



THE UNIVERSITY OF  
**WAIKATO**  
*Te Whare Wānanga o Waikato*

Department of Accounting

## **Working Paper Series**

**Reflections on the Introduction of Value  
Added Tax in the United Kingdom and  
Goods and Services Tax in New Zealand**

by

**Simon James and Clinton Alley**

Number 97

November 2007

MANAGEMENT SCHOOL  
*Te Raupapa*

The *Working Paper Series* is published by the Department of Accounting, University of Waikato, and is intended to provide staff, visitors and postgraduate students with a forum for publishing developing research. The opinions expressed in the various papers in the Series are those of the author(s) and are not necessarily endorsed by the Department. Working Papers are preliminary in nature; their purpose is to stimulate discussion and comment, and any feedback from readers would be welcomed by the author(s).

Correspondence concerning the submission of manuscripts and the receipt of copy may be addressed to:

The Editor - Working Paper Series  
Department of Accounting  
University of Waikato  
Private Bag 3105  
Hamilton, New Zealand  
Fax: 0064 (0)7 838 4332

Correspondence concerning the reproduction of, or comment on, any part of a Paper should be addressed to the author(s) concerned.

**ISSN 1173-7182 (Online)**

**ISSN 1177-7230 (Print)**

# **Reflections on the introduction of Value Added Tax in the United Kingdom and Goods and Services Tax in New Zealand**

**Simon James**

*School of Business and Economics, University of Exeter and Fellow of the Chartered Institute of Taxation United Kingdom*

**Clinton Alley**

*University of Waikato Management School, Hamilton, New Zealand*

## **1. Introduction**

Twenty-two years ago (in 1985) the New Zealand (NZ) Goods and Service Tax (GST) Act was enacted. The Value Added Tax (VAT) in the United Kingdom (UK) has now been operational for over thirty-four years. VAT and GST are now an accepted part of taxation policy. Such controversy as remains is concerned with specific issues rather than the existence of the tax itself. However the specific form the legislation takes in each country differs and the process of introducing the tax can in hindsight be evaluated in order to analyse the rules, methods and techniques that have proved to be most efficient and effective.

“Twenty years after introducing the world’s purest value-added tax, New Zealand continues to reduce exemptions to its ground-breaking Goods and Services Tax (GST), and survives to tell the economic tale.”<sup>1</sup> What is it about the introduction and operation of this consumption tax in NZ which has made it successful and stood the test of time? A fortuitous and remarkable insight has been given by four of the protagonists and exponents of the GST in NZ, each in their particular area of application, at the time of its introduction. This has provided a unique opportunity to draw on their reflections twenty years on, of the process that was applied, how it was applied and, in their opinion, why it was successful. Their comments on their specific areas of interest and concern which they managed or controlled, reveal ideology, rules, processes and methods. These will help countries struggling with the

---

<sup>1</sup> GST 2006 Conference, *The Context* statement, publicity document. Thursday, 16 November – Saturday, 18 November 2006 Wellington, New Zealand p1.

introduction or operation of a tax which has become a central part of the overall taxation system of over 140 countries<sup>2</sup> and will be enacted by many more in the future. The validity and effect of the introduction of the NZ GST can be further highlighted by comparing it with that of the VAT system which it followed.

The purpose of this paper therefore is to reflect on the original process, arguments and legislative differences for the introduction of VAT in the UK and GST in NZ and to assess, contrast and compare how they have been applied and justified by subsequent events.<sup>3</sup> Section 2 considers and contrasts the background and history of VAT and GST. Reasons for the introduction of VAT and GST are restated and assessed in Section 3. Some conclusions are drawn in Section 4.

## **2. A Brief History of VAT and GST**

VAT was originally introduced in the UK in 1973 at a standard rate of 10 %. In 1974 this was cut to 8 % but VAT was levied at an additional 'luxury rate' on a range of items at a rate of 25 % from 1975. The wide disparity between the two rates and the range of anomalies in the relative taxation of items falling in different categories led to the 25 % rate being reduced to 12.5 % in 1976. However the administration of the two rates remained difficult and further revenue was required to permit reductions in the rates of income tax. In 1979 therefore these two rates of VAT were amalgamated at 15 %. Much later, following the poll tax disaster,<sup>4</sup> a substantial slice of local government taxation was also replaced by a further increase in the rate of VAT to 17.5 % in 1991.

The VAT base has also been extended since 1973. An early change was that the original concession for food and drink did not seem to be quite so appropriate for confectionery, ice cream, soft drinks and potato crisps and they were duly subject to VAT from 1974. Other anomalies between goods and services subject to VAT and those not taxed continued to cause problems and some further extensions have

---

<sup>2</sup> Ibid.

<sup>3</sup> An earlier review was undertaken by Simon James (one of the authors of this working paper) in which he looked at aspects of the UK VAT that might be relevant to the way GST develops in Australia. See James, S.VAT/GST: The UK Experience Revisited in *Revenue Law Journal* Vol. 10 2000, Bond University. This working paper differs from the previous article in that the comparison and evaluation is with the NZ GST.

<sup>4</sup> See, for example, Smith, P. 'Lessons from the British Poll Tax Disaster,' (1991) 44 *National Tax Journal*, p421-436.

occurred since 1973. For example, imported services became taxable from 1978 and a further range of items from 1989.

One such issue that was quite noticeable was that originally meals that were eaten on the suppliers' premises were subject to VAT but 'take-away' meals were not, including the British staple of fish and chips. The result was a significant shift in restaurant meals to 'take-away' service and VAT was duly extended in 1984 to hot food consumed off the premises. After a range of entertaining but unsuccessful attempts to avoid the new provisions, such as free hot fish and chips to go with the VAT-free (cold) salt and vinegar, this change was generally accepted by taxpayers.

In the UK, the Government announced its intention to introduce a VAT some two years before it was to be operational. A Green Paper was published setting out detail of the proposals so that consultation could take place with those who would be affected by the new tax. That process of consultation continued for a 12 month period. This consultation resulted in a White Paper which set out the structure of the tax, draft clauses and schedules for further discussion. Richard Green, the expert in tax law on the NZ Advisory Panel, compared the time limits within which the changes were made:

The final result in the United Kingdom is a VAT that because of, among other things, exemptions and different rates, is much more complex than the New Zealand GST. The original proposal in the United Kingdom was also for a simple tax. The original aim was not achieved in that country to the same extent that it was in New Zealand. Perhaps the short period for refinement assisted that result!<sup>5</sup>

A contrasting feature of the introduction of GST in NZ, twelve years after the introduction of VAT in the UK, was the incredibly tight time limits within which submissions and recommendations had to be made. Treasury first looked at a value added tax for NZ in 1982. Through 1984-1986 senior treasury officials maintained the impression "...for the record that in no way was the Treasury pushing VAT, but merely responding to the wishes of the Minister by giving advice on how his wishes could be carried out."<sup>6</sup>

---

<sup>5</sup> Green, Richard. Consulting the Public in Developing a GST. In Krever, Richard and White, David (Editors) *GST in Retrospect and Prospect* Thomson Brookers (2007) Wellington p24.

<sup>6</sup> Dickson, The NZ GST Policy Choice: an Historical Perspective. In Krever, Richard and White, David (Editors) *GST in Retrospect and Prospect* Thomson Brookers (2007) Wellington p50.

A further contrast was the nature of the consultative process which in NZ was aimed at improving the quality of the product (GST) that was being introduced. “It was a consultative process – ‘how do we make it better?’ – rather than a consensus building exercise – ‘how can we buy your opposition off?’ ”<sup>7</sup>

In 1984 when GST was first mooted in NZ as Roger Douglas<sup>8</sup> has since stated “...we were faced not only with a number of serious economic problems but a tax system that was a mess, created by decades of ad hoc decisions and bad political compromises.”

