

# AN INTERNATIONAL COMPARISON OF INDIRECT TAXATION

EXPLORING GOVERNMENTS' CONTRIBUTION TO THE COST OF EVERYDAY GOODS

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# 1 – INTRODUCTION

Sales and consumption taxes make up a significant proportion of a government's income and form a significant cost for individuals and businesses alike. However, for individuals especially, the true cost of sales and consumption taxes is often unclear.

UHY tax professionals in 22 countries<sup>1</sup> across the UHY international network have analysed a basket of business and consumer goods and services to compare the impact of consumption taxes around the world on businesses' bottom lines and consumers' pockets.

For each item in the basket, UHY worked out the percentage of the sale price that constituted taxes – including sales taxes, value added taxes, municipal sales levies, excise duties, import duties, and more.

**FIGURE 1 – UHY'S BASKET OF GOODS AND THE AVERAGE PERCENTAGE OF EACH ITEM'S PRICE THAT IS MADE UP BY TAXES AROUND THE WORLD**

ITEM	AVERAGE % OF PRICE THAT IS TAX – ALL COUNTRIES
Loaf of bread	<b>6.01</b>
Newspaper	<b>9.14</b>
Child's T-shirt	<b>10.95</b>
Cinema ticket	<b>11.09</b>
International flight	<b>11.14</b>
Restaurant meal	<b>11.21</b>
MP3 download	<b>11.24</b>
Fruit smoothie	<b>11.45</b>
Box of chocolates	<b>11.47</b>
Professional service	<b>12.04</b>
Electricity bill	<b>13.08</b>
iPad	<b>14.85</b>
Physical album	<b>15.2</b>
Bottle of wine	<b>22.77</b>
Litre of petrol	<b>36.22</b>
Cigarettes	<b>51.25</b>

<sup>1</sup> Taxes may vary between states or cities in some countries. Representative states or cities have been taken for the US (Michigan – there is no US federal sales tax); China (Beijing); Australia (Perth); and Canada (Toronto). Michigan's standard sales tax rate of is 6% whilst the US average rate is 5%.

## 2 – OVERVIEW

The countries in the study fall into three distinct approaches to consumption taxes. At the very bottom end are a group of countries notable for maintaining a tradition of low taxes; the second group is dominated by European countries; and the third constitutes two countries with exceptionally high levels of consumption taxes: India and Brazil.

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Respectively, Brazil and India's governments are responsible for 28.7% and 38% of the total cost of the 'basket' through different forms of taxes. Brazil and India have relatively low levels of direct taxation.

However, countries in similar situations, such as fellow BRIC economies Russia (13.1%) and China (11.8%), and low direct tax economies such as Japan (4.9%) or Malaysia (3.9%), manage to maintain equally low levels of consumption taxes. Brazil's consumption taxes are particularly complex, with up to four separate taxes applying to individual goods and services in the basket.

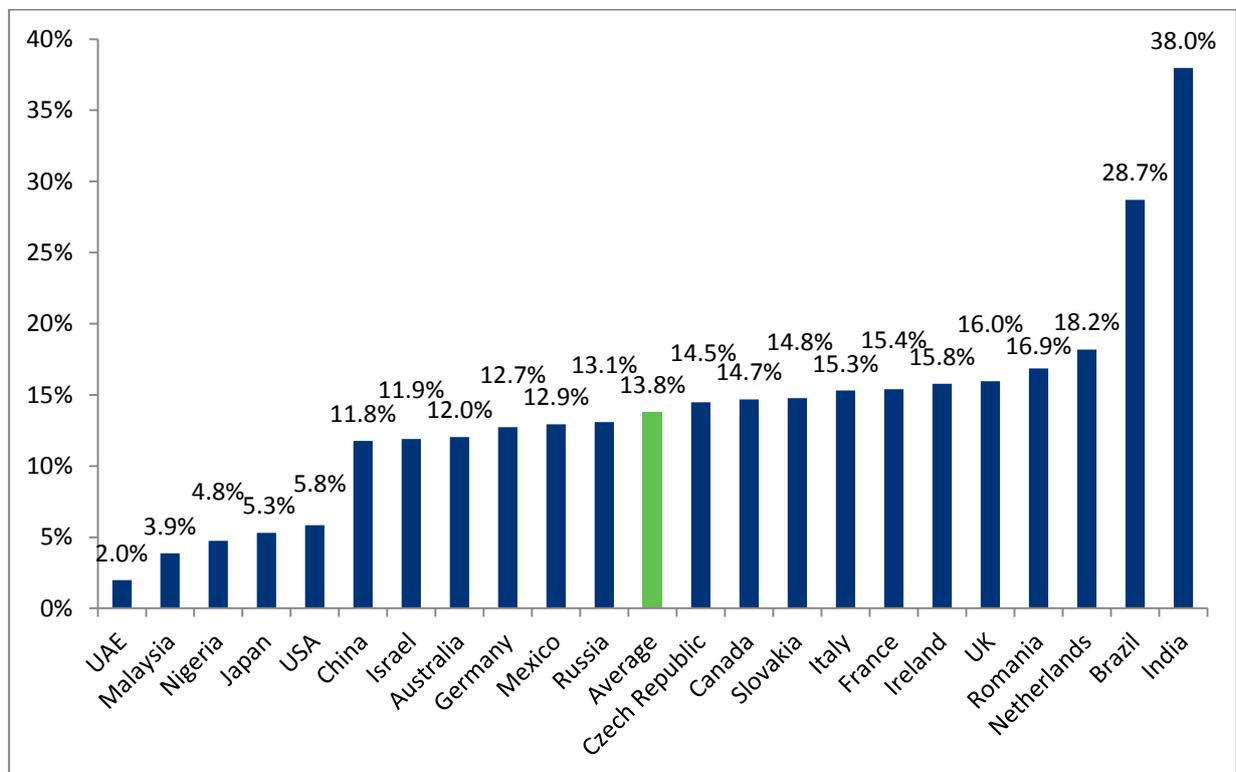


Figure 1 - Percentage of the total price of UHY's basket of goods that is tax, by country

