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14th IMF-Japan High-Level Tax Conference for Asian Countries

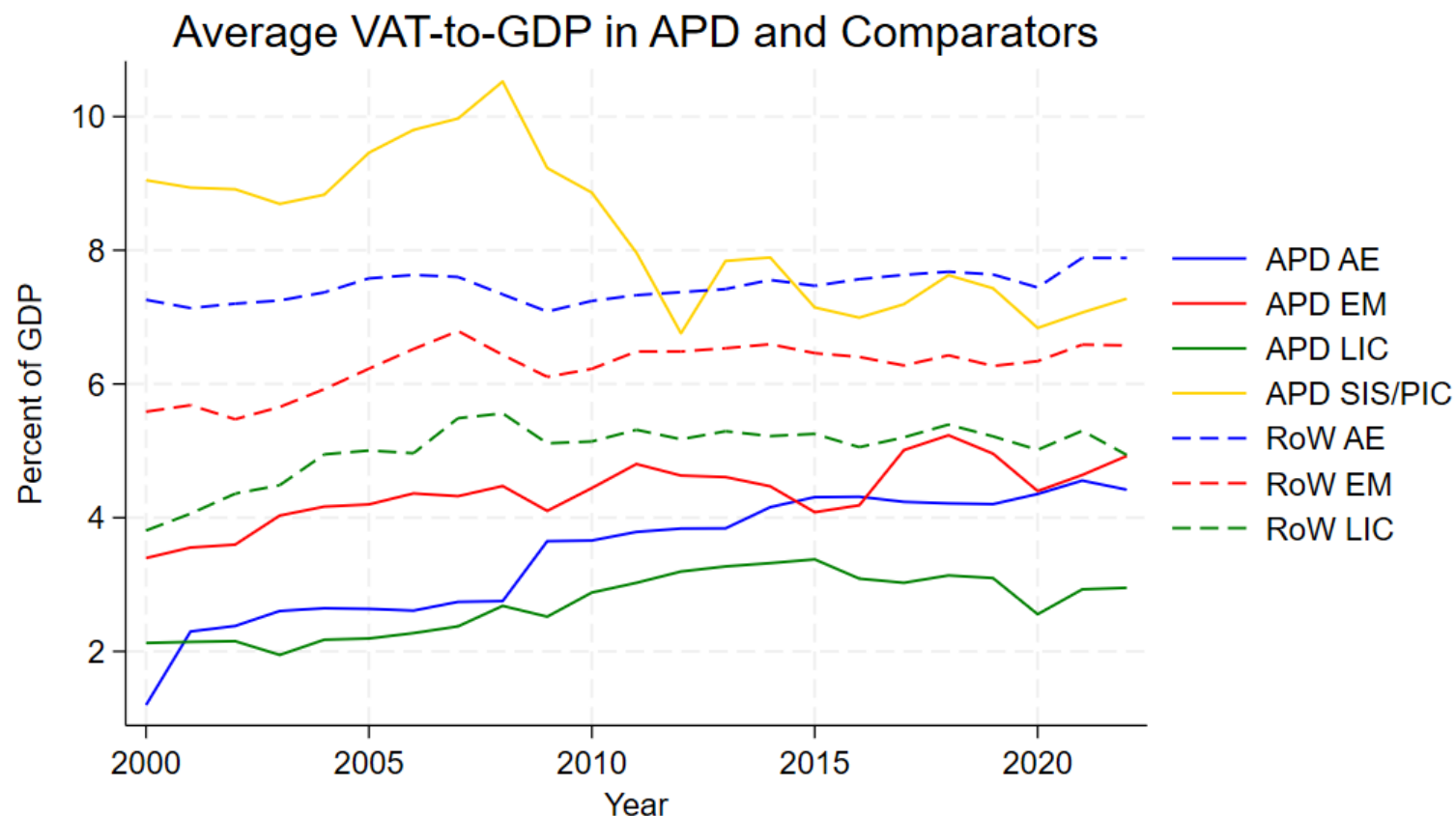
Session IV. VAT Issues in Asia

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VAT Revenue is relatively low in Asia



Estimates from WoRLD. Unbalanced sample and arithmetic means by group.

