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The collection efficiency of the Value Added Tax: Theory and international evidence

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3.6%, respectively. A one standard deviation increase in urbanization, trade openness and the share of agriculture, changes the VAT collection efficiency by 12.7%, 3.9% and −4.8%, respectively. Qualitatively identical results apply for the ratio of VAT revenue to GDP divided by the standard VAT.

Keywords: VAT tax collection costs trade openness political instability urbanization

JEL Classification: F15 H21

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Notes

1. The g ... policy choice
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2. See G ... d with the
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3. See E ... f VAT
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4. It is e ... udit risk is
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adjustment would be zero in the presence of such insurance. Our analysis can be

extended to the case where the risk adjustment factor is positive, without affecting the main results.

5. As in Cuikerman et al. (1992), since the tax capacity is set one period in advance, and is reset each period, the infinite horizon equilibrium is characterized by looking one period ahead. The symmetry of the specification implies that the policy maker at time t is setting the tax capacity for the next period, θ, by maximizing . The term , is the discounted expected utility of the policy maker next period, recognizing that the equilibrium private consumption does not depend on the identity of the regime, and that the policy maker is reappointed (losing power) with probability 1 − π (π), enjoying utility from fiscal consumption of X(θ), respectively. The second term, −θ, is the present resource cost of the fiscal investment in future tax capacity, reducing the present fiscal consumption enjoyed by the decision maker.

6. France was the first to implement a VAT, in 1948. Cape Verde recently implemented a VAT in 2004. Due to data limitations, these two countries were excluded from the sample.

7. See Fisman and Wei (2004) for empirical evidence on the enforcement problem dealing with tax evasion and imports.

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Source: American Economic Association

Structural transformation and tax efficiency

Source: Wiley

The Modern VAT

Source: International Monetary Fund

Tax evasion in an open economy

Source: Elsevier BV

Tax Revenue Trends in Latin America and Asia: A Comparative Analysis

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