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## **Value added tax - generalized method of consumption taxation. Comparative Approaches**

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### **Abstract**

*One of the fundamental technical elements of this tax is the scope of VAT, which usually is the delivered goods, services provided and work performed within a country. And thanks to the destination principle, exports are taxed at a zero rate, which is equivalent to the VAT exemption, but without losing the right to deduct tax for purchases.*

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### **Introduction**

Regarding methods of consumption taxation, literature retain value added tax (VAT) as the method most comprehensive, neutral and efficient consumption tax. From a theoretical standpoint, there are three major techniques involved and charging VAT:

1. VAT measured by GNP. In this case VAT is levied on all goods (consumer goods and capital goods) and final services produced or delivered in a given period, ie on gross national product. Calculation base is the difference between total revenue from sales and purchases of intermediate goods, but shall not include capital goods here or assets. It is the most comprehensive form of taxation added value, equivalent to a sales tax applied on both consumer goods and capital goods rough.
2. VAT measured by national income (income type). A fee is also similar to the first version, it is levied on the net national product (net income), which is obtained by subtracting depreciation by gross national product. Calculation base is the difference between total revenue from sales, on the one hand, purchases of intermediate goods (but not including assets) and depreciation of fixed assets, on the other hand. It is the most common form of value added tax, being placed exclusively on consumption. Calculation base is the difference between total revenue from sales and purchases, including those assets.

Unlike income type, allowing only deduction of depreciation, this option deduction entries investment value, respectively assets, thus having the lowest calculation.

By deducting capital expenditures, this type of tax on value insert it amounts to a general sales tax imposed on consumer goods.

According to the literature (Lazăr, 2011), consumption-based VAT option is most commonly practiced, especially in EU countries, while the first two variants of interest from a theoretical standpoint. Where is charged exclusively consumer goods businesses are prone to the purchase of capital goods that will serve as a basis for future production, they have the possibility to immediately deduct all VAT related to the acquisition of assets from tax collected on sales, resulting in a smaller amount of payment to the budget. Regarding the delimitation of the scope of VAT, literature retained, since this is an indirect tax that must be done by identifying the subject and object of taxation.

Thus, the object of taxation can be defined generically as any supply of goods or services by a taxable person on the basis of economic activity. The subject of taxation is the taxable persons carrying out, in an independent manner and regardless of place, economic activities.

By economic activity usually means activities of producers, traders or providers of services including extractive and agricultural activities and free profession or assimilated. Also, economic activity is the exploitation of tangible or intangible property for the purpose of obtaining income therefrom on a continuing basis.

### **The fiscal issue of VTA**

In general, public institutions which, by their nature, carry out activities in the socio-cultural-administrative, national defense or justice are not considered taxable. However, as an exception, where public institutions or assimilate the economic activities thereof, they become taxable, the obligation to pay VAT (Schenk, Oldman, 2011).

An enterprise that carries out economic activities is not automatically subject to taxation. To fall within the scope of VAT, the company must register with the tax authorities for VAT. The status of VAT is obtained from a certain level of turnover, very small businesses choosing, usually do not pay VAT (which is not always to their advantage, since VAT is borne by enterprises, but only collected post-consumer). Choosing to be built according to the specific situation of each economic agent so that small businesses that do not require a large investment and whose customers are mostly individuals are tempted to opt for the status of non-VAT payer, since final consumers are not interested in purchases deduction of tax, in this case such enterprises benefit from simplifying procedures for recording and reporting of budgetary obligations regarding VAT. Businesses that conduct most deliveries to other undertakings, which carry significant investments, will choose the quality of VAT because it enables delivery of products and provision of services at prices lower, client with the deduction of VAT on the purchase. One can speak about a clear preference of traders to make purchases from other businesses that have the status of VAT. For enterprise-taxable purchases and deliveries are made to value dimensions equal to those available if the trader VAT, only that the invoices do not include VAT, which is included the purchase price or the delivery.

According to reviews of the literature, operations included in the scope of VAT can be divided into:

- a) the nature of their taxable transactions;
- b) taxable transactions for the proper functioning of the VAT mechanism and reduce tax evasion: the use of raw materials and products purchased from third-party company and not (delete tendency of integration of business) transactions carried out for the benefit of employees;
- c) importations and intra-Community transactions (for EU countries) taxable transactions according to the destination principle;
- d) export operations: transactions exempt (taxable with zero) as the destination principle;
- e) exempt domestic operations: operations, usually non-economic, and operations provided by law (eg banking and financial services).

In terms of deliveries and purchases among member countries of the European Union it should be noted that these are not considered exports or imports, but are considered deliveries and acquisitions intraunionale and obey common rules agreed at European level and apply to all Member States . Another central concept in settlement mechanism and VAT collection is the territoriality of taxation. By territoriality means the place, jurisdiction where taxation occurs.