APD LIC (6): Myanmar, Bangladesh, Laos, Bhutan, Cambodia, Nepal

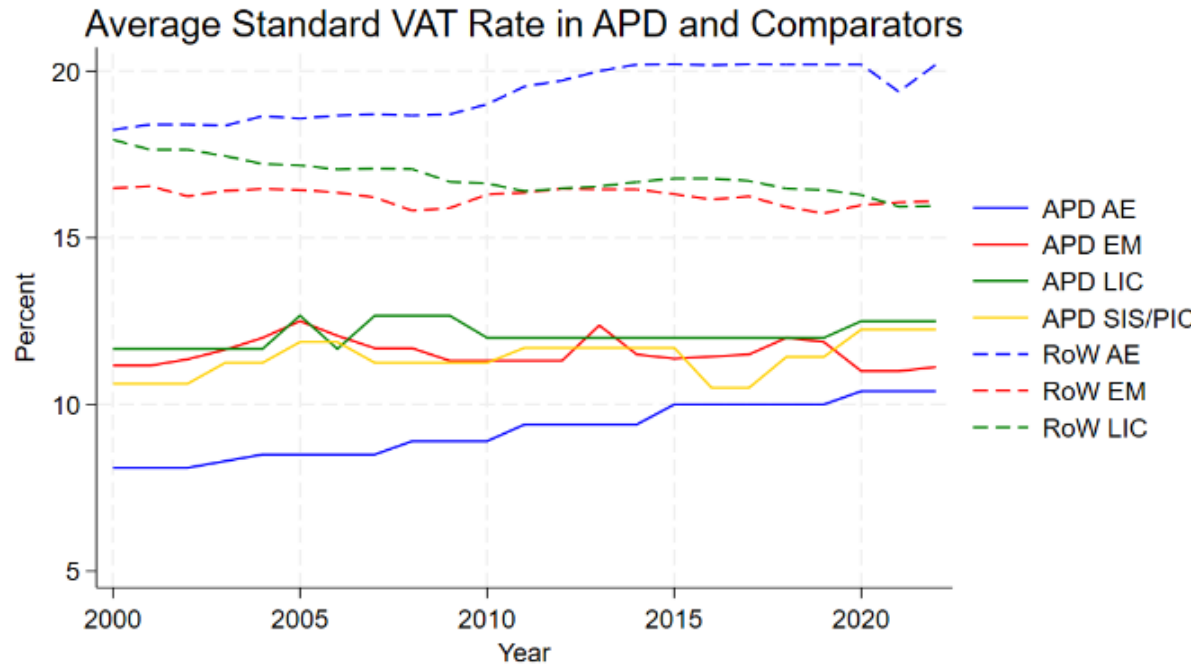
APD EM (9): Sri Lanka, Indonesia, Malaysia, Vietnam, China, Philippines, Thailand, India, Mongolia

APD AE (5): Singapore, Korea, Japan, Australia, New Zealand

APD SIS/PIC (15): Timor Leste, Brunei, PNG, Tuvalu, Marshall Islands, Fiji, Vanuatu, Micronesia, Kiribati, Palau, Maldives, Solomon, Tonga, Samoa, Nauru