A *White Paper* outlining the proposals for the administration of GST was published in March 1985. The paper provided a simple technical description of the way the tax was to be applied, and the tasks which would be required for business and self-employed people. Submissions were allowed until May 17. An Advisory Panel (also called a consultative committee by the then Minister of Finance Roger Douglas) was formed of a past Reserve Bank Governor who had stood against the Labour Party in the 1984 election, an expert in tax law and a well respected retailer. This Advisory Panel was to report back to the Minister of Finance by 31 May 1985. This *First Report* was presented on 4 June 1985. In three weeks the Panel analysed 1,067 written submissions and in writing their report helped create a bond of understanding between business and government. A second paper envisaged in the *White Paper* was published 6 June 1985 with submissions due by 27 June. In fact submissions allowed on the *White Paper* beyond 17 May 1985 were covered in this second paper. The Advisory Panel’s *Second Report* was issued in July 1985. Although the original proposal was to introduce GST on 1 April 1986 this was deferred until 1 October 1986. The GST Co-ordinating Office opened in June 1985 and closed 18 months later in December 1986. The task of this office was to develop and implement the public education and information program and to coordinate the overall introduction. As with the Advisory Panel a three person team was appointed to the Co-ordinating Office; a senior partner in Price Waterhouse (with no political profile), a public figure who at the time was running a PR consultancy firm and a senior analyst with experience of the UK VAT system.

---

<sup>7</sup> Douglas, Hon Sir Roger. The New Zealand GST Policy Choice and its Political Implications. In *GST in Retrospect and Prospect* Editors Krever, Richard and White, David. Thomson Brookers (2007) Wellington p8

The use of this Co-ordinating Office was a further contrasting feature in the GST introduction. Many years later Roger Douglas would state:<sup>9</sup>

...the establishment of a GST Co-ordinating Office to explain GST to the people was vitally important. They did not have a particularly easy job, given it was the people who would pay the tax...without the office, acceptance which went from 35% to 65% within two weeks of introduction, would never have occurred.... An important political lesson that came out of this process was that you should “never fall into the trap of selling the public short.” Successful reform does not become possible until you trust, respect and inform the voters. You have to put them in a position to make sound judgments. That’s what the GST Co-ordinating Office managed to do.

It is interesting to note how GST was named in NZ; “The IRD wanted to call it value added tax but the Treasury strongly opposed that. This was because we wanted to make a clear distinction from the British VAT that had received a lot of adverse publicity in New Zealand over the years.”<sup>10</sup>

The GST Act came into force on 1 October 1986 at a rate of 10% along with a reduction in the top personal income tax rate to 48%, an increase in personal rebates, the introduction of the Family Support Tax Credit for low-income workers and beneficiaries and a 5% increase in benefit levels. It allowed the abolition of an antiquated Wholesale Sales Tax. This tax had imposed a dozen different specific and seven ad valorem rates from 10%-60% on an arbitrary selected one-third of total personal consumption. It distorted both production and consumption, virtually ruining for example the boat-building and caravan industries.<sup>11</sup> In 1988, following the share market crash (1987), the GST rate was raised to 12.5% eight months after a reduction in the top personal income tax rate to 33%. No compensation was given in higher income tax rebates or Family Support Tax Credits. In the following months, the Minister of Finance was sacked and the Prime Minister resigned.<sup>12</sup>

---

<sup>8</sup> Douglas, Hon Sir Roger. The New Zealand GST Policy Choice and its Political Implications In *GST in Retrospect and Prospect*. Editors Krever, Richard and White, David. Thomson Brookers (2007) Wellington p4.

<sup>9</sup> Douglas, Hon Sir Roger. The New Zealand GST Policy Choice and its Political Implications. In *GST in Retrospect and Prospect*. Editors Krever, Richard and White, David. Thomson Brookers (2007) Wellington p9-10.

<sup>10</sup> Dickson, The NZ GST Policy Choice: an Historical Perspective. In Krever, Richard and White, David (Editors) *GST in Retrospect and Prospect* Thomson Brookers (2007) Wellington p50.

<sup>11</sup> Douglas, Hon Sir Roger. The New Zealand GST Policy Choice and its Political Implications In *GST in Retrospect and Prospect*. Editors Krever, Richard and White, David. Thomson Brookers (2007) Wellington p6.

<sup>12</sup> For a more in depth study see Stephens, R , *Flattening the Tax Rate Scale in New Zealand*, in Head, j and Krever, R (editors), *Flattening the Tax Rate Scale: Alternative Scenarios and Methodologies* Melbourne: Longmans (1990)

### 3. Assessing the Reasons for the Introduction of VAT and GST

Although many reasons for introducing VAT were put forward in the UK the main ones consisted of a desire for a tax:

- that was broadly based;
- on consumption (an indirect tax);
- that promoted harmonisation;
- that made a contribution to balance of payments policy and
- was self-enforcing.

In NZ in 1984 there was general consensus within the Government that:<sup>13</sup>

- a switch from direct taxes to more indirect taxes was necessary;
- any package would need to be self-balancing;
- the reform package had to be seen to be fair;
- any new tax had to be as simple to operate as humanly possible;
- a new tax needed to be broad-based so that the rate could be as low as possible; and
- tax reform would see the end to the wholesale sales tax and the distortions to both production and consumption that it had brought about.

These are discussed below.

#### *A broadly based tax*

One of the main arguments for VAT was a more general one that taxes should not distort economic behaviour by different taxation of different economic activities.<sup>14</sup>

There was, therefore, a case for broadly based taxes rather than a series of specific taxes on particular products. Historically, indirect taxation developed as the taxation of goods rather than services<sup>15</sup> for straightforward reasons. In less developed economies goods were more easy to see, value and tax, than were services. Furthermore service industries in general were a less important part of overall economic output than they were in more advanced economies. In the UK, goods had been subject to Purchase Tax but over a period of time goods as a proportion of economic output had declined and with it the indirect tax base. The anomaly that goods should be taxed but not services became increasingly obvious as the service sector expanded. In the UK this led to the introduction in 1966 of an ill-fated attempt

---

<sup>13</sup> Douglas, Hon Sir Roger. The New Zealand GST Policy Choice and its Political Implications. In *GST in Retrospect and Prospect*. Editors Krever, Richard and White, David. Thomson Brookers (2007) Wellington p4

<sup>14</sup> For further analysis see, for example, James, S and Nobes, C. *The Economics of Taxation*, (7<sup>th</sup> ed., (revised and updated in 2006), Prentice Hall).

<sup>15</sup> For further discussion see, for example, Webber, C. and Wildavsky A., *A History of Taxation and Expenditure in the Western World*, (1986, Simon and Schuster).



to redress the balance. This was the Selective Employment Tax (SET), soon dubbed the ‘Silliest Ever Tax’, by which all payrolls were taxed, but the tax was refunded to manufacturing industry.<sup>16</sup>

The UK Government’s *Green Paper* proposing the introduction of VAT therefore stated that the existing system had become too ‘complex and discriminatory’. It was therefore intended to replace the existing ‘system of indirect taxation by a more broadly-based structure which, by discriminating less between different types of goods and services, would reduce the distortion of consumer choice.’<sup>17</sup>

Looking back it is clear that the aim of a very broadly based tax was not met from the beginning. To secure its political acceptability many concessions were made either by exempting items from VAT or by subjecting them to a zero-rate of VAT (which meant the producers could claim back tax on their inputs but did not have to charge their customers VAT. Zero-rating is therefore more favourable than exemption). As a result of the extensive exemptions and zero rating only just over half of consumer expenditure was covered by VAT<sup>18</sup> and the proportion has not increased much since its introduction.

The effects of VAT on the distribution of income turned out to be less adverse than some had anticipated. Much of this was a result of ensuring that certain items such as food were free of tax whereas tax was levied on many forms of consumption that tended to be more the prerogative of those on higher incomes.

In NZ before 1985, each tax base had been eroded by a series of tax exemptions, incentives and rebates. The 1984 budget estimated that personal income tax expenditures (that is tax exemptions, incentives and rebates) amounted to 9.1% of personal income tax revenue, with the majority of these going to upper income groups.<sup>19</sup> The narrowest tax base was for goods and services with a wholesale sales tax that excluded the service sector as well as value added by retailers.

---

<sup>16</sup> For an analysis see, Reddaway, W.B *Effects of the Selective Employment Tax* (1970 *First Report*, HMSO, 1973, *Final Report*, Cambridge University Press).