Were it not for Brazil and India, European countries in the study would levy the highest levels of consumption tax – while also maintaining the highest burdens of direct taxation. European governments are responsible for an above-average proportion (15.5% versus 13.8%) of the total price of the basket of goods and services.

Following rises in direct taxes, European countries have also pushed up consumption taxes as they try to plug holes in the budget deficits. The UK (5<sup>th</sup> highest consumption taxes), France (7<sup>th</sup>), and the Netherlands (3<sup>rd</sup>) have all recently increased their consumption taxes.

BRIC governments are responsible for an average of 22.9% of the price of the whole basket of goods and services, compared to figures of 15.5% for European governments, 12.3% for the G8 governments, 8.2% for the Asia-Pacific governments, and just 5.8% in the US.



### 3 – EVERYDAY ITEMS

One of the common criticisms of consumption taxes is that they have a disproportionate impact on those on low incomes. Consumption taxes can form significant parts of the total price of necessary or everyday goods, which in turn, can form a large proportion of a low-earner's outcome. Everyday or necessity items in the study include bread, a newspaper, children's clothing, an electricity bill, and a litre of petrol.

On basic items, some countries take a very progressive approach, charging no sales or consumption taxes at all. For example, for a loaf of bread, half the countries charge no tax (see figure 2). Perhaps surprisingly, only two European countries – the UK and Ireland – have made bread free from sales taxes. Romania's government charges the highest levels of consumption tax on bread and is responsible for 19.4% of the total price of a loaf.

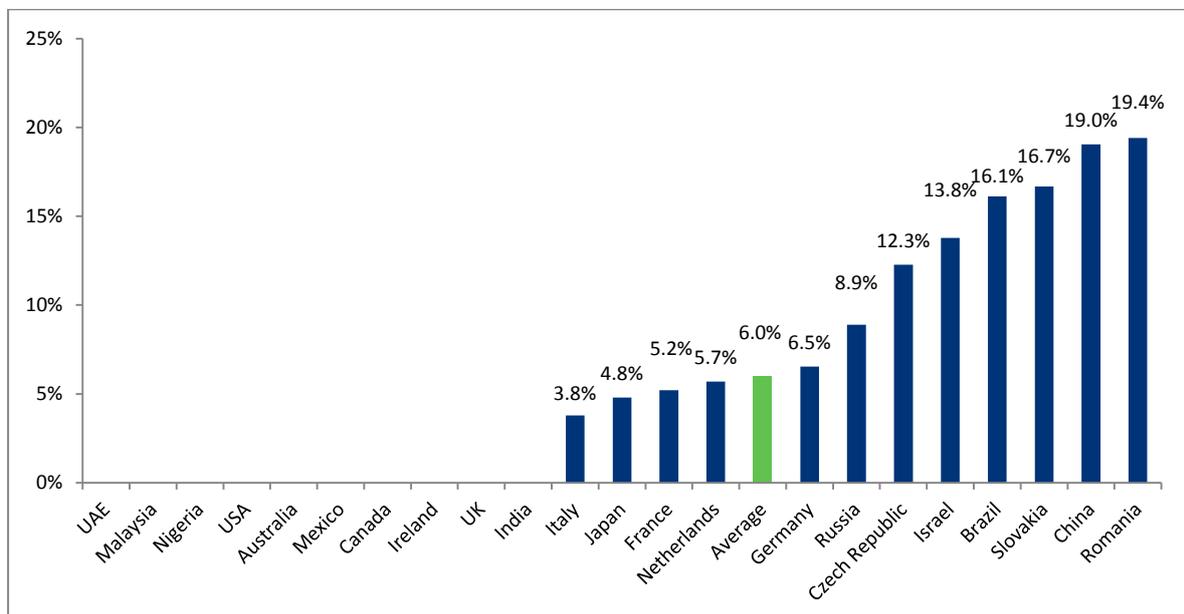


Figure 2 - Percentage of the total price of a loaf of bread that is tax, by country

Newspapers in the UK, France, Mexico, Ireland, Germany, and Italy have a reduced sales tax applied. Brazil's government meanwhile levies the highest taxes, being responsible for 32.3% of the cost of a paper. The average for this item is 9.1%.

In countries such as Australia, where consumption taxes are typically low (Australia recently introduced an across-the-board General Sales Tax of 10%) there is less need to offer a reduced rate.

