

Governments endorse new OECD Guidelines on applying VAT across borders

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Governments from 86 countries have taken a key step towards preventing value added tax from weighing on trade while also safeguarding state revenues by endorsing the first internationally agreed framework for applying national VAT rules to cross-border transactions.

More than 250 high-level representatives of around 100 jurisdictions and international organisations attending the [Second Meeting of the OECD Global Forum on VAT](#) in Tokyo on 17-18 April endorsed a new set of OECD Guidelines for the application of VAT or GST (Goods and Services Tax) to international trade.

These International Guidelines seek to address the problems that arise from national VAT systems being applied in the context of international trade in an uncoordinated way. They set standards that ensure neutrality in cross-border trade and a more coherent taxation of business-to-business (B2B) trade in services.

“The endorsement of these Guidelines is a big step towards reducing double taxation and under-taxation in trade,” OECD Deputy Secretary-General Rintaro Tamaki told the Forum. “The Guidelines are good for the private sector and good for governments as they should boost both trade and tax revenues. I encourage countries to start using them from today.” See the Statement of Outcomes [here](#).

VAT is a major source of revenue for governments but becomes problematic when the tax is applied to international trade particularly in services as different tax jurisdictions often use different rules to determine which of them has the right to tax a transaction. This creates the risk of double taxation, which hurts trade, and under taxation, which hurts governments.

The Guidelines set standards in two key areas: ensuring VAT neutrality and making taxes on B2B trade in services destination-based. The first makes sure VAT targets private consumption and not businesses, so it has a neutral effect on production and levels the playing field for domestic and foreign businesses in cross-border trade. The second should ensure that B2B trade in services is only taxed in the country of the recipient of the service.

The OECD is working with all the Global Forum participants to extend its Guidelines to cross-border sales of services to private consumers (B2C), an area that is growing strongly with the rise in online shopping.

This OECD Global Forum on VAT also discussed the equity impact of VAT. Countries often implement reduced rates to alleviate burden on poorer households but discussions at the Global Forum confirmed that reduced rates are a very expensive way of providing support to the poor, particularly when compared to the use of targeted cash transfers.

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