate exports, and Thailand explicitly treats supplies to all embassies, UN agencies and similar bodies located in the kingdom equivalently to exports. The definition of exports follows the commonsense definition in most countries, including, for example, international travel when sold to overseas customers. In the Philippines, zero-rating also applies to sales by subcontractors manufacturing or processing for firms with exports accounting for 70 percent or more of turnover. Vietnam extends the definition of exports by including banking, insurance and similar services sold to export processing industries.

Within the region, Australia is the only country that uses zero-rating extensively for equity and cultural purposes: fresh foods, educational and health care supplies, sewerage and water, and most charitable activities are zero-rated. Australia also zero-rates sales of unprocessed precious metals, as does New Zealand (for first sales to dealers for investment purposes). The only other significant instance of zero-rating is found in Thailand, where supplies to government departments are zero rated.

Exempt Supplies and Lower Rates

All of the countries covered exempt financial services, and most exempt sales and rentals of residential properties, for good pragmatic reasons. In addition, all countries covered, except for Australia, New Zealand, Cambodia and Singapore, make extensive use of exemptions for cultural/equity reasons, as well as – it appears – in order to encourage various developments in the list of national priorities. Exemptions for equity reasons include basic commodities, health care, social services (Indonesia), medical services and various basic and unprocessed foods (Philippines, Thailand), and public transport operated by owner-providers (Cambodia). Cultural protection is provided by various exemptions for education, religion, broadcasting and cultural performances (Indonesia), "original" art and cultural works, books, newspapers and magazines (Philippines), newspapers, magazines, textbooks (Thailand), and certain cultural and sporting services (Vietnam).[7]

Other exemptions appear to target national economic objectives. For example Indonesia exempts unprocessed mining and drilling products, the Philippines exempts most unprocessed primary products as well as fertilizers, seeds and other agricultural inputs. Vietnam exempts the same classes of commodities, as well as salt products, imports of machinery, equipment, aircraft and vessels, etc. not currently produced in Vietnam, as well as breeding stock and genetic materials for agriculture. The rationale for some Vietnamese exemptions such as salt products and "unprocessed exported minerals" is obscure.

Vietnam is the only country in the region to use more than one rate of VAT, with basic rates of 10 percent and 5 percent, but the rationale for assigning particular classes of goods and services to one group or the other is obscure. The 10 percent group includes "luxuries" such as electronics, "mechanical consumer products and appliances", photography, hotels and restaurant services, and gold and silver objects, but it also includes such basic commodities as "houses on state-leased land", petroleum products and gas, most postal and telecommunications services, and commercial electricity, all commodities that would be expected to be taxed at a lower rate.

Exempt Businesses

All of the countries allow exemptions for small businesses defined in terms of sales (turnover) over the previous year or projected sales, and in most cases there are at least two different exemption levels applying to different types of small business. Australia defines a basic exemption level for small business, with double that level applying to non-profit organisations, while the Philippines exempts all registered cooperatives, and in Singapore exemption regardless of turnover is possible for businesses supplying mainly zero-rated supplies.[8] Cambodia and Indonesia both apply a higher exemption level to businesses supplying goods rather than services; in Cambodia the two exemption levels apply separately to total sales of goods and total sales of services[9], while in Indonesia the exemption level that applies depends on whether the larger part of sales (50% or more) is of goods or of services. Cambodia has additional requirements for registration that can cut across the basic exemption. Firms with government contracts worth at least US$7,794[10] over a three-month period are required to register, as are all "real regime" taxpayers, defined as incorporated enterprises, import-export businesses and investment enterprises, regardless of turnover.

In terms of current US dollar exchange rates, the basic exemption levels vary widely. The Philippines has the lowest basic exemption level of US$9,790 and Singapore the highest (US$607,400), though most are in the range US$20,000 – US$40,000. The only country in the region that does not define an exemption level in monetary terms is Vietnam, which allows exemption only for "individual and household businesses" with average incomes (defined as business revenue less "reasonable expenses") lower than the minimum wage applicable to state employees.