<sup>17</sup> *Value-added Tax*, (1971, HMSO, London, Cmnd. 4621) p3.

<sup>18</sup> Davies, E.H. and Kay, J.A. ‘Extending the VAT Base: Problems and Possibilities’ (1985) 6 *Fiscal Studies*, p1-16.

<sup>19</sup> Douglas, Roger, Minister of Finance, *Budget 1984, Financial Statement* (Wellington: Government Printer, 1984)

To quote Roger Douglas<sup>20</sup> “The decision to go for a quality product - by that I mean to have a value added tax that had virtually no exemptions - was fundamentally important. This determination was clearly demonstrated by the inclusion of the government sector in the tax base and our treatment of residential dwelling, local government and tourism.” Few goods and services fall outside the tax net and those that do, for example domestic rental accommodation and financial services were made exempt for practical reasons (such as reduction in the cost of compliance).

There was much debate on the regressive nature of taxing for example food and clothing. The argument to justify the inclusion of food and clothing is summarised by Dickson:<sup>21</sup>

Low-income households consume a greater proportion of their income in the form of food. The bottom 20% of households allocated between 23% and 29% of their budgets to food. By comparison, the top two deciles spend between 7% and 10% of weekly expenditure on food. When expressed as a percentage of income, the progressive nature of income tax together with savings behaviour would make these percentages even more extreme. Yet there is another way of looking at the same issue. If you look at how much is actually spent on food and then ask yourself the question “who spends the most?” you find that upper income houses spend twice as much as low-income households. After all, that is what it means to be poor. You have a lower level of command over resources. So, of every \$100 spent on food in New Zealand, the least well-off spend \$6.50, whereas the most well-off spend \$12.

The weekly child supplement - family benefit - was then \$6. It was very easy therefore to say to people “well if you want food exempt, that is no different from paying a \$6 family benefit to low income families and a \$12 family benefit to high income families”. But on the other hand, if you taxed all food you would make available a far greater amount of revenue to be redistributed by way of income supplements to the poor. Presented in that form, by a Government that had credibility and was listening to what people were saying, it was an argument that could be won.

“Only 15% of the benefit from an exemption for food in New Zealand would have gone to the bottom 20% of households by income. Eighty-five percent of the benefit would have gone to 80% of households who were better off than those people.”<sup>22</sup>

Jeff Todd of the GST Co-ordinating Office has stated that the limited exemptions feature, perceived fairness of the tax and the associated reforms greatly simplified the

---

<sup>20</sup> Douglas, Hon Sir Roger. The New Zealand GST Policy Choice and its Political Implications In *GST in Retrospect and Prospect* editors Krever, Richard and White, David. Thomson Brookers (2007) Wellington p4.

<sup>21</sup> Dickson, The NZ GST Policy Choice: an Historical Perspective. In Krever, Richard and White, David (Editors) *GST in Retrospect and Prospect* Thomson Brookers (2007) Wellington p51.

<sup>22</sup> Douglas, Hon Sir Roger. The New Zealand GST Policy Choice and its Political Implications In *GST in Retrospect and Prospect* editors Krever, Richard and White, David. Thomson Brookers (2007) Wellington p8.

task of selling the GST and were key to its successful implementation.<sup>23</sup> “The exemptions issue was perhaps the most important and the most difficult. Why not exempt necessities? We were well aware of the complications that arise when exemptions are introduced and boundaries set between taxable and exempt items.” In the UK children’s clothing is not subject to VAT but there are complex problems in drafting the rules that set the boundaries. For example from a literal interpretation of the rules for exemption of children’s clothing in the UK “one could conclude that a young child’s non-humorous hat trimmed with one-sixth untanned dog skin would be safely exempt from the tax. But a child’s coat one quarter trimmed with Mongolian goat skin would undoubtedly be subject to VAT.”<sup>24</sup>

### *Moving from direct to more indirect taxes*

Around 1984 NZ’s tax revenue was heavily reliant on direct tax, especially personal income tax which was 64% of total tax revenue. Total indirect taxes including wholesale sales tax was 25.2%. In 2006 personal income tax had dropped to 42.6% of total tax revenue, GST was 25.1% and other indirect taxes 8.4%, making a total for indirect taxes of 33.5%. There had been an increase of over 10 points in company taxes.<sup>25</sup>

For a single person on average earnings the average tax rate rose 13.9% in 1965 to 23% in 1972 and 26.7% in 1982. The marginal tax rate had risen from 20% to 33% over the same period. At twice average earnings, the average rate had risen from 21.1% in 1965 to 32% in 1982 and the marginal tax rate from 33% to 66%. In 1965 the top tax rate applied at 4 times average earnings. However by 1986 the 66% top tax rate applied at just 1.9 times average earnings.<sup>26</sup> The *McCaw Report* indicated that this had led to tax avoidance by the use of the black economy, fringe benefits, income splitting between family members and payment of tax-free dividends from capital reserves.<sup>27</sup>

---

<sup>23</sup> Todd, Jeff. Implementing GST – Information, Education, Co-ordination. In *GST in Retrospect and Prospect*. Editors Krever, Richard and White, David. Thomson Brookers (2007) Wellington p30.

<sup>24</sup> Todd, Jeff. Implementing GST – Information, Education, Co-ordination. In *GST in Retrospect and Prospect*. Editors Krever, Richard and White, David. Thomson Brookers (2007) Wellington p30.

<sup>25</sup> McLeod, R. Patterson, D. Jones, S. Chatterjee, S. and Sieper, E. *Tax Review 2001, Issues Paper* New Zealand Treasury, Wellington June 2001.

<http://www.treasury.govt.nz/taxereview2001/issuespaper/index.html>

<sup>26</sup> Stephens, R. The Economic and Equity affects of GST in New Zealand. In Krever, Richard and White, David (Editors) *GST in Retrospect and Prospect* Thomson Brookers (2007) Wellington p70.

<sup>27</sup> McCaw, P. *Report of the Task Force on Tax Reform* Government Printer, Wellington 1982.

In more recent years there has been a trend back towards the pre GST higher income tax percentages as a proportion of total tax revenue. They went down after the introduction of GST but are now creeping up again. Both the corporate and personal (individual) tax take percentages have increased in 2007 with corporate income tax being 16% and personal income tax being 44% of the total tax revenue. GST revenue is 19% and other indirect taxes 8% of the total tax revenue.<sup>28</sup> The percentage of indirect taxes to total revenue has dropped from 2006 to 2007, but this is most likely due to the increased total amount of income taxes taken. A reduction in the corporate tax rate from 33% down to 30% was signalled in the May 2007 budget, applying from 1 April 2008. A much anticipated reduction in the rates and/or thresholds for income tax of individuals is expected in the 2008 budget. Despite high rates of inflation and the resulting fiscal drag there has been no change in individual income tax rates or thresholds since the top marginal tax rate was increased from 33% to 39% for taxable income exceeding \$60,000 on the 1 April 1999. The so called “chewing gum” tax reductions for individuals mooted in the budget before the last election were never delivered. They were named the “chewing gum” tax reductions as the average personal taxpayer was destined to receive an increase in take home pay per week of around the cost of a packet of chewing gum. As there is another election due later in 2008 it is highly likely that in accordance with the “Vote Motive”<sup>29</sup> reductions to the income tax rates and/or thresholds will be seen in the 2008 budget. The “vote motive” suggests that changes in legislation are more likely to happen as a result of trying to buy votes at the time of a government election than being based on a desire to achieve the fairest, most efficient and effective tax system.