European governments levy substantially higher than average taxes on the price of a litre of petrol (see figure 3). There are six countries in the study where over 50% of the price of a litre of petrol is made up of taxes: Ireland (60.5%); France (59.1%); Germany (58.5%); Italy (57.8%); the UK (57.7%); and the Netherlands (50.2%). The average proportion of the price of a litre of petrol attributable to taxes is 36.2%

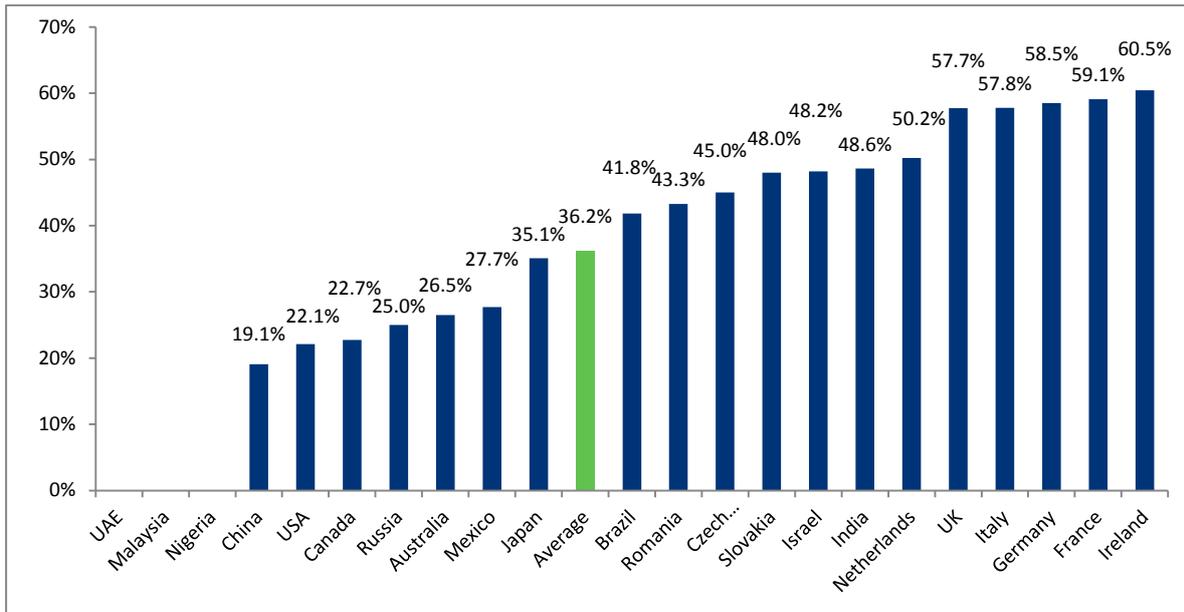


Figure 3 - Percentage of the total price of a litre of petrol that is tax, by country

After Brazil, Germany has the highest taxes on energy bills, with the government responsible for 24.6% of a typical bill. As with bread, some countries offer a discounted rate for this item, including the UK and Ireland. The average proportion of the price of a typical energy bill made up of taxes is 13.1% (see figure 4).

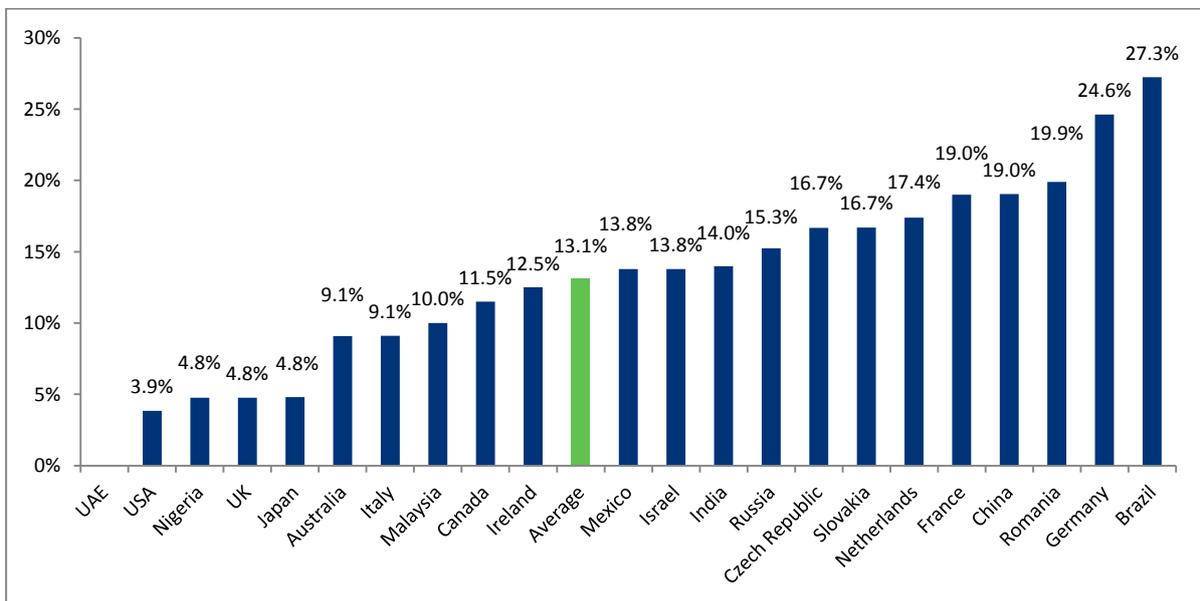


Figure 4 - Percentage of the total price of a typical energy bill that is tax, by country

The UK and Ireland are two countries who feel that it would be politically dangerous to introduce sales taxes on children’s clothing: the two countries are two of just four countries in the study (as well as Russia and Canada) to reduce their taxes for this item. Brazil has the highest taxes on children’s clothing (27.2%), while the average for this item is just 11% (see figure 5).