In each of the systems all businesses including clubs, cooperatives and self-employed persons, are generally required to register and lodge returns unless explicitly exempt. Voluntary registration with no or few conditions is available for any business in Australia, New Zealand, Thailand and Singapore. By contrast, in the Philippines voluntary registration is allowed only for businesses below the exemption level (US$9,790) that have a turnover of at least US$1,780. It should be noted that in the Philippines, registration for the VAT is required in order to escape imposition of a sales tax of 3 percent required of most exempt small businesses.

Treatment of Government Agencies

In all the countries considered, government agencies performing traditional government services for no user fee are effectively exempt from VAT and treated as final buyers. However, there are exceptions. In Thailand for example, supplies to government agencies are zero-rated, and (as noted) in New Zealand local authority rates (property taxes) are treated as taxable sales. In most other countries all activities of government agencies, even commercial activities such as sales of publications, are exempt[11], though government-owned bodies that do not provide standard administrative services are generally subject to the VAT. This is the case in Australia, for example, where public universities, generally established under state legislation but receiving most of their public funds from the federal government, are required to register and charge VAT on all non-exempt sales, such as accommodation for students.[12]

ADMINISTRATIVE DETAILS

The administration of the various VATs differs greatly. Some of the most important differences are summarised in Table 2.

Administering Authority

In all the countries considered, the national tax authority – the agency that administers the country's direct taxes – is responsible for collecting VAT, and in most cases assessment and collection is coordinated with income tax obligations, so that returns and instalments for both taxes are submitted at the same time. The only exception to this responsibility is that VAT on imports is assessed and collected by the relevant Customs authority at the point of import, along with other relevant import duties and indirect taxes, and these transactions are treated separately from other VAT liabilities. Exports (zero-rated) are treated equivalently to other sales, though proof of export is required.

Table 2
Administrative Procedures for Value-Added Taxes in the ASEAN-Pacific Region*(not needed: at bottom)*

Country	Frequency of assessment/returns Large Business*	Frequency of assessment/returns Small business	Accounting basis Large Business*	Accounting basis Small business	Registration Point	Additional Provisions
Australia	Monthly (turnover > US$15.6m)	Quarterly (Instalments estimated if turnover < US$1. 6m, with annual reconciliation	Invoice basis for turnover > US$780,000	Cash basis	Each business. Joint registration possible for related companies (90% joint ownership)	Importers may choose deferred payment scheme 90% Notional tax credits (1/11) for second-hand purchases Margin scheme for sale of real property between registered firms (conditions attached) Invoices must show VAT inclusive amount
Cambodia	Monthly	Monthly	Invoice basis	Invoice basis	n.a.	No input tax credits for entertainment, etc., automobiles (unless in business of hiring) or gasoline and lubricating oils (unless supplying them as part of business). No requirement to specify VAT amount on invoice.
Indonesia	Monthly	Monthly	Date of supply	Date of supply	Choice of separate or joint registration of branches/ divisions	Deferral of VAT on some equipment imports possible. No input tax credit given on vehicles unless they are for hire by business. Invoices to include VAT charged.
New Zealand	Monthly (taxable turnover > US$17m); two-monthly for taxable turnover > US$92,000 and < US$17m.	Six-monthly for taxable turnover < US$92,000 (and special cases on application).	Invoice basis for taxable turnover > US$92,000 (non-profit bodies excluded).	Cash basis (invoice basis optional). Hybrid basis (invoice on sales, cash on purchases) possible on application	Each business. Separate registration of branches/ divisions possible. Grouping of related companies possible.	Invoice to show separate VAT amount included. ("VAT included" sufficient for individual sales < US$708)

(continued)

Table 2 (contd.): Administrative Procedures for Value-Added Taxes in the ASEAN-Pacific Region