For determining territoriality are two principles: the principle of destination and origin principle. According to the destination principle, VAT shall be charged at the place where the good or service is consumed. In these circumstances, imports are subject to VAT, while exports are exempt (or better said, are taxed at the 0, since exporters are given rights to deduct tax on purchases). Origin principle requires that the tax be imposed in the country or place where the goods are products/services are provided, ie the place where the value added. In this case, exports are subject to VAT, while imports are not taxed. In practice, most often meets destination principle.

Internationally, according to reviews of the literature, we can distinguish four major variants of value added tax (Schenk, Oldman, 2006):

1. The most common is, as already mentioned, EU harmonized version of the VAT credit mechanism based on invoice subtraction VAT;
2. Another variant is common in Japan, which closely resembles the European version, only that it involves determining the amount of the payment obligation on budget bills;
3. The version practiced in New Zealand, involving a broad tax base and limiting exemptions. The tax is calculated on deliveries and revenues, and the deduction is made on purchases and expenses of a company registered as a tax payer;
4. The variant found in Canada, where there is a value added tax imposed at national level but also at provincial level duties that can be harmonized or non-harmonized.

Also, among which provinces there is no fee. Thus, concluding, similar doctrine in mind that the most common variant of value added tax is based on the destination principle and method subtraction credit invoice VAT or value added tax in its European version.

The taxable base includes both prices of goods delivered and services rendered tariffs and transport costs, insurance, handling, brokerage and other expenses with taxes (excise, customs duty) (Schenk, Oldman, 2006).

However, the taxable amount does not include: rebates, locomotive, discounts and other price reductions from suppliers directly to customers on the date of the chargeability to tax, interest income after date of delivery or provision for late payments, the amounts of damages established by court final court penalties and the amounts requested for total or partial non-fulfillment of contractual obligations, if imposed over prices and/or negotiated rates, and no amount of packaging that circulates between freight providers and client exchange, without invoicing.

For imported goods, the taxable amount consists of the customs value, plus any other fees, taxes and commissions accessories. VAT rates are normal (standard) and reduced. There are countries which share only standard, but also many countries which reduced rates. The Cota is normal practice for the general supply of goods, transfer of property or services.

Reduced rates apply a rule of strict necessity products (fresh food, medicines, medical prostheses, etc.), but also books and educational materials or cultural services, tourism or public transport. According to literature, lately, there is a tendency to charge the reduced rate certain goods and services that contribute to sustainable development and improved quality of life: polluting technologies, unprocessed foods, recreational sports activities etc. And zero applies to certain goods and services and exemption from taxation means those goods and services without losing the right to deduct value added tax, related to acquisitions that were used to manufacture those goods or services.

This means reducing those represented budgetary obligation VAT and, in some cases (when input VAT is higher than output VAT) VAT refund can determine the tax authorities. Regarding this aspect, according to the same doctrinal views in tax practice in most countries, up to reach refund amount shall be recovered off VAT taxpayers with tax debts. Reimbursement is performed regularly for enterprises that perform deliveries to export, whereas such operations are considered, under the destination principle, taxable transactions with zero.

One statistic to the Organization for European Economic Cooperation retain standard VAT rates applied by OECD countries in 1976-2010 period (January 1), highlighting both the year of introduction of VAT and reduced VAT rates, and, if available, shares specific to certain regions, such are<sup>7</sup>:

- ✓ Austria (EU - euro) introduced VAT in 1973 and practiced predominantly introducing a standard rate of VAT of 20% over the years, two reduced rates of 10% and 12 % and a specific quota of 19% in some regions;
- ✓ Belgium (EU - euro) introduced VAT in 1971, and the standard rate of VAT has experienced an ascendant trend over the years, from 18%, stagnating since 1996 at 21% and reduced rates are 0%, 6 % and 12%;
- ✓ Finland (EU - euro), which introduced VAT in 1994, practiced from the beginning a standard VAT rate of 22% and has three reduced rates of 0%, 8% and 13%; Yet amid the global financial and economic

crisis and Finland increased as anti-crisis measure in 2011 VAT rates, as follows: standard rate of VAT is 23, and reduced rates of 0%, 9%, 13%;

- ✓ France (EU - euro), which is considered to be the first country to work with this tax in 1954, practiced a fluctuating standard rate that has stagnated after 2000 to 19.6% and reduced rates are 21% and 5.5% and in terms of specific quotas in certain regions: in Corsica applicable rates of 0.9%, 2.1%, 8.0%, 13.0%; for the overseas departments (DOM) shares are 1.05%, 1.75%, 2.1%, 8.5%; and in French Guyana there is VAT.
- ✓ Germany (EU - euro) introduced VAT in 1968 and the standard VAT rate to an upward trend over the years, stagnating since 2007 to 19%, and practice a reduced rate of 7%;
- ✓ UK (EU), which introduced VAT in 1973, practiced a standard rate to increase somewhat, however, it is worth noting that after a rate constant at a level of 17.5%, it dropped in 2009 to 15% to increase again in 2010 to 17.5% in 2011 and increased to 20%; also that State practice and two reduced rates, which are 0% and 5%;
- ✓ Hungary (EU) introduced VAT in 1985 with a standard rate of 25%, this share, according to OECD statistics, between 2004-2006, fell to 20%, returning amid economic crisis and financial crisis, 25 % 2010 2011; in terms of the reduced rates, which are 17% and 5%.