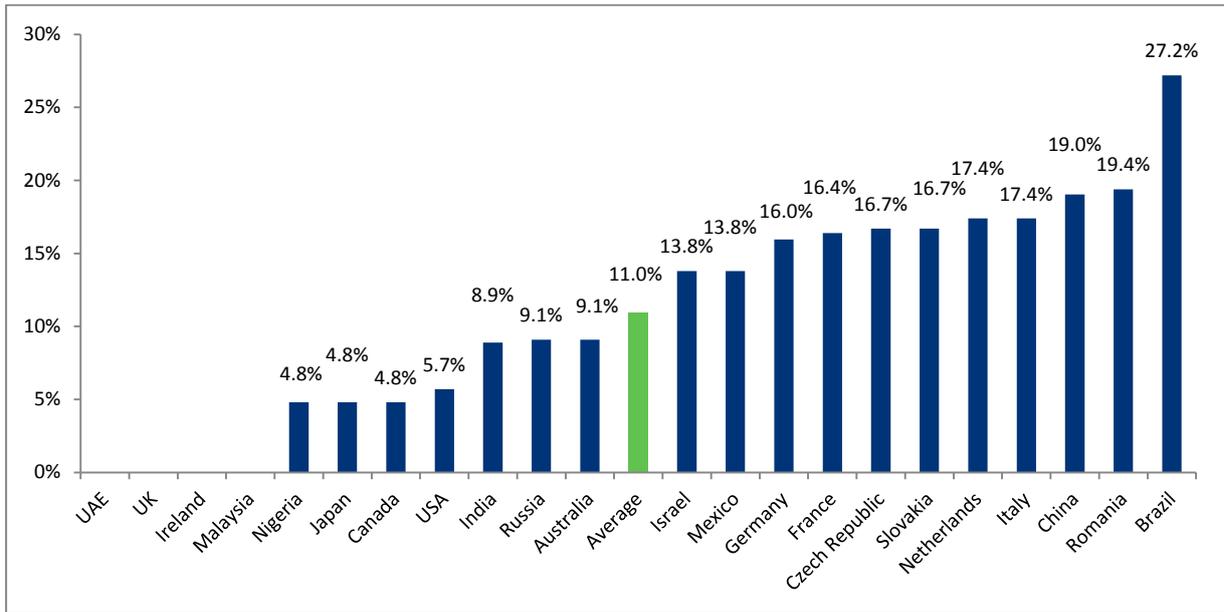
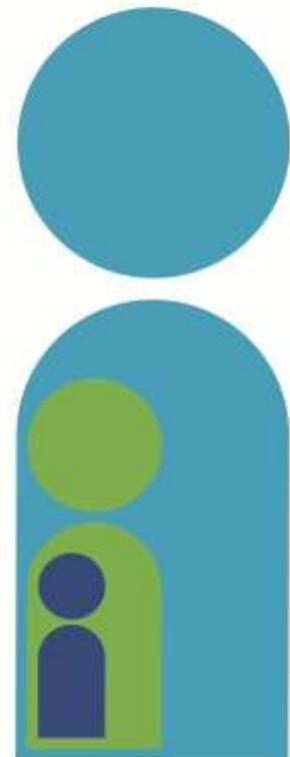


Figure 5 - Percentage of the total price of an item of children's clothing that is tax, by country



## 4 – LUXURY ITEMS AND EVERY DAY PERKS

As with tobacco and alcohol, higher rates of consumption taxes are often reserved for luxury or consumer goods. In this study, restaurant meals, mp3 downloads, CDs, chocolates, cinema tickets, iPads, international flights, and fruit smoothies are included in this category.

Discounts for these items are available (France, for example, operates a theatre tax that provides cinema-goers with a lower than usual tax on tickets) but countries often include extra taxes on these items too.

Several items in this category highlight the inflexibility of tax systems, particularly the difficulty sales and consumption tax systems can have with new forms of trade or new consumer trends.

For example, in several countries (India, Malaysia, Israel, Italy, and the US), mp3 versions of an album attract significantly lower consumption taxes than the physical version of the same album. For instance, in the US, an mp3 download attracts no sales tax while 5.7% of the price of a physical album is made up of tax.

iPads attract one of highest tax items in the whole study, with a global average of 14.8% of the price being made up of tax (see figure 6). Governments in Brazil (42.2%), India (31.5%), Romania (19.4%), and China (19%) each apply more than one tax to the product.