Country	Frequency of assessment/returns		Accounting basis		Registration/ Assessment Point	Additional Provisions
	Large Business*	Small business	Large Business*	Small business		
Philippines	Monthly.	Monthly	On invoice	On invoice	Each branch/ Division registered separately.	More detailed quarterly sales returns for sales > US$44,500 per quarter; more detailed quarterly input returns if inputs > US$17,000 per quarter "Prescriptive" input tax credit of 1.5% given for processing of sardines, mackerel, milk, sugar, cooking oil and to public works contractors. Invoice to show VAT-inclusive total plus statement that VAT is included.
Singapore	Quarterly	Quarterly	Earliest of sales, payment, invoice	Earliest of sales, payment, invoice	Registration of each company. Joint registration available to businesses owned by same partners or sole proprietor	Monthly assessment possible for certain firms (e.g. exporters) on application. Retail invoices to show VAT-inclusive prices; except businesses paying 1% tourism turnover tax ("CESS") to show VAT total separately. Invoices over $1000 to show VAT amount and total price.
Thailand	Monthly	Monthly	Earliest of sales, payment, invoice, delivery	Earliest of sales, payment, invoice, delivery	Registration of each branch/ division.	Single combined registration /assessment of all branches possible on application. VAT to be shown separately on invoices
Vietnam	Monthly. (If VAT bill > US$126,800 per month, instalments every 5 or 10 days; annual reconciliation)	Monthly.	On transferral of ownership rights or provision of services	On transferral of ownership rights or provision of services	Separate registration/ assessment of branches/ divisions	For individual business with inadequate records, provisional monthly tax determined by Tax Department, with annual reconciliation. Invoices to show sale price exclusive of VAT and VAT total (with exemptions for bus tickets, stamps, etc. regarded themselves as invoices). Tax imposed on tax-inclusive price if no VAT total shown on invoices.

Note:* Definition of large businesses for assessment purposes indicated in parentheses (.) where relevant.
Sources: As for Table 1

Assessment and Payment

Monthly or quarterly assessment and payment is the most common practice in the region. With the exception of Singapore, all countries require large companies to be assessed and pay their VAT on a monthly basis; in Singapore it is quarterly, though businesses may apply to be assessed and pay on a monthly basis. Australia allows small and medium-sized businesses (turnover less than US$15.6m) to be assessed and pay on a quarterly basis, with a monthly assessment option available. The Philippines also utilises a monthly assessment and payment period, though a far more detailed return is submitted each quarter.

Except where amendments are required in the following assessment period because of returns of or non-payment for supplies and similar reasons, or where subsequent audit uncovers errors or evasion, the periodic (monthly or quarterly) assessment is regarded as final in each country. However, for small and medium-sized businesses in Australia (turnover less than US$1.56m), quarterly instalments are estimated in advance by the Australian Taxation Office on the basis of the previous year's liabilities, and there is an end-of-year reconciliation.

The accounting basis for assessing input tax credits and output tax liabilities – determining in which assessment period these transactions need to be accounted for - varies between countries, but uses one or a combination of three methods. The alternatives are a) the date of supply, b) the date that invoices are issued, or c) the date when invoices are paid. In Singapore and Thailand, a transaction must be accounted for in the period covering the earliest of the three events (supply, invoice or payment, though including in Thailand, "delivery"). Indonesia uses a supply basis, while in Australia, small companies (turnover less than US$780,000) may choose to use the payments basis while all other businesses are required to use the invoice basis. In New Zealand, large business (turnover greater than US$920,000), except for non-profit bodies, are required to use the invoice method. Other businesses may use the cash or invoice bases, and also have the option of a "hybrid" basis where sales are assessed on the invoice basis and purchases on a cash basis. The availability of these alternatives obviously allows the firm to choose the option which has the best cash flow advantages for its particular situation.

Imports are treated differently. VAT assessed on imports is normally assessed and required to be paid to the Customs Service, along with any import duties or excises, at the point of import (i.e. at the time of release from the bonded warehouse), though details are required to be entered on normal VAT returns.

Number of Tax Points for a Business

The basic registration principle used in the region varies from "one business equals one registration and one tax point" (Australia, Singapore, New Zealand, Cambodia) and "one branch (or division) equals one registration and tax point" (used in the other countries except for Indonesia, which explicitly offers a choice). However, in most cases the individual business has the option of applying for the alternative form of registration and assessment.

One implication of the basic registration and assessment principles is that if a defined "taxable person" trades under a number of different business names, separate registration and a separate return are required and separate assessment made for each defined business, so supplies by one part of the business to another are treated as supplies for VAT purposes and need to be accounted for in the VAT returns. A business group's accounting and taxation matters are greatly simplified if the group is given the option of a single, combined registration and assessment. Some systems make allowances for this by permitting closely-related businesses, defined in terms of common or overlapping ownership, to be treated as a single business for VAT purposes. This applies in New Zealand (66% or more "of the common voting power or the common market value interests" between businesses is required), in Australia (90% common ownership required), and Singapore (a holding company to control more than half of the board of directors or more than half of the shares in a company).