Regarding Romania (EU) introduced VAT in 1993 and practiced p standard rate with an upward trend that amid the financial crisis world-wide, increased by 5 percent, from 19% to 24% in 2010, anti-crisis measure, and on reduced rates, Romania practice two reduced rates, which is 9% and 5%, the latter rate was adopted recently for delivering social housing as part of the police.

Among the technical elements of VAT include event and chargeability of tax, two elements that are specific to this tax. The fact is that the generator that are the legal conditions necessary for tax chargeability. And, chargeability of tax is the date on which the tax authorities may require payment by taxpayers, even if payment may be deferred. The literature notes that should not be confused chargeability of tax (chargeability of tax) with chargeability fee payment (chargeability financial) because chargeability fee payment is the date on which the taxpayer is required to pay tax to the state budget and the exceeding of which is calculated delay penalties.

As a general rule, the chargeable event occurs at the time when the goods or the date of service provision. In most cases, the VAT chargeability occurs on the date at which the event, but it may be prior to the operative event, if an invoice is issued before the date on which the event occurs or when the collection of advance payments advance made before the date of the event. The right to deduct is a technical element essential to the efficient functioning of the mechanism of VAT. The right to deduct VAT on purchases means the deduction of VAT on the supply and represents the central pillar of the VAT mechanism.

To exercise the right of deduction, taxpayers must meet several conditions:

- ✓ acquisitions for which the right of deduction to serve for transactions (deliveries) taxable at the ordinary rate, low or zero, which is deductible;
- ✓ Taxpayer must be registered for VAT;

- ✓ Deduction is the amount of their invoices (the need for rigorous records).

The main difficulty in establishing the right to deduct arises when the enterprise uses procurement (raw materials, equipment, etc.) both in terms of operations that have the right to deduct and for transactions without deductibility.

In this situation, the right to deduct VAT on purchases can not be granted for the full amount, but only in proportion to the share of transactions with deductibility of the total transactions carried out by the firm. Point deduction shall be made for each operation, but global in transactions in the fiscal period. Thus, given that the company purchases raw materials in pursuit of goods or services exempt from VAT, with deductibility, it is not entitled to deduct VAT on purchases.

Can not benefit from the right of deduction, the company have no other choice than to include VAT on purchases cost and, in this situation, it is one that supports VAT and no final consumer. Such situations are interpreted as breaks in the chain of deductions causing VAT in the production location and not in that of consumption. The phenomenon is called remanence VAT and confirms weakening financial results of enterprises.

If the undertaking only carried out exempt operations without deduction right, they are rare. In general, most companies perform taxable transactions and exempt transactions when carrying and without deductibility, this is only part of the total transactions.

To determine the deductible VAT, have the right to deduct VAT *prorata* is used which can be determined as follows:

**Prorate VAT = (operations entitled to deduction / total operations) x 100 = Prorate actually deductible VAT x VAT deductible proportion**

As such, only the difference between input VAT and input VAT is actually borne by the undertaking by including the costs. This situation occurs only when *prorata* VAT recorded a more than 100%. Although prorated refund formula is basically the same for all tax jurisdictions, there are differences in the reference period are retrieved from the data used in the formula. Businesses in the EU Member States use a provisional *Prorata*, on the basis of the previous year or after their forecasts for this year and at the end of the year to undertake regularization after previously calculated *prorata* final.

In other countries, companies calculated *prorata* effective when exercising the right of deduction, usually in the month following that in which they were made taxable transactions; in this case, the calculation is made by reference Prorate transactions a month. The tax period is usually the calendar month. But it can vary from country to country and within countries. Meet and fiscal period is spanning over two months of a quarter of a semester or even a year.

Typically, small and medium enterprises with a low turnover below a certain level, benefit of tax years longer, which gives them certain facilities from the perspective management of cash flows and the cost of recording and reporting to authorities tax.

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## Conclusion

Literature retains the idea that shorter periods tend to be used in developing countries. Usually, countries where the fiscal period standard is less than one month shall allow taxpayers to opt for the tax period of one month, or may oblige to do so, if the tax authorities fit this (usually based on historical relations public budgets). Month fiscal period is advantageous for businesses that make deliveries to export regularly, they can benefit in these conditions, the monthly repayment of VAT on purchases (Schenk, Oldman, 2006).

In Romania, the standard tax period is one month, but in some circumstances it may be three months (adjusted turnover under 100,000 euros). During fiscal year can be chosen by taxpayers with turnover below a certain threshold, which, although not obliged to register for VAT, choose to do so (the UK, where taxpayers are forced to carry over a nine year prepayments, following the regularization be done after finalizing the financial statements and accounting). In order to reduce administrative costs, tax authorities usually limit allows taxpayers to change frequently during tax reporting and payment. The deadline for payment of VAT is correlated with the fiscal period being placed, usually in the last decade of the month immediately following the expiration of the tax period.

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