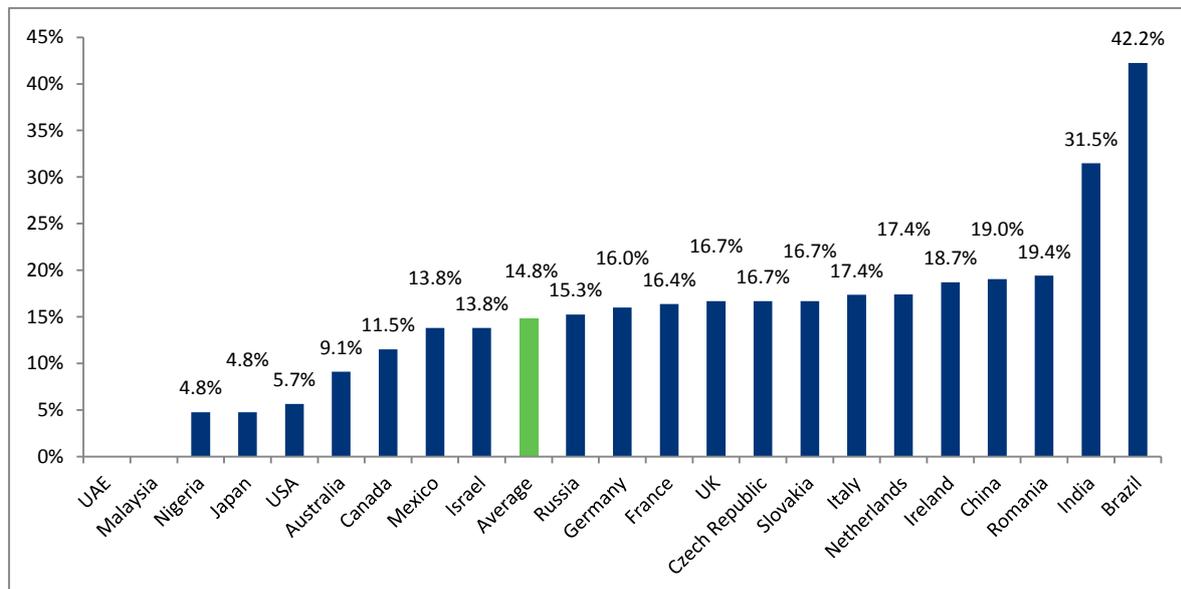


Figure 6 - Percentage of the total price of an iPad that is tax, by country

The sales tax treatment of restaurant meals and international flights varies across different countries: both items can be subject to sales taxes above or below the standard rates.

A ticket for an international flight, for example, attracts higher than usual taxes in India (50% of the ticket price is tax), Canada (33%), the Netherlands (28%), Australia (27.6%), the US (21.3%), and the UAE (11.1%) (see figure 7).

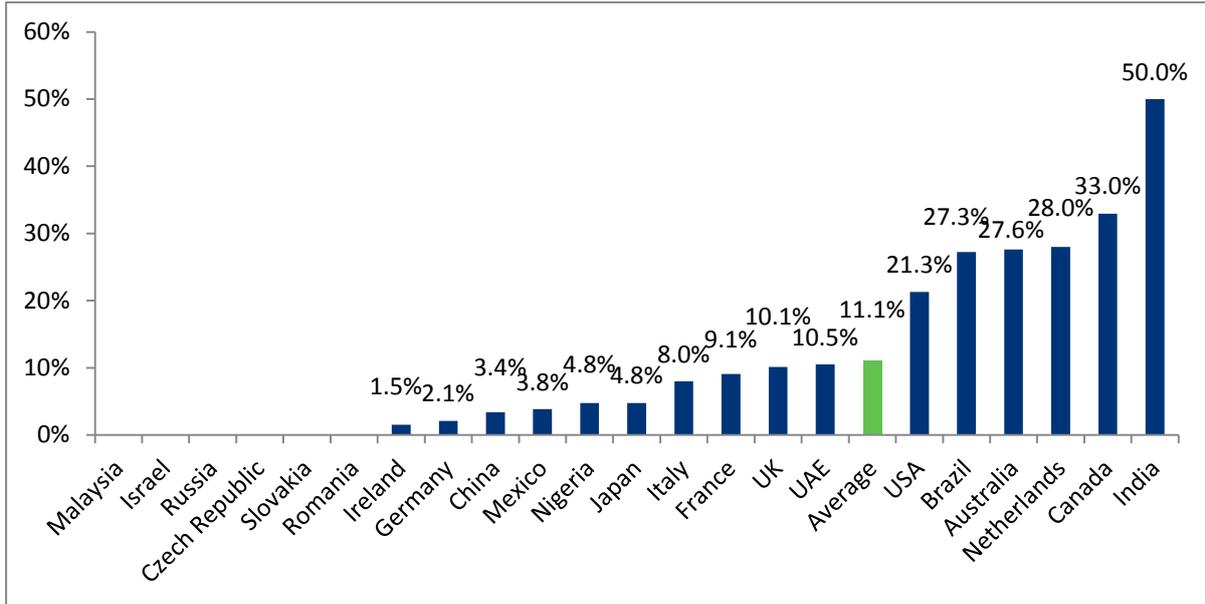


Figure 7 - Percentage of the total price of an international flight that is tax, by country

However, the overall global average tax for an international flight is just 11.1%, with countries such as the UK (10.1%), France (9.1%), Italy (8%), Germany (2.1%), and Ireland (1.5%) all charging significantly lower overall taxes on a ticket. Romania, Slovakia, the Czech Republic, Israel, Russia, and Malaysia charge no tax at all on flights.

For restaurant meals, a global average of 11.2% of the price of a family meal is made up of tax. Reduced rates of tax are available in countries such as China (5.6%), the Netherlands (5.7%), Ireland (8.3%), and France (9.8%), but higher rates than usual are applied in countries such as Malaysia (6%),