After the introduction of GST in Australia, the United States of America (US) remains the only member of the Organisation for Economic Cooperation and Development (OECD) without such a tax but has often examined it with interest. For instance, it was looked at carefully by Sullivan<sup>30</sup> and Lindholm concluded that ‘The new role of the British VAT in turning around the British economy promises to be a social

---

<sup>28</sup> Cullen, Hon Dr Micheal. *Key Facts For Taxpayers; Budget 2007* Government Printer Wellington 2007 p2

<sup>29</sup> The “Vote Motive” has been promulgated by Gordon Tullock as the equivalent in politics of the profit motive in business. See Tullock, G. *The Vote Motive* Revised edition, The Institute of Economic Affairs Westminster, London 2006

<sup>30</sup> Sullivan, C.K. *The Tax on Value Added* (1965, Columbia University Press).

engineering project of great interest to US Policymakers.<sup>31</sup> The more general European experience has also been assessed from a US viewpoint.<sup>32</sup> Cnossen in 2002, evaluated the US Retail Sales Tax from a VAT perspective.<sup>33</sup>

Apart from the US however<sup>34</sup>, the widespread adoption of a VAT testifies to its advantages. It has been successful as a consumption tax in the UK but is limited by its restrictive coverage, covering only just over half consumer expenditure (as indicated in the previous section).

### *Harmonisation*

One consideration for VAT was harmonisation with Europe. At the time of the discussion about the introduction of VAT, there were only six members of the European Economic Community (EEC) and each had adopted a VAT system. It was clear that they required a mutually acceptable system of indirect taxation that would operate without causing distortions to the trade between them. Furthermore the Scandinavian countries were moving in the same direction. The UK then had about 40 % of its trade with countries either having or proposing to have a VAT<sup>35</sup> so whether or not it joined the European Community the tax would be relevant to the UK. It also appeared that the ‘general experience of the tax [in 1971] in the seven countries which have adopted and operated it for a year or more is that, after the initial teething troubles, the tax is not found to be unduly difficult to work in practice’.<sup>36</sup>

The main difficulty is that Member States are often reluctant to give up control of taxation which provides not only their main source of revenue but is also a powerful instrument of economic and social policy. An interesting account of the European negotiations by Leonard Harris, as Director of VAT policy at Customs and Excise

---

<sup>31</sup> Lindholm, R. W. *The Economics of VAT: Preserving Efficiency, Capitalism and Social Progress* (1980, Lexington Books) p54.

<sup>32</sup> For example, by Aaron, H. J. (ed.) *The Value-Added Tax: Lessons from Europe* (1981, Brookings Institution).

<sup>33</sup> Cnossen, S. "Evaluating the National Retail Sales Tax from a VAT Perspective", in GR Zodrow and P Mieszkowski (eds), *United States Tax Reform in the 21st Century*, (Cambridge, Cambridge University Press, 2002),

<sup>34</sup> Burchell et al, (1985) may give some clues as to why the UK and NZ have such a tax and the USA does not. They “attempted to indicate how the processes underlying the value added event determined the character of discourse bearing the category value added.” See Burchell, Clubb and Hopwood, (1985) *Accounting in its social context: towards a history of value added in the UK*, *AOS*, Vol 10 No 4, 381-413) [p49 for the above quote].

<sup>35</sup> National Economic Development Office, *Value Added Tax*, (2<sup>nd</sup> ed., 1971 HMSO, London) at p. 4.

<sup>36</sup> *Value-added Tax*, (1971, HMSO, London, Cmnd. 4621) p9.

seems to reveal that concessions made are usually ones that do not affect the UK in any case.<sup>37</sup> For instance, in recording that the UK agreed to a minimum standard rate of VAT of 15 %, he pointed out the chances of the British Chancellor wanting to go below that were 'slim'. He went on to say that the UK agreed to the abolition of higher rates, which the UK does not have, and accepted a limit on the range of goods and services which Member States can include in their reduced rate bands, which the UK does not have either. On the other hand the UK protected the right to retain its zero-rate provisions so agreement was reached with little of any significance conceded at all!

Harmonisation was not a reason for the introduction of GST. However the zero rating of exports had a very desirable affect for NZ trade. Around the time of enactment of GST there was world wide disapproval of tariffs, trade barriers and direct subsidy of exports. However zero rating of exports of goods and services was an acceptable method of achieving the same purpose. Zero rating being the only complete liberation from GST. The registered supplier of the exported goods and services does not charge GST on those goods and services but can still claim back the input GST that was paid on the supply of those goods and services eg the purchase, manufacture, transport or selling costs. This is in contrast to exempt goods and service for which the registered supplier can not charge GST but they can also not claim any GST back on the supplies they purchased or used to produce and sell those exempt goods and services.

### *The balance of payments*

In the period prior to the introduction of VAT, the UK had been concerned with its balance of payments and deficits had been seen as a real problem. One of the arguments for change was that it would 'benefit the balance of payments, since VAT can more fully be remitted on exports'.<sup>38</sup> Some parts of the existing Purchase Tax were an indirect burden on exports and SET was often wholly unrelieved on exports.

VAT will have certainly reduced the tax burden on exports. However, since the introduction of VAT the value of the pound has normally been left to markets to

---

<sup>37</sup> Harris, L. 'Indirect Taxation and the Single Market', in M. Gammie (ed.) *Striking the Balance: Tax Administration, Enforcement and Compliance in the 1990s* (1996, Institute for Fiscal Studies, London) p165.

<sup>38</sup> *Value-added Tax*, (1971, HMSO, London, Cmnd. 4621) p5.

determine and the balance of payments has not been the policy concern that it was under a system of fixed exchange rates.

GST was introduced into NZ as a neutral tax (that is it was self balancing) The revenue generated was used to abolish wholesale sales tax and adjust the income tax system and the welfare support system such as the family tax credits. However a period of persistent and growing budget deficits had resulted in a substantial public debt, and servicing costs of up to 21.8% of government expenditure in 1984. By 1986 a more buoyant economy, tax base broadening and controls on government spending had lowered the deficit to 10% of spending. Since and especially in the last five years the deficit has been replaced by an ever increasing surplus.

*'Self-enforcing' and as simple as possible to operate*

A further benefit claimed for VAT was that it was 'self-enforcing' in a way that other indirect taxes were not. As VAT is paid at each stage of production, in order to claim credit for the VAT paid on its inputs against the VAT received on its outputs, a business would need to show, if required, that the VAT had been paid by its suppliers. 'One man's proof of purchases is evidence of another man's sales.'<sup>39</sup> There would be no incentive for two traders to fail to invoice a transaction between them since the purchaser's liability for VAT would be increased by the amount the supplier had not been recorded as paying. With an indirect tax levied at only one stage of production the whole of the tax is potentially at risk at that stage, whereas with VAT, theoretically at least, it is only the tax added at that stage that is at risk.

It had been recognised that there was scope for evasion even though VAT was held to be 'self-policing'. Tax could still be evaded by failing to invoice final customers or tax-exempt purchasers and there was further potential for evasion in wrongly classifying untaxed and taxed goods. The report of the National Development Office also recognised that these possibilities would not 'exhaust the ingenuity of tax evaders'.<sup>40</sup> Although by the nature of the phenomenon no accurate figures exist for the extent of VAT evasion, it is thought to be considerable.

---

<sup>39</sup> National Economic Development Office, *Value Added Tax*, (2<sup>nd</sup> ed., 1971 HMSO, London) p19.

<sup>40</sup> Ibid.

As stated by Jeff Todd of the GST Co-ordinating Office:<sup>41</sup> “We were committed to keeping it simple. We were aware of the British experience where, by mid -1973, within just a few months of the introduction of VAT, the system required about 400 pages of Customs and Excise notices to explain it.”

As already explained many of the features of GST such as the single rate and comprehensive broad-based application were designed to make the task as simple as possible to administer. However as warned by David White<sup>42</sup> “... senior New Zealand tax officials have been heard to join their overseas tax administrator colleagues in labelling GST/VAT (and not the income tax) as the ‘scary tax’ ”. He explains that the GST/VAT refund mechanism means that there is no floor to the revenue risk arising from fraud and loopholes which could happen very quickly. The example is given of a change to the NZ GST made in 2001 retrospectively to block GST refunds affecting in bound tour operators and educational institutions. The estimated cost to the New Zealand revenue, had the proposed amendments not been enacted, was \$150 to \$200 million.<sup>43</sup>

### *Self – balancing and Fair*

The NZ requirements that the reform package had to be self-balancing and seen to be fair, have been covered in some of the above discussions. The introduction of GST was to be revenue neutral. It was not being used to increase total tax collected and no additional revenue was expected in the year it was introduced.<sup>44</sup>

In outlining the key messages, the GST Co-ordinating Office “wanted people to understand that the aim was ‘a Fairer Deal’ and that overall they would be no worse off financially as a result of the introduction of GST. In fact based on work done by the Treasury, we were able to state confidently that ‘the changes mean that everyone

---

<sup>41</sup> Todd, Jeff. Implementing GST – Information, Education, Co-ordination. In *GST in Retrospect and Prospect*. Editors Krever, Richard and White, David. Thomson Brookers (2007) Wellington p29.