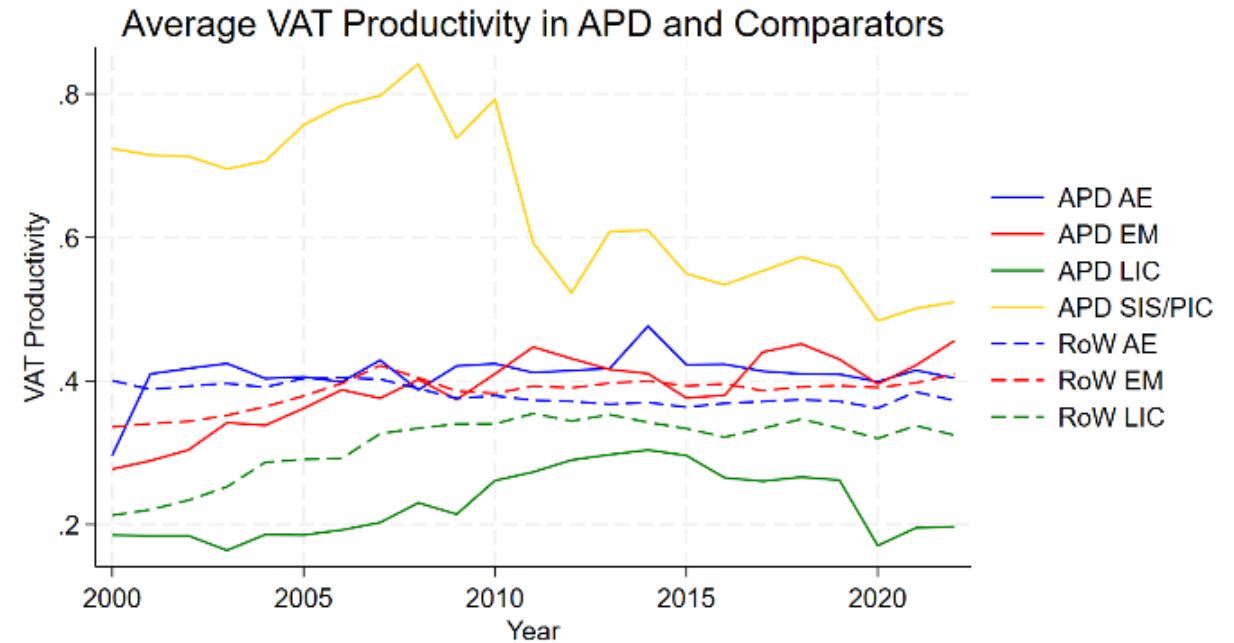
Caused by:

(i) Relatively low VAT Rates



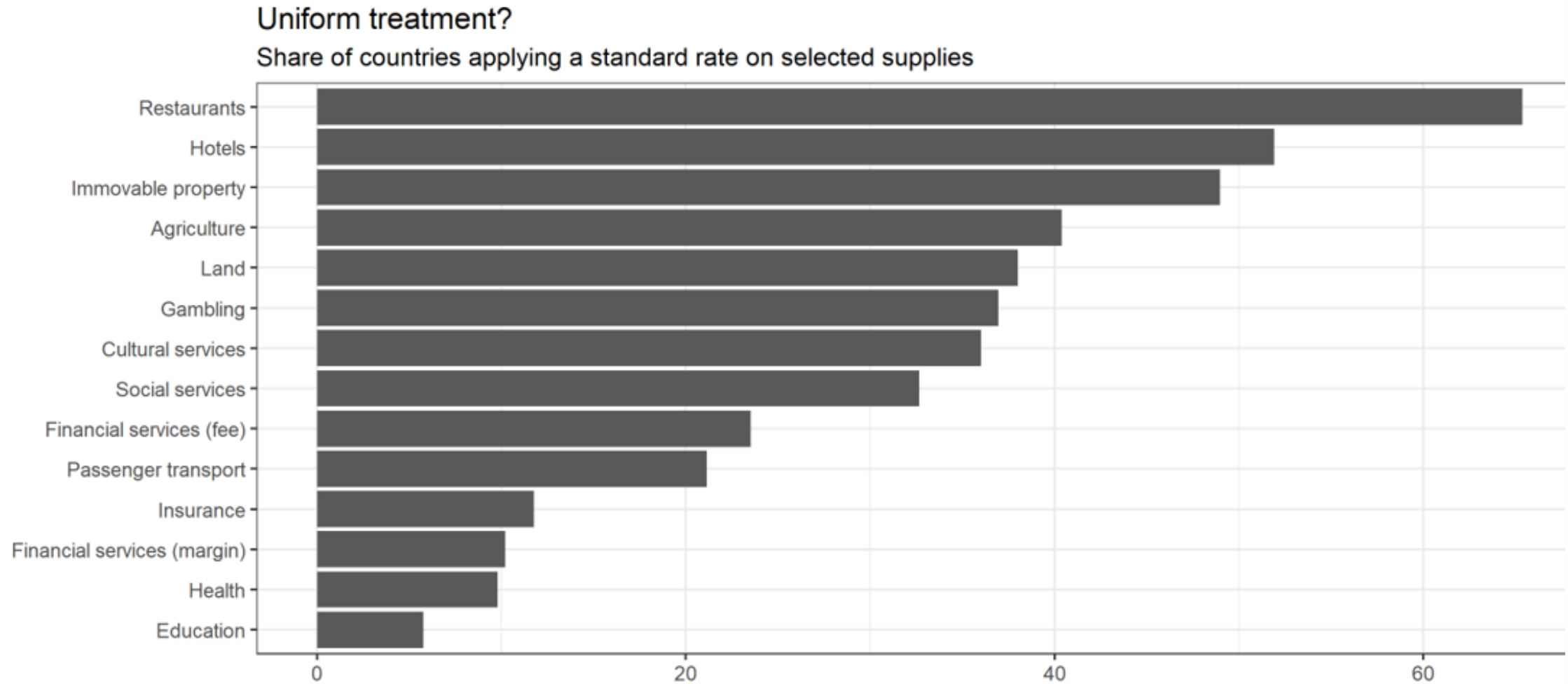
Estimates from FAD TP database. Unbalanced sample and arithmetic means by group.