Invoices

In all of the countries covered except for Cambodia, "tax invoices" used for all VAT-liable transactions are required to conform to certain often stringent requirements. With some exceptions for very low-value sales or retail sales, they are normally required to include the date, registration number of the supplier, and either the total amount of the invoice inclusive of tax, or the value of the sale and the VAT paid on the sale. Additional information often required, especially on high-value sales, includes the name, address and registration number of the purchaser, and description of the goods supplied. Practice differs greatly in respect to whether the VAT amount needs to be shown separately or at all.

In Australia, invoices merely need to state that VAT is included and to show the VAT-inclusive sale price. In Indonesia, the VAT charged must be shown separately on invoices. In New Zealand, invoices must show the sale price either exclusive or inclusive of VAT, plus the amount of VAT included in the sale, though on small sales (less than US$708) all that is needed is the VAT-inclusive price plus a statement that VAT is included. The Philippines also uses this approach for low-value sales, while requiring the VAT-inclusive sale price plus the VAT amount included to be shown on all invoices for non-trivial amounts (sales greater than US$0.45). Singapore requires the VAT amount to be shown separately except for retail sales of less than US$607, though sales in tourist hotels, food and beverage establishments and other outlets that are also required to pay a special 1% turnover tax and may impose a separate service charge will normally separately show the VAT that is included. Vietnam alone has no such general exemption: invoices are generally required to show the VAT-exclusive sale price plus the VAT amount, though special exemptions are allowed for sales of postage stamps, bus and train tickets, and similar sales where the stamp or ticket itself is both a receipt and a licence to utilise a service.

Sale of Business

Sales of redundant capital items by a firm are treated as normal supplies for VAT purposes, and VAT must generally be included in the sale price of these items.[13] (Income tax considerations relating to the depreciation or capital allowance given for the purchase of these items are treated separately from the VAT issues.) Similarly, when a business is wound up, sale of stock and capital items is normally treated as a taxable supply and entered in the business's (final) VAT return, though there may be exemptions for low-value assets: Singapore exempts such sales if they total no more than US$6,074.

Special arrangements normally apply when a business is sold as a going concern. These sales are formally treated in various ways, though effectively all of the procedures used amount to exemption of sale of a going concern. In Australia and New Zealand, these sales are zero-rated, subject to various tests to determine that it is truly a "going concern". However, the term "zero-rated" is slightly misleading in this context, because no input credits can be separately claimed (that period) in respect of these "zero-rated sales", though they will have been claimed in previous periods. The business taking over the assets cannot claim any input tax credits on the amount they spent on acquiring these assets. Singapore treats the sale of a going concern effectively in the same way, but refers to these transactions as "out of scope" supply with no VAT implications, and no information on such sales is included in the (final) return of the business selling out or in the first relevant return of the business that is buying out. This is also the procedure adopted in Cambodia and most other countries, where such transactions are treated as though they are sales between unregistered businesses, or exempt sales.

Special Arrangements

In any tax system rules need to be determined for particular types of transactions that pose special administrative problems or that, if not dealt with by special means, can lead to anomalies and distortions. For example, in New Zealand the VAT liability on commodities sold under hire purchase agreements is due at the time payments are made or invoices issued, depending on the accounting basis used by the business, but the liability is limited to the sale price net of any interest or other charges included in the agreement. This ensures that the treatment of hire purchase sales is symmetrical with that of sales financed by loans from financial institutions.

Other areas where special arrangements may be used are in sales of second-hand goods (in Australia the purchase of second-hand goods by a registered business generates notional input tax credits of 1/11 of the invoice price); transfer of real property between registered businesses (in Australia, a margin assessment scheme rather than the input tax credit method is used for these sales); second-hand car sales (in Singapore, a margin scheme or, in some cases, a special discounted sale price scheme is used)[14] ; a deferred payment scheme for importers, used to ease the cash flow problems of importers who cannot claim input tax credits on the cost of imports (Australia, Indonesia); no input tax credits allowable on motor vehicles, except for firms hiring or leasing out vehicles (Indonesia, Cambodia);[15] special scheme for Major Exporters (exports at least 51% of sales) allowing deferral of VAT payable on imports (normally due at point of import) until next VAT assessment date, in order to moderate cash flow problems (Singapore). Many other examples of special arrangements to deal with special problems can be found among the countries of the region. They are generally sensible responses to practical problems that will always arise in an imperfect world, though the simplest of the VAT regimes have the simplest and most sensible arrangements for dealing with these special circumstances. They also have the clearest explanations of why the special arrangements are needed.