<sup>42</sup> White, David. Comment: Twenty Years of GST: The Best Path Forward In Sawyer, A and Tan, L M (Editors), *New Zealand Journal Of Taxation Law And Policy* Vol. 13:3 September 2007, Wellington p359.

<sup>43</sup> See officials' letter to the Finance and Expenditure Committee of the New Zealand Parliament dated 31 July 2001, attached as Annex A in R Oliver (Inland Revenue Deputy Commissioner (Policy Advice)), "Taking a Fixed Tax Position in a Changing World — A Personal Perspective", (Speech given at the New Zealand Institute of Chartered Accountants Tax Conference, Christchurch, October 2003), pp 19-25, available at <<http://taxpolicy.ird.govt.nz/publications/files/icanz2003.doc>> (as at 20 July 2007).



will be fully compensated for the new tax on goods and service’. This was a very powerful starting point.”<sup>45</sup>

Jeff Todd of the GST Co-ordinating Office concludes his article with the things he would not change, and that he believes were the key to the successful GST implementation were:<sup>46</sup> “a bold government with a strong mandate, committed to sound tax reform principles ; a fair, simple, “clean” tax with minimal exemptions; a genuine commitment to public consultation; widespread dissatisfaction with the current tax system and a public reasonably willing to contemplate radical change; and a small committed “public –private” team with a strong mix of talent and plenty of energy and imagination”

#### *Arguments Used Against the Introduction of VAT and GST*

There were two main arguments used against the introduction of a VAT. One was its possible effect on prices and wages which were a sensitive issue at the time. Second it was anticipated that the administrative and compliance costs would be considerably higher than the costs for Purchase Tax and SET.

The experience of VAT currently is that the prices and wages issue does not have the significance it once had. This is partly understandable since the impact of a new tax is likely to be very different from one that has been established for over three decades. Furthermore, there has been a shift in the prevailing view regarding economic policy on these matters. In the period up to the introduction of VAT it was commonly thought that government could and should influence such variables as prices and incomes but the failures of such policies contributed to a more market-based philosophy and a much lighter hand of government in these matters.

There was considerable debate over the inflationary impact of GST. Nana and Philpott estimated a price effect of the change from WST to GST to be 7%.<sup>47</sup> Wells and Fraser used an inter-industry model to calculate a static effect of the change at 6.6%. The post GST price increase fell between these estimates, with the CPI increase

---

<sup>44</sup> Todd, Jeff. Implementing GST – Information, Education, Co-ordination. In *GST in Retrospect and Prospect*. Editors Krever, Richard and White, David. Thomson Brookers (2007) Wellington p30.

<sup>45</sup> Todd, Jeff. Implementing GST – Information, Education, Co-ordination. In *GST in Retrospect and Prospect*. Editors Krever, Richard and White, David. Thomson Brookers (2007) Wellington p33.

<sup>46</sup> Todd, Jeff. Implementing GST – Information, Education, Co-ordination. In *GST in Retrospect and Prospect*. Editors Krever, Richard and White, David. Thomson Brookers (2007) Wellington p40.

being 3% in the September 1986 quarter and 8.9% in the December 1986 quarter, falling to 2.4% in the March 1987 quarter.<sup>48</sup> This could be justified in some respects by the fact that: “The top 10% of households in NZ in 1983-84 were accounting for 23% of household spending on goods and services on a basis equalised for family size, while the bottom 10% accounted for only 3.1%. They pay GST in the same ratio.”<sup>49</sup>

The Second argument - the higher administrative and compliance costs proved to be correct but in the longer run these costs did not turn out to be as high as some had predicted. Replacing Purchase Tax and SET with VAT led to an increase in the number of taxpayers from 74,000 to 1.4 million and an increase in the number involved with the administration of these taxes from 2,000 to 12,500.<sup>50</sup> In order to estimate the compliance costs of VAT, an extensive study was undertaken at the University of Bath<sup>51</sup> looking at such costs five years after the introduction of VAT. As is well known, producing accurate estimates of such costs is very difficult. For instance, in the Bath study only 2,857 of the 9,094 questionnaires despatched were returned. The bias was towards larger businesses and it cannot be known exactly how far those who completed the questionnaires were able or willing to provide a full and accurate picture of such costs to their firm. On the basis of their investigation, Sandford and his colleagues estimated that the total compliance costs of VAT as a percentage of revenue collected was of the order of 10%.

It is also known that the compliance costs for the smallest registered firms are very high. A National Audit Office report on VAT compliance found costs that were the equivalent of about 20 % of the tax paid.<sup>52</sup>

However, since the information was collected for the initial Bath study, the standard rate of VAT was nearly doubled with the obvious result that compliance costs as a

---

<sup>47</sup> Nana, G and Philpott, B “Macroeconomic and Sectorial Implications of GST”, project on Economic Planning *Occasional Paper* No. 86 Victoria university of Wellington, 1985.

<sup>48</sup> Wells, G and Fraser, K. *The Tax Mix Switch and the CPI* Institute of Policy Studies, Wellington 1986.

<sup>49</sup> Douglas, Hon Sir Roger. *The New Zealand GST Policy Choice and its Political Implications In GST in Retrospect and Prospect*. Editors Krever, Richard and White, David. Thomson Brookers (2007) Wellington p8.

<sup>50</sup> Kay, J A and King M A *The British Tax System* (5<sup>th</sup> ed., 1990, Oxford University Press) p129

<sup>51</sup> Sandford, C., Godwin, M., Hardwick, P. and Butterworth, I., *Costs and Benefits of VAT* (1981, Heinemann).

percentage of revenue collected fell substantially. It is also likely to have fallen significantly further since then and Sandford and his colleagues later estimated that, for 1986/87, compliance costs were approximately 3.7 % of VAT revenue.<sup>53</sup> They suggested that significant falls in compliance costs were the result of the abolition of the higher rate of VAT, the learning effect of taxpayers gaining expertise in compliance and a series of simplification measures by the Customs and Excise.

A uniform rate, few exemptions and zero rating helped hold down compliance costs for business and administration cost for the Government in NZ. GST was less costly for the Government to collect than income tax but perhaps part of this was due to the initial collection and payment of the tax being made by business. The cost of compliance was also mitigated by: a registration threshold of \$24,000 (now \$40,000). Small firms had the option of accounting for GST on a two monthly or six monthly basis or annually with provisional tax payments. No invoices were required for small purchases and a simplified GST invoice was possible for smaller amounts. The use of a “tax fraction” to calculate GST and the use of a cash, invoice or hybrid method of accounting for GST were also methods of reducing the compliance costs.

In 1992 a study of compliance costs for all business related taxes was undertaken by Sanford and Hasseldine.<sup>54</sup> They found compliance costs for company tax were 19.6% of the tax revenue, fringe benefit tax 1.7%, PAYE just under 2% and GST 7.3%. Mean compliance costs were much higher for small firms ranging from 2.6% of turnover for firms of less than \$30,000 turnover to 0.2% for turnover between \$1 to \$2 million and 0.0054% for firms with a turnover of \$50 million or more.

### *Overall Experience*

In terms of the arguments originally put forward for the introduction of VAT the outcome has been moderately successful. Although limited, the tax was broadly based without some of the problems associated with its predecessors. Furthermore the disadvantages have not proved as bad as some had claimed.

---

<sup>52</sup> National Audit Office, *HM Customs and Excise: Costs to Business of Complying with VAT Requirements* (1994, HMSO, London).

<sup>53</sup> Sandford, C. Godwin, M. and Hardwick P., *Administrative and Compliance Costs of Taxation*, (1989, Fiscal Publications) p135.

