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CHARTERED TAX INSTITUTE OF MALAYSIA (225750-T)

e-CTIM TECH- IT 21/2014 **09 May 2014**

TO ALL MEMBERS

TECHNICAL

Indirect Taxation

INTERNATIONAL VAT/GST GUIDELINES

The governments of 86 countries had recently endorsed the International VAT/GST Guidelines (the Guidelines) at the *Second Meeting of The Global Forum on VAT* in Tokyo. The endorsement of the Guidelines is a big step towards preventing value added tax from weighing on trade whilst also safeguarding state revenues.

Different tax jurisdictions often use different rules to determine which of them has the right to tax a transaction. This creates the risk of double taxation, which hurts trade, and under-taxation, which hurts governments. The Guidelines seek to address the problems that arise from national VAT systems being applied in an uncoordinated way in the context of international trade.

The Guidelines set standards in two key areas: ensuring VAT neutrality and making taxes on B2B trade in services destination-based. The first makes sure VAT targets private consumption and not businesses, so it has a neutral effect on production and levels the playing field for domestic and foreign businesses in cross-border trade. The second should ensure that B2B trade in services is only taxed in the country of the recipient of the service.

This year's Forum also discussed the equity impact of VAT. Countries often implement reduced rates to alleviate the burden on poorer households but discussions at the Forum confirmed that this is a very expensive way of providing support to the poor, particularly when compared to the use of targeted cash transfers.

The OECD is working with all the Global Forum participants to extend its Guidelines to cross-border sales of services to private consumers (B2C), an area that is growing strongly with the rise in online shopping.

Members interested may find further details of the International VAT/GST Guidelines at the *OECD website.*