DISCUSSION

What lessons might be learned by comparing the different VATs in the region? First, Vietnam's VAT provides a clear lesson in how *not* to structure a VAT. Its two rates and multiple exemptions, long and detailed rate and exemption schedules, provide a fertile ground for wasteful lobbying and corruption, and must considerably increase compliance costs, especially given the relatively low exemption level for small business. At the same time, the low exemption level for small business makes it a tax that has a wide reach and, as a consequence of this and its complicated structure, it is probably extremely costly to operate for both the public and private sectors.

Australia is the only country covered here to make extensive use of zero-rating (for equity and cultural reasons). However, with the exceptions of Singapore, Cambodia and New Zealand, all other countries covered make extensive use of exemptions for what appear to be largely similar reasons,[16] and their VAT systems are far more complex as a result. Singapore and New Zealand tax authorities provide exceptionally clear and simple information about their VATs on their Websites, and this reflects the essentially simple structures of these taxes.

All of the countries covered provide exemptions for small businesses, but the exemption turnover levels differ greatly. Small business exemptions are justified in terms of administrative and compliance cost savings, but if set too high there is a large loss of potential revenue and comparably greater economic distortions. However, setting a comparatively high exemption level at the time of introducing a VAT then gradually lowering it over the years can prove useful as a means of moderating the impact of the tax on small businesses and allowing information about and knowledge of the tax to gradually percolate down through the business community. On these criteria, Singapore's exemption level of over US$600,000 seems far too high, especially for a developed and sophisticated urban economy. Cambodia's relatively high exemption levels (almost US$130,000 for suppliers of goods and US$60,000 for suppliers of services) also seems too high, though the requirement that all incorporated businesses need to register is likely to moderate the impact of this. At the opposite end of the spectrum, the extremely low exemption levels for the Philippines and Vietnam must generate heavy compliance costs and significant enforcement problems for these countries. Setting higher levels for non-profit organisations is unlikely to generate the same sorts of problems, and can be justified in terms of the high compliance costs that these organisations would generally incur because of their reliance on basic and unsophisticated accounting systems.

With the exception of Singapore, the standard frequency of VAT assessment and payment is monthly. However, most countries sensibly recognise the additional costs that this imposes on small businesses, and allow for less frequent assessment for them. The Australian system of estimated quarterly instalments for small and medium-sized businesses, together with annual reconciliation, is particularly attractive so long as the alternative of choosing quarterly payments based on actual transactions is available. An invoice-based accounting basis for assessment for large businesses, with an optional cash basis for small business, seems to be appropriate and effective, but the system of defining liability at the time of supply (as in Indonesia) or at the earliest of supply, invoice or payment (Indonesia, Thailand) introduces an additional definitional problem into the system, since time of supply or sale is an ambiguous concept in many circumstances. It is preferable to have a single, unambiguous definition of the date of liability.

A fair overall assessment of the VATs in the region would take account of the issues covered here but in addition would evaluate compliance and administration costs, the efficiency costs of distortions introduced by multiple rates, zero-rating and exemptions, and the performance of the taxes in terms of proportion of potential revenue that is collected. Little enough evidence on such matters is available in developed economies, and for most of the countries covered here no relevant evidence is available. However, on the basis of the information summarised and examined here, the VATs of Singapore and New Zealand provide a standard against which all other VATs in the region can be assessed. Because of their comprehensive and simple structures, these taxes are simple to understand and explain, and a minimal number of rulings are required to clarify grey areas. The coverage of VAT matters on the Websites of the tax authorities in Singapore and New Zealand is, by comparison with that of Australia for example, simple, clear and concise, and it is almost certain that compliance and administrative costs are correspondingly low. Either system provides a good model for other countries to aspire to, subject to reservations about the high exemption limit for small businesses in Singapore.