There is little doubt that GST was the right tax for NZ and was introduced at the right time. As stated by Dickson<sup>55</sup>: “of the fiscal institutions that owe their origins to the 20<sup>th</sup> century - the progressive income tax in the first half and the VAT and persistent fiscal deficit from the second half – only the value added tax still finds favour and acceptance. The other two persist but most governments would prefer that they did not.”

### *Appeals*

A possible measure of success of the operation and administration of a tax is the relative amount of litigation that results from its application.

The volume of appeals expected with respect to VAT was considerable and permanent appeal tribunals with full-time chairpersons were set up in London, Belfast, Birmingham, Cardiff, Edinburgh, Leeds and Manchester. However, at least to begin with VAT appeals were much less than anticipated and the full-time chairs were reduced from nine to three and the number of tribunal centres also reduced to three - London, Edinburgh and Manchester.<sup>56</sup> However there had been a growing problem with non-compliance as described in 1983 by the Committee on the Enforcement Powers of Revenue Departments.

Far and away the most significant problem is that about 88 % of the total number of VAT payment returns fail to be submitted by the due date...the average amount of tax outstanding after due date is some £1,000 million.<sup>57</sup>

A ‘default surcharge’ regime was introduced and generated a large increase in appeals for seven years when the volume dropped. It is not entirely clear why this happened but it seems that it may have been a combination of taxpayers learning to live with the new system and the Customs and Excise possibly becoming more pragmatic.<sup>58</sup> However, the number of appeals now remains generally higher than it was originally. In 1985 only about 2,000 decisions had been issued but this was up to 15,000 by

---

<sup>54</sup> Sanford, C and Hasseldine, J. *The compliance costs of Business Taxes in New Zealand* Institute of Policy Studies, Wellington 1992

<sup>55</sup> Dickson, I. The NZ GST Policy Choice: an Historical Perspective. In Krever, Richard and White, David (Editors) *GST in Retrospect and Prospect* Thomson Brookers (2007) Wellington p63.

<sup>56</sup> Oliver, S. ‘Twenty-five Years of the VAT Tribunals: A View from the President,’ (1998) *British Tax Review*, 552-557.

<sup>57</sup> Committee on Enforcement Powers of the Revenue Departments, *Report* (1983, HMSO, London) Vol. 1, p31.

1998. Apart from a tougher penalty regime Hamilton attributes part of the reason to 'the diminishing reluctance of taxpayers to appeal.'<sup>59</sup>

A survey carried out by White (2005) suggests sparse New Zealand GST appellate jurisprudence especially when compared with comparable income tax litigation. There were three Privy Council and 35 Court of Appeal decisions that interpreted the New Zealand GST Act 1985 from 1986 to 2005.<sup>60</sup>

#### **4. Conclusion**

As with other taxes, many of the hopes and fears expressed before the introduction of VAT in the UK did not turn out to be so important in practice. VAT was not as broadly based as its supporters had hoped. Its contribution to tax harmonisation and the balance of payments was not as great as some had thought and the claims that VAT was 'self-enforcing' turned out to be somewhat optimistic. On the other hand the disadvantages that had been asserted regarding VAT were not as serious as its opponents had argued. Over thirty years on, VAT has proved to be a useful and robust tax and is one of the biggest sources of tax revenue in the UK. There is little doubt that it has become an established part of the fiscal furniture.

The success of the NZ GST can perhaps be gauged by the comments of tax experts who were not involved in its introduction and by the esteem in which it is held by other countries. The ultimate accolade is for others to want to emulate and achieve what NZ have succeeded in. The following are two quotes that bear this out.

David White is a NZ academic who over the last few years has focused his research interests on VAT/GST he states:<sup>61</sup>

On the face of it, the New Zealand GST would seem to be the tax policymakers' dream: reliable and unexciting. It collects around 25 percent of total New Zealand tax revenue. Its standard GST rate of 12.5 percent is only 2.5 points higher than the Australian standard rate, yet the New Zealand GST

---

<sup>58</sup> Oliver, S, Twenty-five Years of the VAT Tribunals: A View from the President,' (1998) *British Tax Review*, p553.

<sup>59</sup> Hamilton, P. Twenty-five Years of the VAT Tribunals: An Advocates' View,' (1998) *British Tax Review*, 560 p562.

<sup>60</sup> White, D I. *Appellate Interpretation of NZ's GST Legislation: An Initial Survey: 1986-2005*, (2005) Vol. 5:10 *Australian GST Journal* 205, pp 205-224.

<sup>61</sup> White, David. Comment: Twenty Years of GST: The Best Path Forward In Sawyer, A and Tan, L M (Editors), *New Zealand Journal Of Taxation Law And Policy* Vol. 13:3 September 2007, Wellington p358

collects nearly 5 points of gross domestic product (GDP) more than the Australian GST (9.1 percent compared to 4.3 percent in 2003).<sup>62</sup> Its coverage is so wide that its C-efficiency (consumption efficiency), which is the ratio of GST revenue to the product of aggregate consumption and the standard rate, is almost 100 percent, nearly twice the Australian C-efficiency ratio and 43.5 percent above the OECD average.<sup>63</sup> Its tax returns are so simple that many businesses complete their own GST returns. It seems to call for a very small number of specialist GST partners in the large professional firms. It requires relatively little policy monitoring, either in Inland Revenue or in the Treasury. It receives relatively little coverage in New Zealand research, university teaching, or the media. Yet, New Zealand has the highest reliance on GST/VAT revenues as a percentage of total taxation of any OECD country.<sup>64</sup> The New Zealand GST also taxes the 'untouchables' — food, children's clothing, books and medicine, for example.

Cnossen one of the world's leading experts on GST/VAT, had this advice for the largest economy in the world and the only country in the Organisation for Economic Co-operation and Development (OECD) that does not have a GST/VAT:<sup>65</sup>

If the United States were to give thought to adopting a VAT, it should be advised, however, to avoid the mistakes of the European VATs with their multiple rates, open-ended exemptions for health, education, and governments, and ill-considered treatment of agriculture, commercial real estate, and nonprofit organisations. Rather, the United States should look towards the New Zealand VAT, whose tax base more closely resembles the base proposed under the NRST [National Retail Sales Tax] plans. All goods and services, with the fewest possible exceptions, should be taxed at a single rate (only exports should be zero-rated). Tax burden distribution concerns could be addressed through targeted demogrants.

### *Features of the introduction of the GST system*

In summary what did NZ do differently and what were the features that helped the process adopted, to achieve the acknowledged success. What were the important features that smoothed the process in NZ compared to the UK?

---

<sup>62</sup> OECD, *Consumption Tax Trends: VAT/GST Excise Rates, Trends and Administration Issues*, (Paris, 2006), pp 25 and 29

<sup>63</sup> Ibid pp 41-43 and 53

<sup>64</sup> OECD, *Consumption Tax Trends: VAT/GST Excise Rates, Trends and Administration Issues*, (Paris, 2006), Table 3.11: VAT Revenues (5111) as Percentage of Total Taxation, p 52. The latest year in this table is 2003, when for New Zealand, GST revenue as a percentage of total taxation was 26.10 percent. The unweighted average for all of the OECD was 18.13 percent, for OECD Pacific it was 16.78 percent, for OECD Europe it was 19.44 percent, and for the 15 Member States of the European Union in 2003, it was 18.72 percent.

<sup>65</sup> Cnossen, S. "Evaluating the National Retail Sales Tax from a VAT Perspective", in GR Zodrow and P Mieszkowski (Eds), *United States Tax Reform in the 21st Century*, (Cambridge, Cambridge University Press, 2002), p 215, pp 243-244. As quoted in White, David Comment: Twenty Years of GST: The Best Path Forward In Sawyer, A and Tan, L M (Editors), *New Zealand Journal Of Taxation Law And Policy* Vol. 13:3 September 2007, Wellington p358.

The first was a group of strong willed politicians with a mandate for change who were committed to sound tax reform principles.

There were economic, political and social problems which needed to be solved and this GST reform package was a method of achieving the necessary changes.

