



FISCAL AFFAIRS

VAT Refunds

IMF VAT WEBINAR SERIES

MARCH 22, 2022

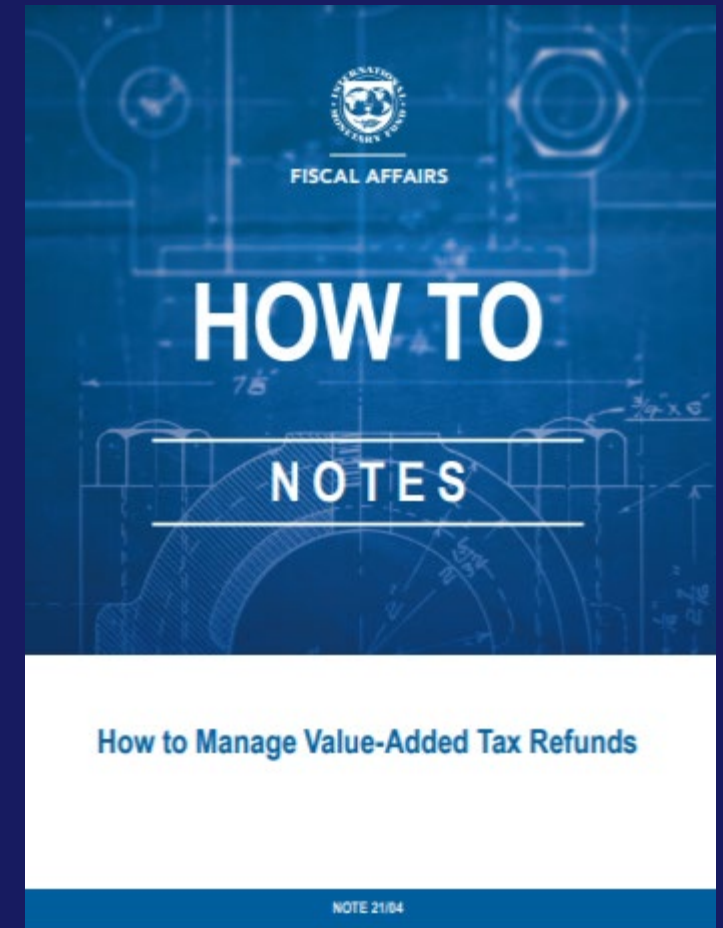
Debra Adams

Division Chief, Revenue Administration I

Views expressed are the author's and should not be attributed to the IMF, its management, or its Executive Board

Outline

- Rationale for, and policy implications of an effective VAT refund mechanism
- Revenue Administration (RA) aspects of VAT refunds
- Public financial management (PFM) aspects of VAT refunds

