



# VAT FACTS

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- A **value-added tax (VAT)** is a type of sales tax which is assessed not just at the retail level, but at every stage of production. A European-style (“credit-invoice”) VAT is embedded within the price of a good itself (“tax rate-intrinsic”).
- Because the **VAT is embedded as part of the price of a good** (as opposed to an American-style sales tax, which is added onto the price of a good), it tends to be very opaque, and is easily-forgotten by taxpayers.
- The European experience has been that this non-transparent tax has been easy to raise. In the late 1960s, VATs started out as small sales taxes with about a 5 percent average rate. Today, **the average VAT rate in Europe is 20 percent**, and there is a minimum VAT rate of 15 percent required for a country to join the European Union (Source = OECD)
- Americans for Tax Reform Foundation has estimated that if the United States adopted a European-style VAT tax base, **every 1 percent point in VAT rate would yield the tax revenue equivalent of 0.4 percent of GDP (or about \$50 billion per year)**. Even a 1 percent VAT with a European base would be as big as the net tax hike under Obamacare.
- VATs don’t displace other taxes. In fact, the evidence from Europe shows that other taxes rise as VATs rise. The reason is that **more VAT revenue begets more government spending, which creates demand for yet more tax revenue**. According to Dan Mitchell of the Cato Institute (who gets his data from the OECD), in 1967 the U.S. and Europe each collected about \$0.27 in taxes for every \$1.00 produced. The U.S. is still collecting that much, but Europe’s tax burden has shot up from 27% to over 40%
- **Other taxes rose in Europe as the VAT grew**. Personal income taxes grew from 7 percent to 11 percent of Europe’s GDP. Corporate income taxes grew from 2 percent to 3.5 percent of GDP. Taxes on income and profits grew from 9 percent to 14 percent of Europe’s economy. As the VAT grew, so did all the other taxes.
- **Within a decade of imposing a VAT, the aggregate tax burden as a percent of GDP grew in all the major Western European powers**. In France, the tax burden grew from 35 percent to 38 percent. In Germany, it grew from 33 percent to 38 percent. Only in the cases of Japan and Canada (who have a different kind of VAT than exists in Europe) did the tax burden fall after the imposition of a VAT.
- **There is no reason to believe that enacting a European-style VAT in the United States would be any different than the unanimous experience of Europe**. Within a decade, our tax burden would be higher. Our personal, corporate, and investment taxes would also be higher. Government would be bigger, crowding out the private sector and lowering our potential standard of living. Our long-term debt problems would be worse.
- **The solution is not a VAT, but to reform our current tax system from a mixed income/consumption base to a pure consumption base**. A tax base which excludes net savings (or, alternatively, the yield from savings) is the one that best promotes economic growth and prosperity.