*The nature of the consultative process.*

While allowing for adequate time for genuine consultation the time schedules for the introduction of GST were tight. While it was necessary to extend some of these deadlines including the actual enactment and application date of the legislation the tight response times did not allow for long periods of analysis and contemplation which could have lead to more disputes or vexatious submissions. There was little time for those in opposition to the new tax regime to mount detailed, concerted campaigns which may have engendered concerns within the public.

The aim of the consultation was to improve the quality of the tax package that was being applied (including the GST laws) on the basis of sound principles of a good taxation system<sup>66</sup>. This was a requirement right from the top. This included explaining expected and possible problems and then seeking assistance and advice, which allowed explanations of how they could be overcome to follow. There was a genuine aim to find and solve problems, to explain difficult concepts and to inform all parties. For example the advantages and vertical equity achieved by taxing food and clothing could be and were explained.

There was a commitment to creating a bond of understanding: to treating the public as responsible citizens, giving them the facts on which to make informed decisions.

The tax was accompanied with associated reforms which gave the total package a neutral impact on those that would be paying the GST. The perceived fairness was proved by understandable examples.

---

<sup>66</sup> For a more detailed discussion of good taxation principles see C. R. Alley and D. Bentley, 'Tax Design Principles: Remodelling Adam Smith', (2005) 20 *Australian Tax Forum*, 579.

The total tax package gained credibility by explaining the need to move the tax system away from the heavy dependence of direct taxes (eg income tax) to a more balanced use of indirect taxes (eg GST).

Competent people were employed in all steps of the process from all walks of life, irrespective of their political motivation. It was necessary to appoint the right person, with the necessary power and ability to do the task irrespective of their political leanings.

The use of an *Advisory Panel* also called the consultative committee, which did not consist solely of government officials, applied extended working hours within the tight time frame to analyse and report on submissions and provide constructive feedback.

The marketing and explanations were provided by the *GST Co-ordinating Office*. Successful reform does not become possible until you trust, inform and respect the voters. It was the task of the Co-ordinating Office to put the public, business, trades, professions, government departments, non-profit organisations and all others involved with its operation in a position to make sound judgements. These people and organisations involved with implementing running and paying the tax needed to have the facts and well constructed examples to explain these facts.

Despite the application of these processes there was a willingness to defer the introduction of the tax when it became apparent that more time was needed to design the system and prepare the public and business world.

#### *Features of the tax itself:*

It was essential the system was broad based. It needed to tax the untouchables, for example all food and clothing. Minimum exemptions and careful use of zero rating was essential for a tax that would not distort economic behaviour.



One single rate for GST was used in contrast to the multiple rates applied in the UK. The greatest possible number of both goods and services were treated in the same way, thereby minimising confusion and manipulation that became apparent for VAT.

The move to more indirect taxation was balanced with reductions in direct taxation.

The method of collection of the tax was efficient with, for example, the use of a registered person rather than the GST taxpayer paying the tax. By keeping GST laws as simple as possible it was easier to enforce them.

Keeping the basic rules as simple as possible to operate also allowed the option for most registered persons of preparing their own tax returns.

Collection of the tax by an independent third party who was not paying the tax helped to make GST self-enforcing.

Compliance costs were reduced where at all possible; especially for the smaller registered businesses and operators. Methods such as the use of thresholds were adopted (eg not requiring registration for GST unless taxable supplies exceed \$40,000).

Zero rating was applied selectively in order to provide for example legitimate advantages for exporters.

After introduction of a tax system there should be minimum changes to the rules, rates, exemptions etc established by the Act unless these changes are to rectify a proven error or unintended result. In 1988 two years after the introduction of GST, the rate was raised to 12.5%. This was enforced without the compensating reductions to income tax and increases in benefits, tax credits and rebates etc that had accompanied the enactment of GST and lead to dire consequences for those in power.

*A concluding comment*

Probably every country that has adopted a VAT consumption tax throughout the world since 1986 has looked to NZ for guidance and example. Few countries if any can claim similar success.<sup>67</sup>

#### **OTHER PAPERS IN THIS SERIES**

1. Lawrence, S.L. Rational and social aspects of management accounting practice: report of a field study, June 1990.
2. Northcott, D.N. Capital budgeting in practice: past research and future directions, August 1990.

---

<sup>67</sup> The current United Kingdom (UK) Mirrlees Review, seeks "to identify the characteristics of a good tax system for any open developed economy in the 21st century, to assess the extent to which the UK tax system conforms to these ideals, and to recommend how it might realistically be reformed in that direction". It has chosen the New Zealand GST as the real-world model against which to evaluate the European VAT Directive. See <[http://www.ifs.org.uk/mirrleesreview/projects\\_research.php](http://www.ifs.org.uk/mirrleesreview/projects_research.php)>

3. Cheung, J., Vos., E. and Low, C.K. IPO underpricing in New Zealand, September 1990.
4. Van Peurseem, K.A. Extant research in public sector accountability, March 1991.
5. Van Peurseem, K.A. New Zealand auditor perceptions: difficult and critical audit procedures, July 1991.
6. Alam, M. The budgetary process from information processing perspectives, September 1991.
7. McCracken, T. & Hooper, K. The New Zealand goods and services tax (GST): identifying the problem areas, September 1991.
8. Lowe, A. Strategic management accounting, September 1991.
9. McCracken, T. Pricing: a review of contemporary approaches, February 1992.
10. Cheung, J. Estimating costs of capital for small ventures, March 1992.
11. Cheung, J., Vos, E., & Bishop, D. Pre-holiday returns in the New Zealand share market, May 1992.
12. Van Peurseem, K.A. Accountability for social policy: a moral framework, June 1992.
13. Alam, M. & Poulin, B.J. Budget as a discipline: lessons from a turnaround enterprise, December 1992.
14. Raj, M. Pricing options on short and long-term yields using stochastic arbitrage based models, May 1993.
15. Godfrey, A. & Hooper, K. Domesday Book: its significance as an accounting document, June 1993.
16. Van Peurseem, K.A., Lawrence, S.R. & Pratt, M.J. Health management performance: a classification and review of measures and indicators, July 1993.
17. Coy, D. & Goh, G.H. Overhead cost allocations by tertiary education institutions 1989-91, September 1993.
18. Coy, D., Dixon, K. & Tower, G. The 1992 annual reports of tertiary education institutions: quality, timeliness and distribution, November 1993.
19. Van Peurseem, K.A. & Tuson, C. Financial reporting in Area Health Boards 1987-1992, January 1994.
20. Vos, E. & Davey, H. Time consistent accounting standards as a necessary condition for relating "point in time" accounting information to market returns, April 1994.
21. Coy, D., Buchanan, J. & Dixon, K. The users of New Zealand tertiary education institutions' annual reports: who are they and what information do they seek? December 1994.
22. Coombes, R. & Davey, H. The New Zealand accountant's role in environmental accountability, December 1994.
23. Wells, P.K. Marketing regulation and compliance programmes, November 1995.
24. Haslam, J. Analysis of accounting as at the end of the Napoleonic war: towards a critical theoretical history of the prescribing of accounting by the British State, November 1995.
25. Haslam, J. The British state and the prescribing of accounting, 1815-1830: a focus upon the regulating of friendly societies and savings banks in the post-Napoleonic war context, November 1995.