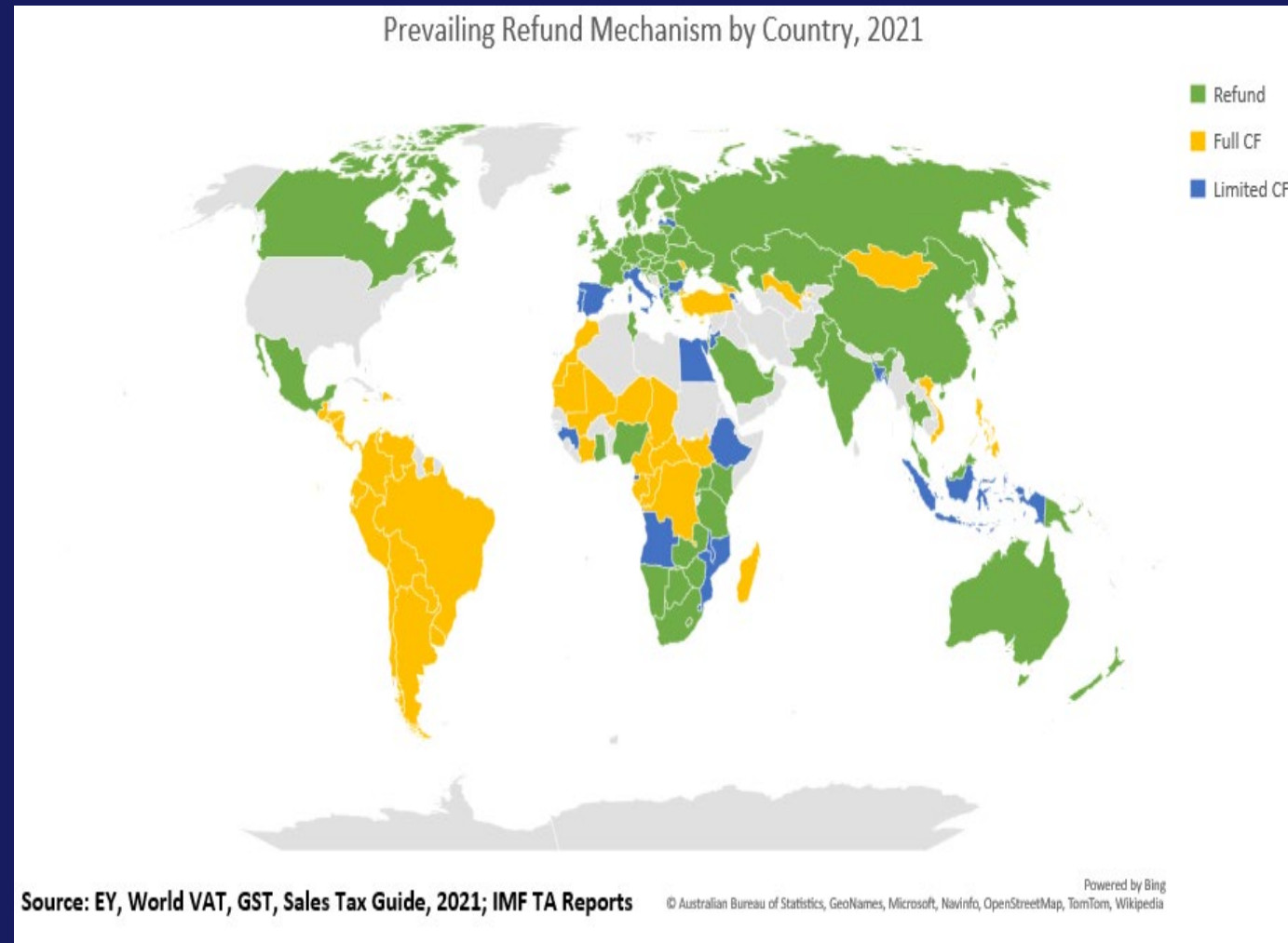


Basics –why VAT refunds?

- VAT design:
 - Multi-stage tax
 - Taxing final consumption
 - Destination basis
- Why excess credits?
 - Structural: exports, investment, build-up of inventory
 - Policy reasons: zero-rating of domestic supplies; flat rate schemes
 - Compliance: withholding, reverse charge mechanism

