

Three Forms of Indirect Tax on Consumption: An Illustration

(Tax rate = 10%)

Economic activity	Farmer	Miller	Baker	Total
Basic transactions				
1. Sales	\$ 300	\$ 700	\$ 1,000	
2. Purchases	\$ 0	\$ 300	\$ 700	
3. Value added (sales - purchases)	\$ 300	\$ 400	\$ 300	\$ 1,000
Subtraction-Method Business Transfer Tax (BTT)				
4. Business Transfer Tax (10% of line 3)	\$ 30	\$ 40	\$ 30	\$ 100
Credit-Method VAT (VAT)				
5. Tax on sales (10% of line 1)	\$ 30	\$ 70	\$ 100	
6. Less: input tax on purchases	\$ 0	\$ 30	\$ 70	
7. Net VAT liability	\$ 30	\$ 40	\$ 30	\$ 100
Retail Sales Tax (RST)				
8. Retail Sales Tax	Exempt	Exempt	\$ 100	\$ 100

Credit-Method VAT: Exempting and Zero-Rating of Last Stage

(Tax Rate = 10%)

Economic activity	Farmer	Miller	Baker	Total
Basic transactions				
1. Sales	\$ 300	\$ 700	\$ 1,000	
2. Purchases	\$ 0	\$ 300	\$ 700	
3. Value added (sales – purchases)	\$ 300	\$ 400	\$ 300	\$ 1,000
Exemption of Last Stage (Baker)				
4. Tax on sales (10% of line 1)	\$ 30	\$ 70	Exempt	
5. Less: input tax on purchases	\$ 0	\$ 30	\$ 0	
6. Net VAT liability	\$ 30	\$ 40	\$ 0	\$ 70
Zero-Rating of Last Stage				
7. Tax on sales (10% of line 1)	\$ 30	\$ 70	\$ 0	
8. Less: input tax on purchases	\$ 0	\$ 30	\$ 70	
9. Net VAT liability	\$ 30	\$ 40	- \$ 70	\$ 0

- Input credits are allowed for zero-rated sales, but not for exempt sales
- Exemption of last stage eliminates tax only on value added at that stage
- Zero-rating of last stage eliminates tax on entire value of sales at all stages through credits at last stage
- Zero-rating is common for **exports**

Implications of Three Ways of Implementing Indirect Consumption Taxes

Subtraction-Method BTT	Credit-method VAT	Retail Sales Tax
Key Feature		
Business purchases are deductible	Taxes on business purchases are creditable	Business purchases are exempt
Revenue Implications		
Benefits of paying no tax on any slice of value added Exemptions (base erosion) Evasion	No benefit to not paying tax before the last stage Exemption (or evasion) at last stage loses only tax on value added at that stage Only zero-rating at retail level eliminates tax Exemption at prior stage <i>raises</i> total tax	Benefits of paying no tax Exemptions (base erosion) Evasion
Key Effect		
Taxes “slices” of value added	Most revenue collected before the last stage Taxes paid before the last stage “wash out” in credits Only tax at last stage matters	One “bite at the apple” (at the retail stage)
Political Implications		
Highly vulnerable to base erosion	Relatively invulnerable to base erosion	Highly vulnerable to base erosion

Multi-entry permits help thousands of parallel traders cross into HK daily

Many are Shenzhen residents carrying multi-entry permits, government sources say

Clifford Lo, Amy Nip and Stuart Lau

Monday, 17 September, 2012, 3:0



SHARE

1

0

Like

+1

4

0

Tweet

Comments

Email

Print

RELATED TOPICS

Mainland Visitors
Multi-entry permits
Shenzhen

MacBook Pro 15" 512gb

- Apple Store HK
 - HK\$ 21,688 (US\$2,763)
 - Apple Store CN ¥ 22,097
 - ≈ HK\$ 27,179 (US\$3,462)
 - VAT 17% 4,620
 - Net HK\$22,559 (US\$2,874)
 - Apple Store US US\$2,799