26. Haslam, J. Accounting publicity and the revolution in government, November 1995.
27. Haslam, J. Accounting history as critique of the present: a critical theorising of interfaces between accounting and the British state of the early 1840s, November 1995.
28. Dosa, L., Gallhofer, S. & Haslam, J. Accounting's location in a transition process: a focus upon Hungary, November 1995.
29. Gallhofer, S. & Haslam, J. Accounting on the road: turnpike administration in early nineteenth century Britain, November 1995.
30. Ciancanelli, P., Gallhofer, S., Haslam, J. & Watson, R. Pay systems and social ideology: the case of profit related pay, November 1995.
31. Jenkin, Erica and Van Peurse, Karen A. Expert systems in auditing: New Zealand auditor perspectives, November 1995.
32. Wells, P.K. Marketing regulation and compliance programmes: attitudes and reactions of New Zealand marketing managers in 1988, November 1995.
33. Davey, H.B., Bowker, T. & Porter, B. New Zealand's controlled foreign company regime, November 1995.
34. Davey, H.B., Barnes, H. and Porter, B. External environmental reporting: the need for a New Zealand standard, November 1995.
35. Lawrence, Stewart, Rethinking professional ethics: a religious metaphor for accountants, November 1995.
36. Ciancanelli, P., Watson, R., Gallhofer, S. & Haslam, J. Alternative perspectives on finance: a critical analysis, November 1995.
37. Gallhofer, Sonja & Haslam, J., Beyond accounting: the possibilities of accounting and "critical" accounting research, November 1995.
38. Gallhofer, Sonja, "It really challenged everybody": accounting and critical and feminist pedagogy, January 1996.
39. Gallhofer, Sonja, and Haslam, Jim, The direction of green accounting policy: critical reflections, January 1996.
40. Wells, P.K., Marketing regulation and compliance programmes: attitudes and reactions of New Zealand marketing managers in 1995, February 1996.
41. Pratt, Michael and Coy, David, Managing teaching allocations in a university department: the TAMM model, June 1996.
42. Coy, David and Pratt, Michael, The spider's web: politics and accountability in universities, June 1996.
43. Doolin, Bill, Organisational roles of decision support systems, June 1996.
44. Beale, Bob and Davey, Howard, The nature and origins of comprehensive income, August 1996.
45. Davey, Howard, and Holden, Mark, Emerging directions in the evaluation of foreign subsidiary performance, September 1996.
46. Kelly, Martin, A personal perspective on action-research, October 1996.
47. Doolin, Bill, Defining decision support systems, November 1996.
48. Gallhofer, Sonja, Haslam, Jim and Pratt, Mike, Developing environmental accounting: insights from indigenous cultures, November 1996.

49. Ciancanelli, Penny, Gallhofer, Sonja, Haslam, Jim and Watson, Robert, In the name of an enabling accounting: critical reflections developed and enhanced through an analysis of accounting and profit-related pay, November 1996.
50. Lowe, Alan, The role of accounting in the processes of health reform: providing a "black box" in the cost of blood products, November 1996.
51. Coy, David and Buchanan, John, Information technology diffusion among business professionals: Preliminary findings of a longitudinal study of spreadsheet use by accountants 1986-96, February 1997.
52. Beale, Bob and Davey, Howard, Total recognised revenues and expenses: an empirical study in New Zealand, March 1997.
53. Coy, David, Nelson, Mort, Buchanan, John and Jim Fisher, Spreadsheet use by accountants in Australia, Canada and New Zealand: preliminary findings, March 1998.
54. Wells, P.K., Manapouri: catalyst or consequence? October 1998.
55. Lowe, Alan, Tracing networks through case studies, October 1998.
56. Kim, S.N. and Mfodwo, K., Prospects for the establishment of Islamic banking in New Zealand: a contextual analysis, November 1998.
57. Van Peurse, K.A., Method for a methodology: a new approach for the middle range, November 1998.
58. Locke, Joanne and Perera, Hector, An analysis of international accounting as a catalyst for the re-integration of accounting research, August 1999.
59. Julian, Aileen and Van Peurse, Karen, Ethics education and the accounting curriculum: can ethics be taught?, August 1999.
60. Van Peurse, K.A., Wells, P.K. and L'Huillier, B. Contracting services in SMEs: A New Zealand professional accounting firm case study, September 1999.
61. Lowe, Alan, Accounting in health care: providing evidence of a real impact, September 1999.
62. Alam, Manzurul and Wells, Philippa, Control systems of government-owned business enterprises: a critical analysis of the New Zealand model, November 1999.
63. Kelly, Martin, In Praise of Holistic Education in Accounting, December 1999.
64. Smith, Susan Ann and Coy, David, The quality of city council annual reports, 1996-97 and 1997-98: Preliminary findings, March 2000.
65. Hooper, Keith and Low, Mary, Representations in accounting: the metaphor effect, June 2000.
66. Dixon, Keith, The impact of management control across a hospital system, August 2000.
67. Lowe, Alan, Accounting information systems as knowledge-objects: some effects of objectualization, August 2000.
68. Locke, Joanne and Lowe, Alan, A market test of the ranking of accounting journals: an Australasian perspective, October 2000.
69. Francis, Graham, Humphreys, Ian and Jackie Fry, Lessons for other counties from the privatisation, commercialisation and regulation of UK municipal airports, December 2000.
70. Hooks, Jill, Coy, David and Howard Davey, Information disclosure in the annual reports of New Zealand

electricity retail and distribution companies: preliminary findings, January 2001.

71. Lowe, Alan, Methodology, method and meaning in field research: Intensive versus extensive research styles in management accounting, March 2001
72. Van Peurseem, Karen, Locke, Joanne and Harnisch, Neil, Audit Standard Analysis: An Illocutionary Perspective on the New Zealand Going Concern Standard April 2001
73. France, Necia, Francis, Graham, Lawrence, Stewart and Sacks, Sydney, Measuring Performance Improvement in a Pathology Laboratory: A Case Study, April 2001
74. Hooper, Keith and Davey, Howard, Preferences on Learning Options in Accounting Education: A New Zealand/Asian Perspective, May 2002
75. Lowe, Alan and Locke, Joanne, A Paradigm Sensitive Perspective on the Ranking of Accounting Journals: A Web-based survey Approach, May 2002
76. France, Necia, Francis, Graham and Lawrence, Stewart Redesigning Clinical Laboratory Services: Securing efficient diagnoses for New Zealanders, January 2003
77. Lowe, Alan and Jones, Angela, Emergent and the Measurement of Performance: The formulation of Performance Indicator at the Micro-Level, May 2003
78. Francis, Graham, Humphreys, Ian, Ison, Stephen and Aldridge, Kelly, Airport Surface Access Strategies and Targets, September 2004
79. Bourke, Nikki and Van Peurseem, Karen, Detecting Fraudulent Financial Reporting: Teaching the 'Watchdog' new tricks, September 2004
80. Low, Mary and Francis, Graham, Improving the Research Skills of the First-Year Accounting Class by Incorporating Corporate Annual Report Analysis into the Classroom, November 2004
81. Nath, Nirmala, Van Peurseem, Karen and Lowe, Alan, Public Sector Performance Auditing: Emergence, Purpose and Meaning, February 2005
82. Bather, Andrea and Kelly, Martin, Whistleblowing: The advantages of self-regulation, September 2005
83. Samkin, Grant and Lawrence, Stewart, Limits to corporate social responsibility: The challenge of HIV/AIDS to sustainable business in South Africa, November 2005
84. Alley, Clinton and James, Simon, The interface between financial accounting and tax accounting – a summary of current research, December 2005
85. Samkin, Grant, Trader, Sailor, Spy, December 2005
86. Van Peurseem, Karen, The auditor's dilemma: an economic perspective on al old problem, December 2005.
87. Alley, Clinton and Maples, Andrew, The concept of income within the New Zealand taxation system, September 2006.
88. Francis, Graham, Lawrence, Stewart, Humphreys, Ian and Ison, Stephen, Risk Transfer and Uncertainty in Privatization: Cases from Air Transport October 2006.
89. Van Peurseem, Karen, Public Benefit vs Private Entities: A Fresh Look at Accounting Principles October 2006.
90. Bather, Andrea, The Companies Act 1993 and Directors' Duties: Small and Medium Entities are not well catered for December 2006.
91. Ryan, Jim, Tax Relief Still Available for Small Property Owners. December 2006.

92. Samkin, Grant and Scheider, Annika, Reviewing the changing face of financial reporting: The case of a public benefit entity. May 2007.
93. Lowe, Alan and Locke, Joanne, Biography of an ERP: Tracing the Fabrication of a virtual Object, May 2007.
94. Van Peurseem, Karen A., Zhou, Maiqing, Flood, Tracey and Buttimore, James, Three cases of Corporate Fraud: An Audit Perspective, June 2007.
95. Schneider, Annika and Sampkin, Grant, Intellectual Capital Reporting by the New Zealand Local Government Sector, June 2007.