(ii) In LICs, also a relatively narrow VAT Base



Estimates from FAD TP database and WoRLD. Unbalanced sample and arithmetic means by group. VAT productivity measures revenue per pp of the standard VAT rate, in percent of GDP.

New global survey suggests special VAT concessions are used in multiple sectors





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**Extensive assessments in a
forthcoming IMF Book**

The Changing World of VAT
2026

Outline of “*The Changing World of VAT*”

I	Introduction		
II	What is a VAT? An overview		
III	The last two decades—VAT developments and experience		
IV	VAT effectiveness—is VAT a good revenue-raiser?	XIV	VAT administration
V	VAT efficiency – is VAT an effective policy tool for achieving non-revenue objectives?	XV	Managing VAT taxpayers
VI	VAT equity – can VAT help fight inequality and poverty?	XVI	VAT compliance
VII	Political economy of a VAT	XVII	VAT fraud
VIII	Cross-border VAT issues	XVIII	Management of VAT credits and refunds
IX	VAT and digital economy	XIX	VAT and new technologies
X	VAT in federal states		
XI	VAT and the public sector		
XII	VAT and sectoral issues		
XIII	VAT and small taxpayers		
XX	The future of VAT		

A primer on a few key issues in debates about VAT

- **Impact of VAT changes**
 - Is VAT regressive?
 - Will VAT increase inflation?
- **International aspects of VAT**
 - How to deal with cross-border digital trade
 - How apply VAT to tourism
- ...

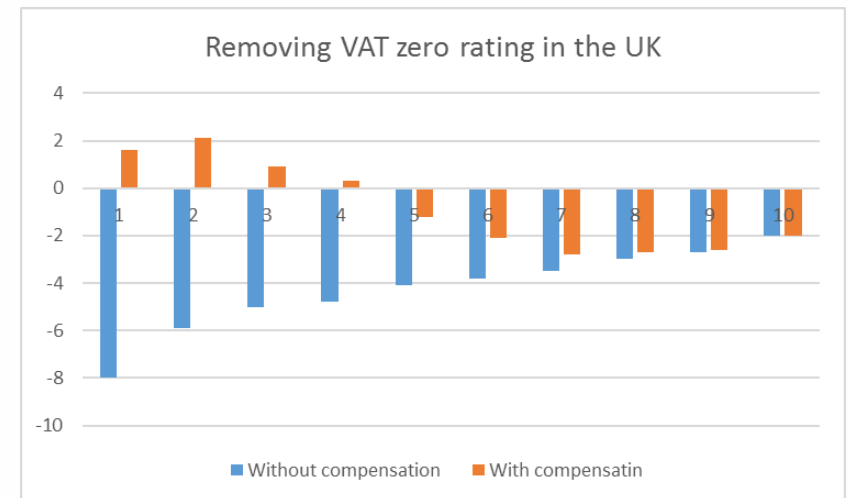
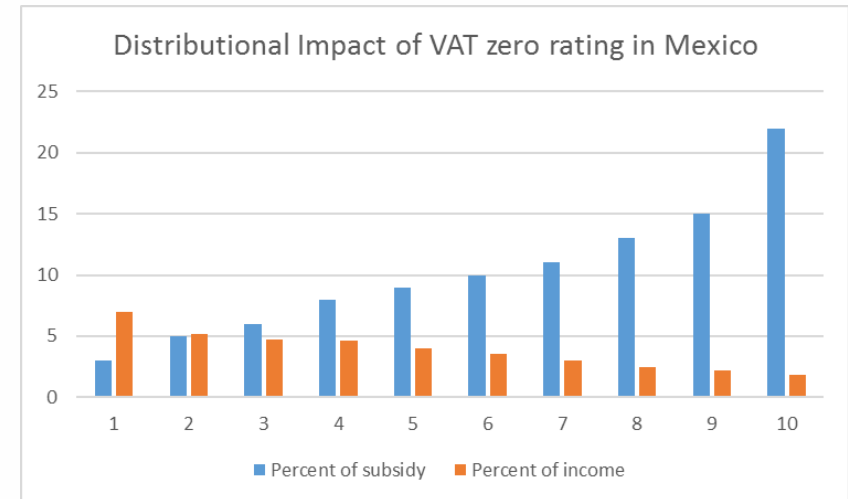
Is VAT regressive?