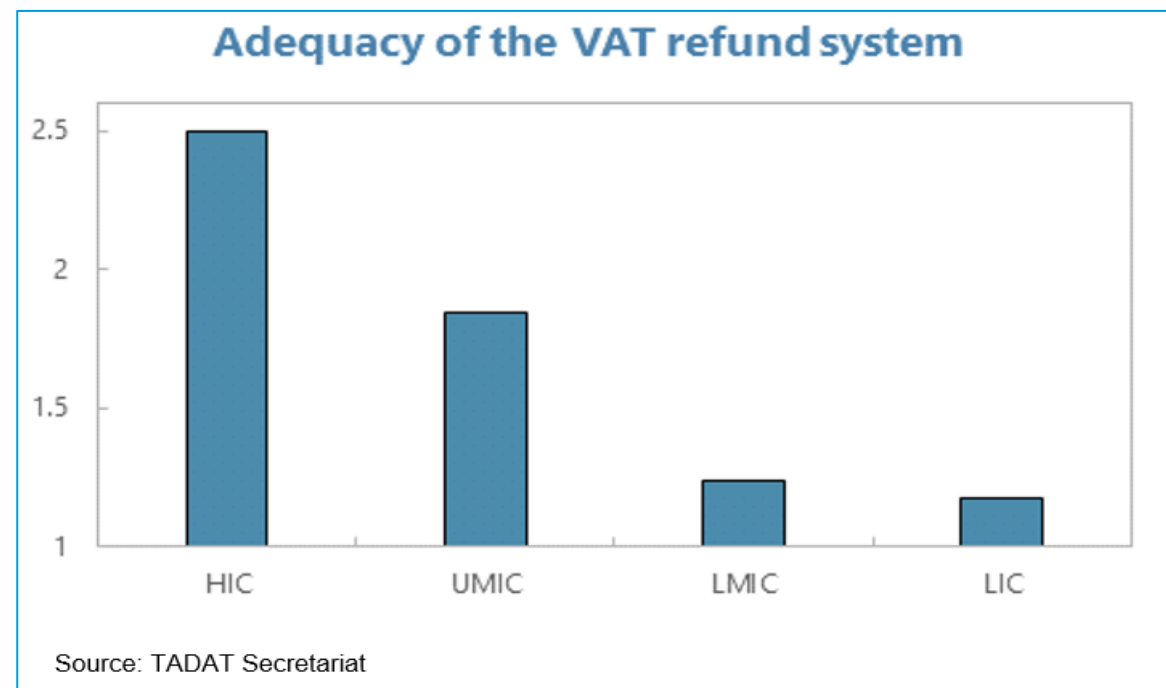
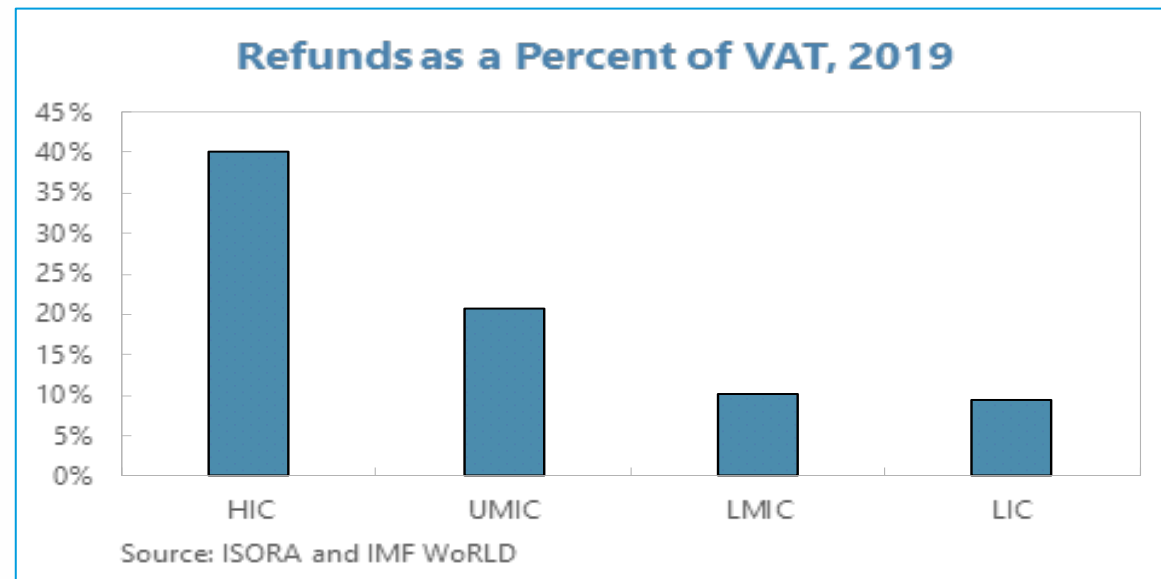
VAT refund mechanisms

- Three different approaches (often mixed):
 - Immediate refund
 - Limited carry-forward
 - Indefinite carry-forward
- VAT refunds typically paid in cash... but not always:
 - Tax certificates (tradable or not)
 - Government bonds (usually to clear large stocks of unrefunded credits)



Levels of VAT Refunds

- Low level of VAT refunds in low-income countries (especially Africa and Latin America):
 - ... often contrary to prediction based on economic structure
 - ... suggesting challenges in managing refunds (administrative and financing)
 - ... often pointing to accumulation of excess tax credits (though relying on credit carry-forward schemes is also a culprit)