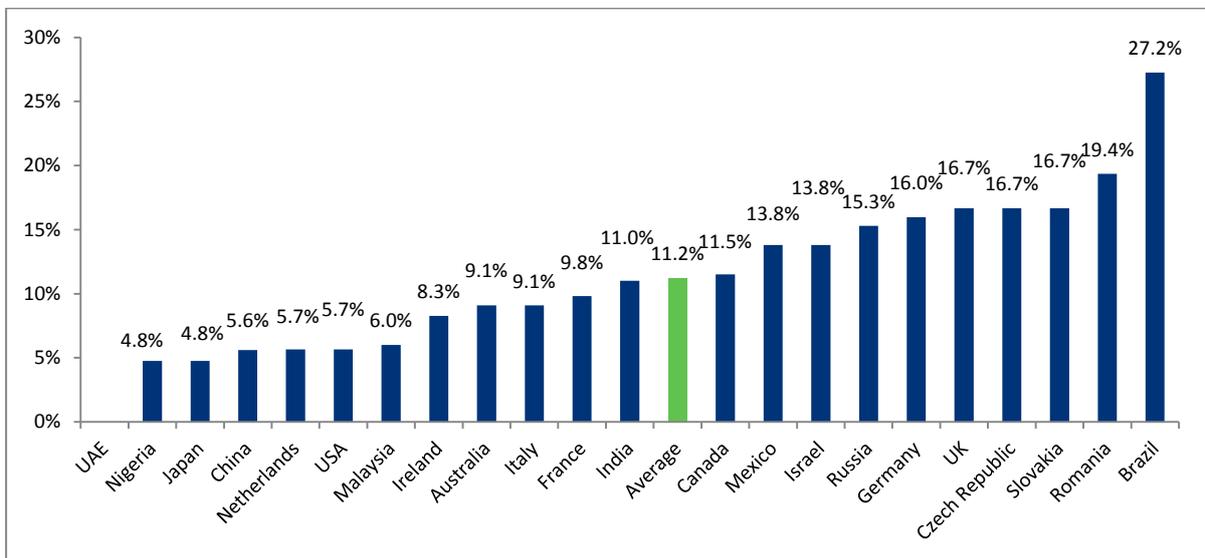


Figure 8 - Percentage of the total price of a restaurant meal that is tax, by country

Interestingly, professional services are one of the highest taxed items in the study, with a global average of 12% of the total price being made up of tax (see figure 9). Almost all countries apply their standard rate of consumption tax to professional services, while India and Malaysia both charge a higher than usual tax. In fact, in Malaysia, professional services are one of the few items in the basket that attracts a consumption tax.

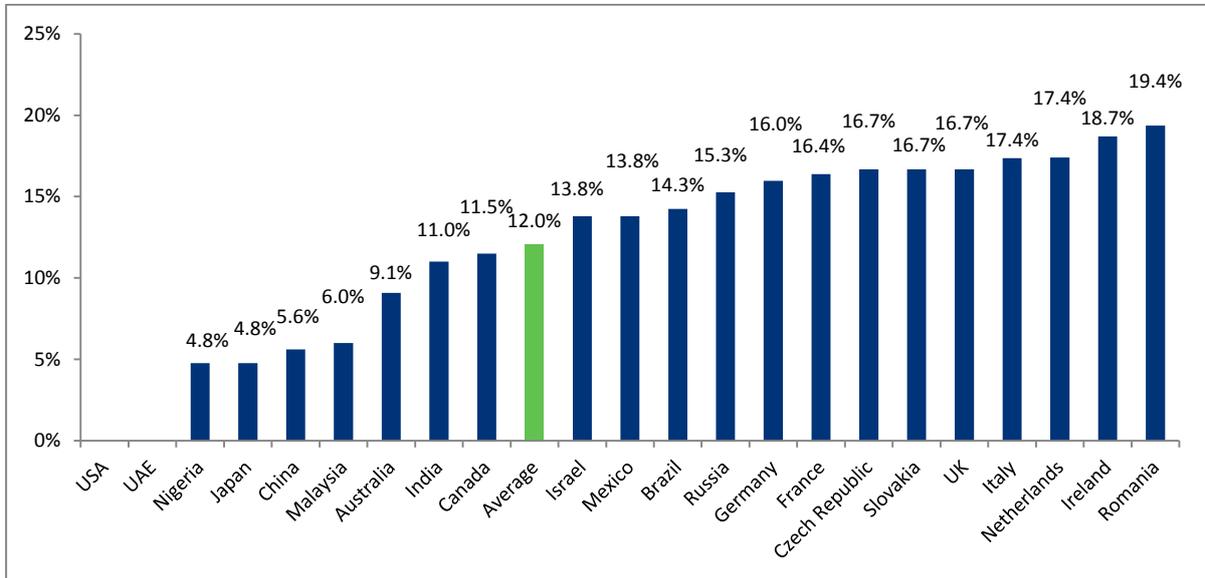


Figure 9 - Percentage of the total price of professional services that is tax, by country

The US and the UAE, however, do not apply any taxes on professional services.



## 5 – SIN TAXES

Of the items in the study, the highest consumption taxes are reserved for items not necessarily seen as contributing to the public good: in this case, cigarettes and alcohol. Countries with traditionally low or standard rates of consumption taxes typically reserve special rates for these items.

Cigarettes attract the highest consumption taxes in the whole study, with governments being responsible for an average of 51.25% of the total price of a packet (see figure 10). Almost all countries apply additional taxes on top of their standard sales or value added tax.