Regressivity of the VAT

- Annual versus lifetime income (or expenditure) – VAT not regressive when based on expenditure
- Exemptions/reduced rates blunt instruments to cope with distribution – lion share of relief goes to better-off (chart)

Other dimensions

- VAT thresholds matter – make VAT more regressive as poor people buy from small traders
- Spending matters – VAT enables spending that can make overall impact progressive (chart)
- New opportunities may arise with technology to design progressive VAT, e.g. personalized rebates



Will VAT increase inflation?

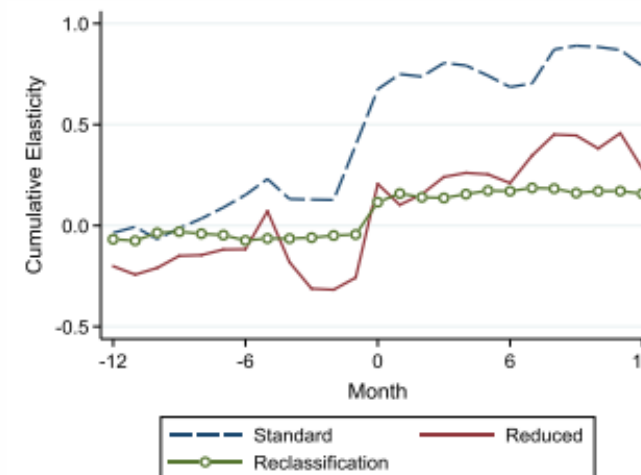
There is a price effect of a VAT change

- Anticipation effects likely – people bring consumption forward if VAT rises – and so prices rise ahead of it
- Full pass-through not generally supported by evidence – especially not for changes in reduced VAT rates (chart)

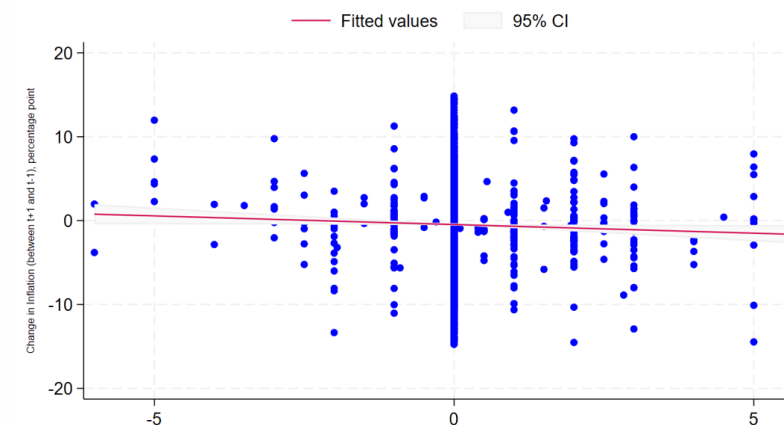
Yet: typically, no impact on inflation

- VAT reform is not generally associated with price changes in the years after that change (chart)
- One-off price effect only

VAT pass-through in the EU



Correlation between Inflation and VAT Rate Changes



How to deal with cross-border (digital) trade?