REFERENCES

Bickley, J. M., (1992), *A Value Added Tax contrasted with a National Sales Tax*, Issue Brief IB92069, Congressional Research Service, Library of Congress, Washington DC.

Deloitte Touche Tohmatsu, (2004), *Global Indirect Tax Rates*, available at www.deloitte.com/dtt/article/0,2297,sid%253D2959%2526cid%253D5028,00.html (updated 13.5.04); accessed 15.11.04.

Ebrill, L., Keen, M., Bodin, J-P. & Summers, V. (2001), *The Modern VAT*, Washington DC, International Monetary Fund.

Ernst & Young (1999), *GST: the Ernst and Young Guide*, Sydney, UNSW Press

Hooper, P. & K. A. Smith (1997), "A value-added tax in the US: an argument in favour", *Business Horizons*, 40 (3); 78 – 83

Iowerth, A. A. & J. Whalley (2002), "Efficiency considerations and the exemption of food from sales and value-added taxes", *Canadian Journal of Economics*, 35 (1); 166 – 182.

Pope, J. (1999), *Food and the Compliance Costs of GST*, Business Council of Australia Papers, vol 1, no. 1.

Tanzi, V. & H. H. Zee (2000), "Tax policy for emerging markets: developing countries", *National Tax Journal*, 53 (2); 299 - 322

Zodrow, G. R., (1999), "The sales tax, the VAT and taxes in between – or Is the only good NRST a 'VAT in drag'?", *National Tax Journal*, 52 (3); 429 - 442

Information on Individual Countries

Information on VATs in the countries covered in this paper was largely obtained from the Websites of the relevant taxation authorities. The following gives details of the main sources of on-line information for each country.

Australia
The Web site of the Australian Taxation Office www.ato.gov.au provides successive links to *Business* and *GST Essentials.*

Cambodia
An English translation of the VAT Tax Law ("Anukret") dated 24.12.99 can be found at: http://www.bigpond.com.kh/Council_of_Jurists/Fiscal%5CANK19_12_114E.htm The Web site of the Ministry of Economics and Finance at http://www.mef.gov.kh/organization.htm reproduces the Anukret defining its responsibilities (dated 20.1.00) with the functions of the Tax Department listed in Article 8.

Indonesia
The Director General of Taxes Website at http://www.pajak.go.id provides a link to a detailed *Tax Guide* for foreign businesses, including the VAT at: http://www.pajak.go.id/admin/guidemanager/files/Tax_Guide.pdf

New Zealand
The Web site of the Internal Revenue Department at http://www.ird.govt.nz/ provides successive links to Information about Goods and Services Tax and GST Publications leading to the *GST Guide*, and A number of other informative publications are found on the GST Publications page.

Philippines
The Bureau of Internal Revenue Website provides VAT information at http://www.bir.gov.ph/tax_vat.html The Chan Robles Virtual Law Library provides an English translation of The National Internal Revenue Code of the Philippines (Tax Reform Act of 1997) at http://www.chanrobles.com/legal6title18.htm#106

Singapore
The Internal Revenue Authority of Singapore Website at http://www.iras.gov.sg/ provides a link to GST Traders and four basic *GST Guides* (same Web address as home page).

Thailand
The Revenue Department of Thailand English Website at http://www.rd.go.th/publish/5998.0.html provides a link through Tax Structures to Value Added Tax at http://www.rd.go.th/publish/6043.0.html

Vietnam
The Ministry of Finance English language Website is found at: http://www.mof.gov.vn/DefaultE.aspx?tabid=197
Basic information on the VAT is found in the *Circular on Value Added Tax* dated 29.12.2000 (no Web address) which can be accessed through the "Search for Legal Documents on Financial Issues" link by inputting the document number, 122/2000/TT-BTC. Further information can be found in the document *Amendments to the Law on Value Added Taxation* dated 31.7.03 (no Web address) accessed by searching for the document number 07/2003/QH11. A general search for "VAT" on the home page lists a number of other documents in the nature of rulings and amendments.