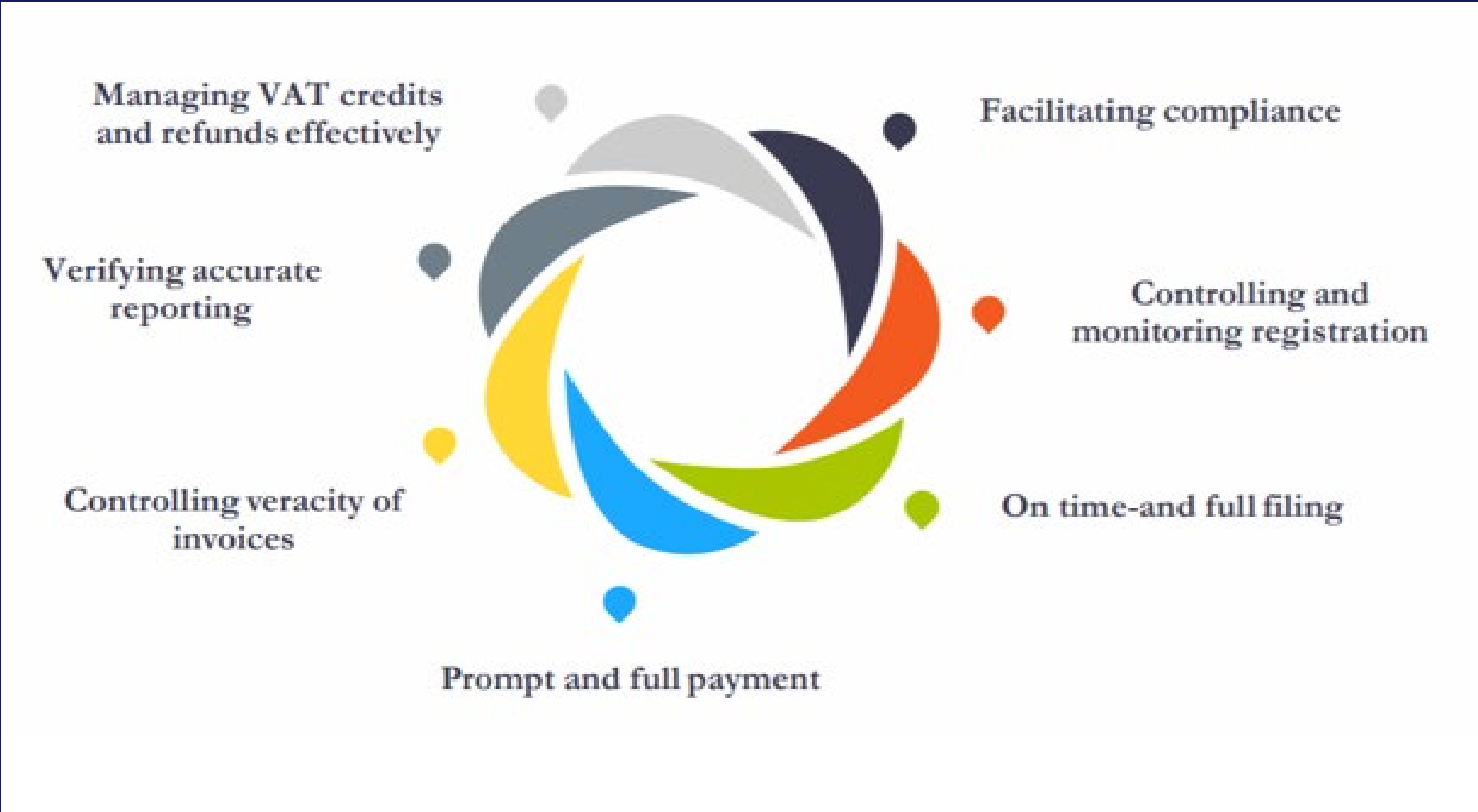
Addressing Refund Problems or Distorting VAT Design?

- Countries seek solutions to limit refunds (rather than fixing them) through objective or subjective reliefs:
 - Exemptions of imports
 - Zero-rating / reverse charge of domestic supplies
 - Deferral of import VAT
 - Deemed liability schemes
 - VAT grouping
- Are they effective? Not really:
 - Aggravated refund problem (more refunds, though smaller amounts)
 - More complexity, higher cost of administration and compliance
 - VAT design and productivity compromised; revenue leakage
 - ‘Preference creep’

Revenue administration aspects of VAT refunds

- Typically, many aspects of VAT administration need improvement in low-capacity countries
- From registration to accurate reporting; foundational issues that must be resolved
- Implementation of a broad VAT compliance risk management and anti-fraud strategy is key—no single intervention will resolve VAT refund fraud problems

VAT compliance risk management strategy – an integrated focus



Key elements of a VAT Anti-Fraud Strategy

- Measures to prevent fraud or tackle it at earliest opportunity, e.g., proactive pre- and post-registration checks, effective laws relating to tax invoices, e-invoicing, cross matching of data, etc
- Denying fraudsters access to the proceeds of crime
- Increasing financial risk for those who participate in or facilitate the fraud
- Implementing systems for collaboration and exchange of information, internally and internationally
- Developing HR and staff skills as to combat fraud

PFM Aspects of VAT refunds

Treasury

- Gross VAT (imports and exports) transferred to Treasury Single Account (TSA) daily
- Zero-balance TSA subaccount established to receive full amount required by tax administration for payment of VAT refunds periodically—tax administration responsible for authorizing use of these amounts for refunds and in accordance with its risk-based verification procedures

Budget

- Only net VAT available for funding government expenditure: VAT refunds and gross VAT presented in budget statements for information purposes

Debt, Accounting, Statistics

- VAT refunds claims not processed or paid within authorized period included in government debt for accounting and statistical purposes
 - Every month, tax administration should report amounts (and age of claims) pending reimbursement after due date to accounting and statistics office – to be considered as government arrears

Thank you