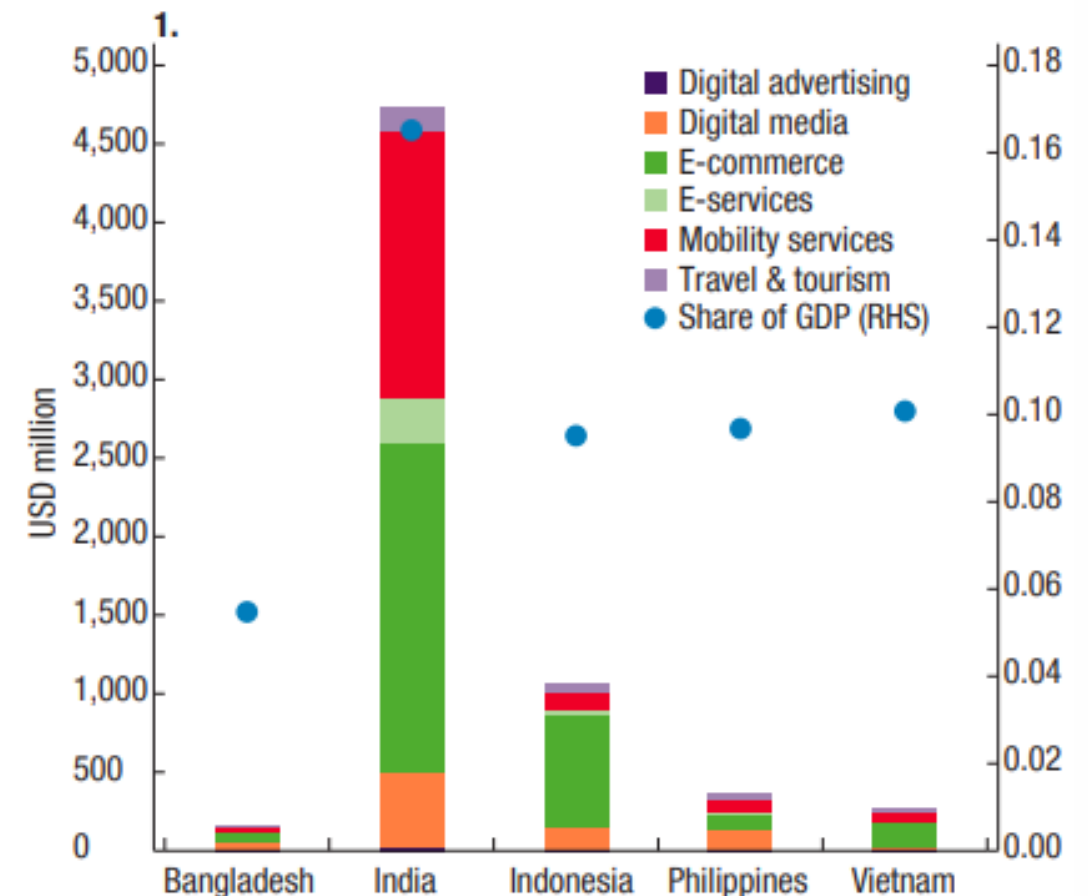
Destination principle in case of imported digital goods and services (streaming, music, consultancy) or cross-border e-commerce (on-line sales)

- B2B – apply the reverse charge mechanism
- B2C – not straightforward absent of local provider

Solution – Vendor Collection Model

- Mandatory (but simplified) registration of non-resident seller (either by list or default)
- Seller charges and remits VAT on sales
- Adopted in 60+ countries globally – including in Asia-Pacific (AUS, IND, IDN, JAP, SGP, THA)

Expanding VAT regimes can contribute directly to revenue collection ...