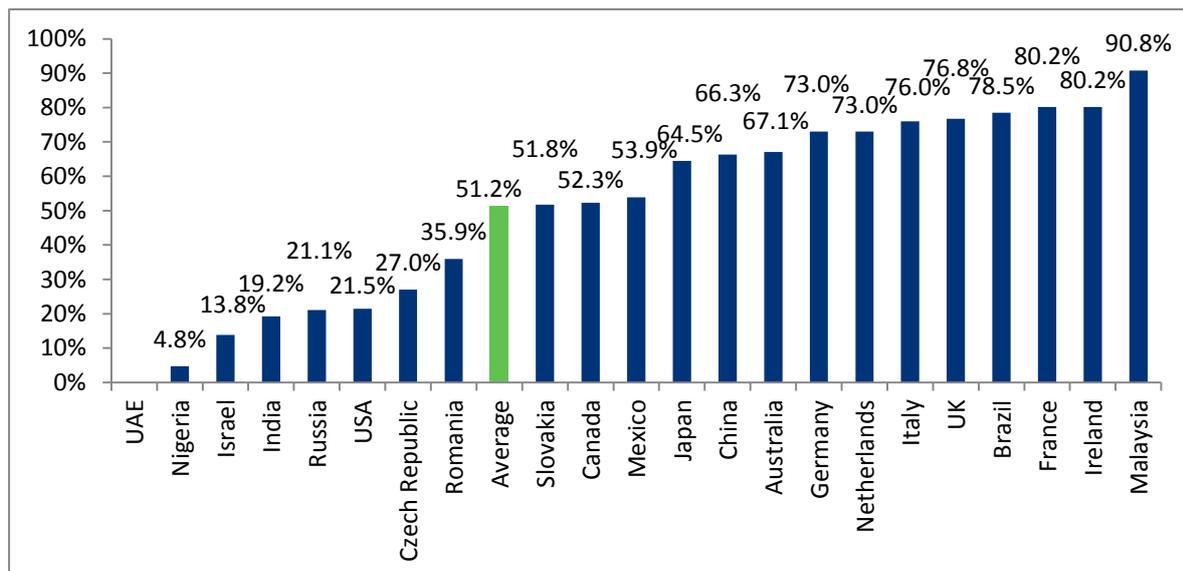


Figure 10 - Percentage of the total price of a packet of cigarettes that is tax, by country

Malaysia – one of the lowest taxing governments in the study, with only 3.9% of the price of the whole basket being made up of tax – has the highest taxes on cigarettes in the study. Fully 90.8% of the price of a packet of cigarettes in Malaysia is made up of taxes. Over half the countries in the study take at least half the cost of a packet of cigarettes in tax.

At the other end of the scale, the UAE charges no taxes on cigarettes, while Nigeria and Israel only levy the standard sales tax rate.

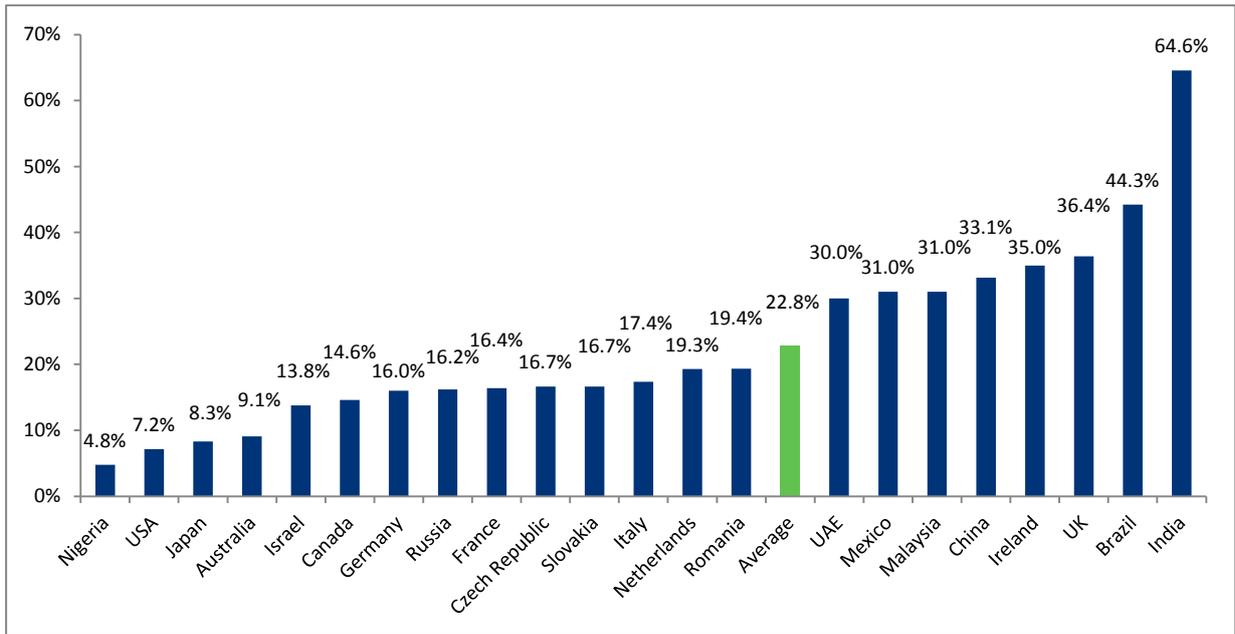


Figure 11 – Percentage of the total price of a bottle of wine that is tax, by country

The picture is similar for a bottle of wine, although the levels of tax are less extreme: the average proportion of the price of a bottle of wine that is tax is 22.8% (see figure 11).

India has the highest levels of tax on wine in the study, with 64.6% of the price being made up of tax. By contrast, Nigeria (4.8%), the US (7.2%), Japan (8.3%), Australia (9.1%), and Israel (13.8%) have the lowest levels of taxes on wine.

With public finances and the consumers under pressure, the question is whether European countries can continue to rely on these taxes to plug gaps in their budgets.