ACKNOWLEDGEMENT

Research for this paper commenced while the author was a Visiting Professor at the Faculty of Accountancy, Universiti Utara Malaysia. The support of the University and Faculty is gratefully acknowledged

ENDNOTES

[1] For convenience, all taxes considered here will be henceforth referred to as VATs, regardless of their official designations.
[2] The region covered in this paper is bounded by Myanmar, Cambodia, Laos, Vietnam, the Philippines, Papua New Guinea and New Zealand.

The countries in the region using a VAT are listed in tables 1 – 3. Countries in the region not currently using a VAT are Myanmar, Laos, East Timor, Papua New Guinea, Malaysia and Brunei.

[3] For an explanation of VATs and discussion of their economic effects see, for example, Zodrow (1999), Tanzi and Zee (2000) and Hooper and Smith (1997). Details of assessment procedures and business obligations under one VAT can be found in Ernst and Young (1999).

[4] For example, if a producer purchases inputs at a VAT-inclusive price of $110 with a VAT rate of 10% (so VAT of $10 is included) and sells an exempt commodity to a retail customer for $150, the implicit gross tax rate on the commodity is 100.(10/150)% = 7.1% which equates to a net tax rate of 6.7% = 100.(10/140). It is easy to see that the reduction in the effective tax rate is proportional to the share of total value-added accounted for by the exempt stage in the supply chain.

[5] For a detailed examination of the economic impact of departures from a comprehensive VAT base see Iowerth and Whalley (2002).

[6] A recent IMF publication has surveyed VATs throughout the world and derived some general implications for good tax design (Ebril, et. al, 2002). The present paper has a narrower focus, but deals in greater depth with some of the administrative issues. The broad conclusions drawn here are consistent with those presented in the IMF publication.

[7] Since exemption has only a small impact on the effective tax rate, this is an extremely ineffective means of achieving these aims. The only obvious explanation for its popularity in the region is that exemption satisfies popular demands for special treatment of the relevant commodities without having any significant effect, simply because the general population does not appreciate the difference between exemption and zero-rating.

[8] It is not clear why any firm supplying only zero-rated supplies would wish to be exempt, since there are clear tax advantages to be gained (in terms of the entitlement to refunds of input tax credits) by remaining registered, and it is unlikely that these would normally be less than the compliance costs associated with being registered.

[9] This means that a firm supplying both goods and services will need to register if either its sales of goods or its sales of services exceed the relevant exemption levels.

[10] For comparative purposes, all monetary values specified in the text are in US dollar equivalents measured at exchange rates prevailing on 20.11.2004.

[11] Blanket exemption is justified pragmatically when an agency's commercial activities are relatively minor. In the absence of a blanket exemption, particular problems would be involved in apportioning joint inputs between exempt and non-exempt activities in government agencies.

[12] Australia exempts water and sewerage services from the VAT, but this exemption applies whether the enterprise is publicly or privately owned, and whatever its organisational structure. This exemption is given for "equity" reasons rather than to give any special treatment to government enterprises.

[13] Note that the firm purchasing the second-hand capital equipment can claim an input tax credit for it. Effectively the selling firm has given up part of the credit it received when it purchased the equipment, and this is being taken up by the purchasing firm.

[14] Consistent with the exceptionally clear, informative and well-organised advice available on the (Singapore) IRAS Website is the following explanation of the gross margin scheme: "The scheme is made available to second-hand car dealers to prevent the double taxation that would occur when certain cars pass through the retail stage more than once where the tax on previous sales cannot be recovered." (*GST Guide for Second-Hand Vehicles*, IRAS p 1).

[15] No explanations are given for these exclusions. However, the exclusion of all entertainment expenses in Cambodia gives a clue: the exclusions are presumably designed to limit the supply of company vehicles to employees as non-financial rewards. In countries with more developed tax systems, these potential problems are dealt with under the income tax or via dedicated Fringe Benefits Taxes.

[16] In practice, the relatively high exemption level for small business in Cambodia as well as the

country's comparative poverty probably mean that most basic commodities bought by the majority of the population are exempt or even effectively almost zero rated. (If all firms in the supply chain are exempt, then the commodity bears no tax.) Taking account of the likelihood that some of the inputs used in the supply chain for food, for example, are supplied by large registered firms, then some tax will be borne by food but it will be a very small fraction of the nominal 10% rate.