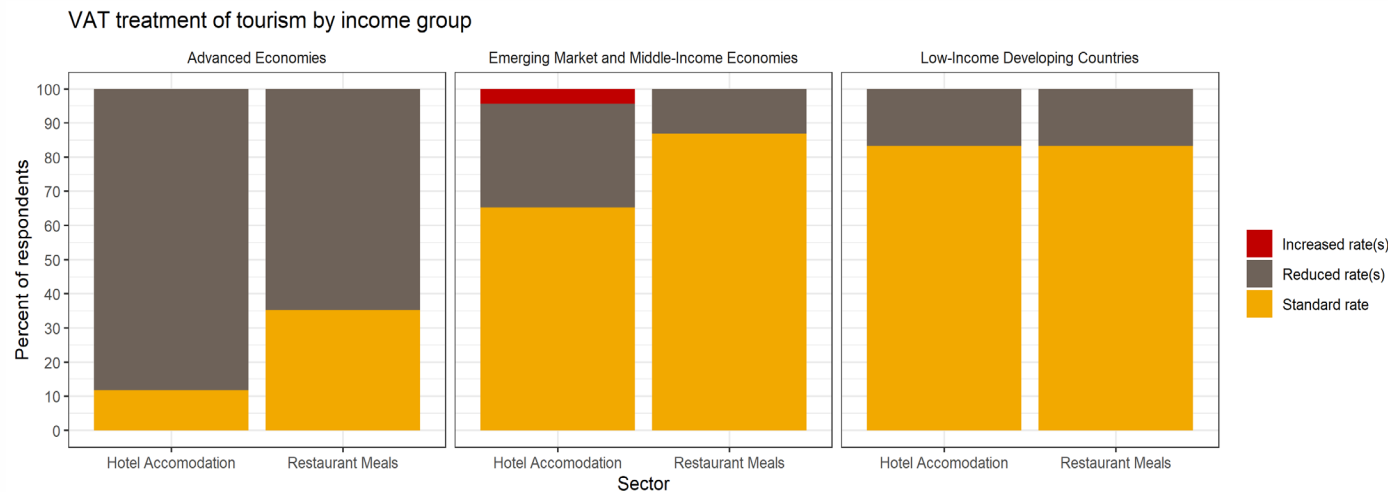


How apply VAT to Tourism?

Hotels, restaurants, transport, entertainment, souvenirs

- Not considered exports for VAT (unlike national accounts) and thus not zero-rated
- Yet, reduced VAT rates for hotels and restaurants are common – mainly in advanced economies (chart)
- Rationale: tax competition (assuming high demand elasticity)
- (Regional) coordination may offset pressure from tax competition

Note: some unique destinations face opposite challenge (photo)



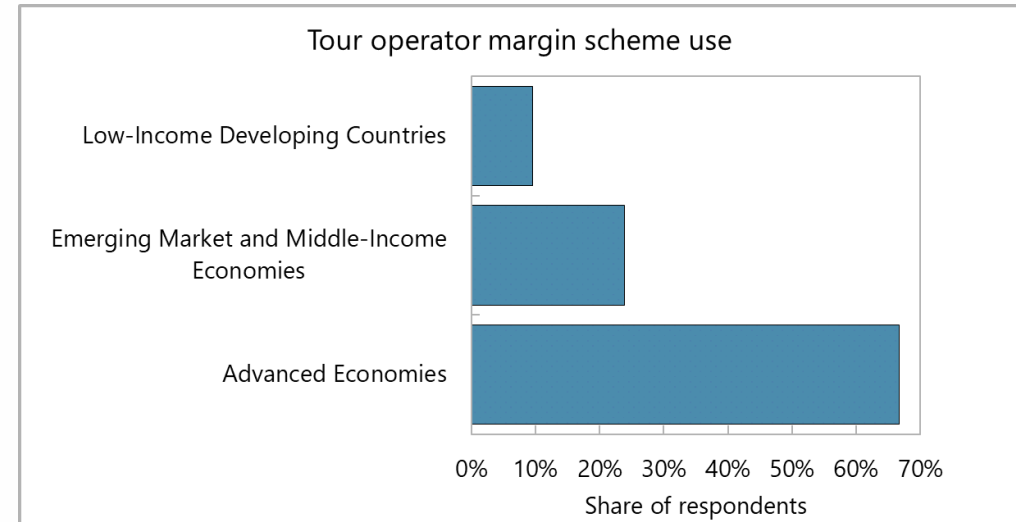
Tour Operator Margin Schemes (TOMS)

How tax a travel agent selling a package of tourist services (perhaps in multiple destinations)?

- TOMS is way of simplification: tax local travel agent only on its own margin
- Allows the destination country to charge VAT on service (hotel, restaurant, other)

Yet: tourist services increasingly sold on-line – platforms can be based anywhere

- Vendor collection model can provide for VAT charged in the country of destination
- Platform might be used to collect entire VAT (not just the margin) to facilitate collection



a. Sales channels for global travel and tourism



Tourism Refund Schemes

Purchases of goods by foreigners in the tourist destination country

- Often local rules – e.g. minimum value required; only applied to certain goods
- Common in advanced economies, but increasingly in emerging market countries

Applies zero rate on “exports”, yet tourists do not generally pay domestic VAT on imports – hence risk of a tax loophole





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Thank you!