

## **Five Considerations in Tax Design:**

**A. Revenue: Revenue Neutral**

**B. Avoidance: Incentives**

**C Administration: Compliance & Evasion**

**D. Sectoral Issues/Market Failures: Pollution, Congestion,  
Accidents, Market Power**

**E. Equity: Fairness**

## **Four Main Types of Taxes**

### **A. Indirect**

**On Consumption: Excises, Sales Tax, VAT**

**On Trade: Tariffs**

### **B. Direct:**

**On Business Income: Business Income Tax, Corporate Profits**

**On Personal Income: Personal Income Tax, Schedular Taxes.**

## **UK: Cornish Pasties & the VAT**

**Telegraph, 3/27/12:**

**The tax status of Cornish pasties has caused an unexpected backlash against the Chancellor, after he imposed VAT on hot baked goods bought from supermarkets and bakers in the Budget.**

**Raising one potential problem, John Mann, a Labour MP, said a lukewarm pastry would be taxable in cold weather, but not in hot weather, because of different "ambient temperatures".**

**Mr Osborne insisted the tax made sense, but said the Government would not check the temperature of every pastry sold. "I am seeking to stick with the position that hot takeaway food has VAT on it," he said. "What we are trying to do is make sure that hot takeaway food has VAT on it.**

**"The way we operate with companies and large retail chains and the like is that we don't do a check on every product sold. We come to an agreement with companies over what proportion of their products are sold hot."**

## **Italy: Ferraris & the VAT**

**New York Times, 3/9/12:**

**Ferrari owners were becoming very concerned about the spot checks targeting high-end cars.**

**Others objected to the authorities' tactics. "Cars are already registered so there's no need to adopt terrorist tactics to verify ownership,"**

**On Wednesday, financial police officers stopped more than 100 people driving luxury cars during a series of raids in the Trentino Alto Adige region.**

**The Lamborghini Club's next meeting, scheduled to take place in Bolzano in April, could be at risk because "many members don't want to take their cars out in public anymore."**

**Besides, Mr. Nicoletto added, the controls are discriminatory "People who collect valuable art don't have the same problems, because they're not in the public eye".**

## **UK: Rebates and VAT Fraud**

**BBC: 11/11/11:**

**He simply invented more than 6,000 fake transactions to back up the refund claims submitted to the Revenue.**

**"Using details from hijacked or fictitious companies, the gang produced thousands of invoices for sales of mobile phones and computer software, producing billions of pounds in fabricated turnover, which generated around £330m in fraudulent VAT repayments."**

**The Revenue said that Cranswick had gone from "rags to riches" in just a few weeks, left his job as a policeman and started living an extravagant lifestyle.**

**He made "lavish improvements to his home, rented a luxury apartment in the Spanish town of Marbella and paid for private schooling and tennis lessons for his children."**

## **Issues in Indirect Taxation**

### **1. Consumption Taxes not Trade Taxes:**

- A. Consumption taxes avoid the incentive to move away from imports when they are cheaper than domestic production.**

### **2. Consumption Taxes not Taxation of Intermediates (Ring or VAT System):**

- A. Avoid cascading and arbitrary taxes on final goods**
- B. Avoid inefficient intermediate input substitution**
- C. Avoid inefficient vertical mergers.**

### **3. Danger: Poor Administration can Return System to Tariffs plus Excises.**

**R. M. Bird, J. M. Poterba and J. Slemrod, Fiscal Reform in Colombia (Cambridge, MIT, 2005).**

**A long history of tax reform, but “revenue driven”.**

**A VAT with many rates and inadequate administration.**

**High excises on petroleum products - should apply without VAT.**

**Narrow personal income tax, large informal sector.**

**Tax on bank debits.**