# ANNEX 1:FULL TABLE

Table 1 - Percentage of the total price of an item that is tax

COUNTRY	BREAD	CHOCOLATES	NEWSPAPER	ENERGY BILL	RESTAURANT MEAL	IPAD	PETROL	FLIGHT	SMOOTHIE	CIGARETTES	CHILD'S T-SHIRT	MP3	CDS	WINE	PROFESSIONAL SERVICE	CINEMA	OVERALL BASKET
AUSTRALIA	0.0%	9.1%	9.1%	9.1%	9.1%	9.1%	26.5%	27.6%	9.1%	67.1%	9.1%	9.1%	9.1%	9.1%	9.1%	9.1%	12.03%
BRAZIL	16.1%	32.3%	32.3%	27.3%	27.2%	42.2%	41.8%	27.3%	27.3%	78.5%	27.2%	27.3%	42.3%	44.3%	14.3%	14.3%	28.71%
CANADA	0.0%	11.5%	11.5%	11.5%	11.5%	11.5%	22.7%	33.0%	11.5%	52.3%	4.8%	11.5%	11.5%	14.6%	11.5%	11.5%	14.68%
CHINA	19.0%	19.0%	19.0%	19.0%	5.6%	19.0%	19.1%	3.4%	19.0%	66.3%	19.0%	19.0%	19.0%	33.1%	5.6%	3.4%	11.77%
CZECH REPUBLIC	12.3%	12.3%	12.3%	16.7%	16.7%	16.7%	45.0%	0.0%	12.3%	27.0%	16.7%	16.7%	16.7%	16.7%	16.7%	12.3%	14.47%
FRANCE	5.2%	5.2%	2.1%	19.0%	9.8%	16.4%	59.1%	9.1%	5.2%	80.2%	16.4%	16.4%	16.4%	16.4%	16.4%	15.6%	15.39%
GERMANY	6.5%	6.5%	6.5%	24.6%	16.0%	16.0%	58.5%	2.1%	6.5%	73.0%	16.0%	16.0%	16.0%	16.0%	16.0%	6.5%	12.74%
INDIA	0.0%	10.9%	9.3%	14.0%	11.0%	31.5%	48.6%	50.0%	11.0%	19.2%	8.9%	0.0%	9.7%	64.6%	11.0%	33.1%	37.97%
IRELAND	0.0%	18.7%	8.3%	12.5%	8.3%	18.7%	60.5%	1.5%	18.8%	80.2%	0.0%	18.7%	18.7%	35.0%	18.7%	8.3%	15.79%
ISRAEL	13.8%	13.8%	13.8%	13.8%	13.8%	13.8%	48.2%	0.0%	13.8%	13.8%	13.8%	0.0%	13.8%	13.8%	13.8%	13.8%	11.90%
ITALY	3.8%	9.1%	3.8%	9.1%	9.1%	17.4%	57.8%	8.0%	9.1%	76.0%	17.4%	3.8%	17.4%	17.4%	17.4%	9.1%	15.30%
JAPAN	4.8%	4.8%	4.8%	4.8%	4.8%	4.8%	35.1%	4.8%	4.8%	64.5%	4.8%	4.8%	4.8%	8.3%	4.8%	4.8%	5.33%
MALAYSIA	0.0%	15.0%	0.0%	10.0%	6.0%	0.0%	0.0%	0.0%	6.0%	90.8%	0.0%	0.0%	29.6%	31.0%	6.0%	25.0%	3.86%
MEXICO	0.0%	0.0%	0.0%	13.8%	13.8%	13.8%	27.7%	3.8%	13.7%	53.9%	13.8%	13.9%	13.8%	31.0%	13.8%	13.8%	12.93%
NETHERLANDS	5.7%	5.7%	17.4%	17.4%	5.7%	17.4%	50.2%	28.0%	5.7%	73.0%	17.4%	17.4%	17.4%	19.3%	17.4%	17.4%	18.18%
NIGERIA	0.0%	4.8%	4.8%	4.8%	4.8%	4.8%	0.0%	4.8%	4.8%	4.8%	4.8%	4.8%	4.8%	4.8%	4.8%	4.8%	4.75%
ROMANIA	19.4%	19.4%	8.3%	19.9%	19.4%	19.4%	43.3%	0.0%	19.4%	35.9%	19.4%	19.4%	19.4%	19.4%	19.4%	8.3%	16.86%
RUSSIA	8.9%	15.3%	15.5%	15.3%	15.3%	15.3%	25.0%	0.0%	15.3%	21.1%	9.1%	15.3%	15.3%	16.2%	15.3%	0.0%	13.09%
SLOVAKIA	16.7%	16.7%	16.7%	16.7%	16.7%	16.7%	48.0%	0.0%	16.6%	51.8%	16.7%	16.7%	16.7%	16.7%	16.7%	16.7%	14.77%
UAE	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	10.5%	0.0%	0.0%	0.0%	0.0%	0.0%	30.0%	0.0%	0.0%	1.98%
UK	0.0%	16.6%	0.0%	4.8%	16.7%	16.7%	57.7%	10.1%	16.6%	76.8%	0.0%	16.7%	16.7%	36.4%	16.7%	16.7%	15.97%
USA	0.0%	5.7%	5.7%	3.9%	5.7%	5.7%	22.1%	21.3%	5.7%	21.5%	5.7%	0.0%	5.7%	7.2%	0.0%	0.0%	5.84%
AVERAGE	6.01%	11.47%	9.14%	13.08%	11.21%	14.85%	36.22%	11.14%	11.45%	51.25%	10.95%	11.24%	15.20%	22.77%	12.04%	11.09%	13.83%



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