

The Farmer and the VAT

If and when this country takes to the value added tax, special provisions might be needed to lighten the load on farmers.

Practically every nation now using the value added tax (VAT) gives agriculture some kind of special treatment. They do so on these grounds—

VAT is hard to administer when dealing with large numbers of small farms. Small farmers have problems keeping the records for levying the tax.

Agricultural products should be taxed at a lower rate than others so as not to create hardship for lower income families, who typically spend a large share of their incomes on food.

Preferred treatment of farmers as providers of necessities is in the national interest.

VAT comes in three varieties, but the one used by most other countries—and most often mentioned as a possibility for the U S—is the consumption type. In concept it is a tax on general consumption. It is not a tax on retail sales, since the VAT is levied at each stage of production. However, the consumption type of VAT can lift the price paid by consumers.

Puzzler

How much of the VAT is shifted to the average shopper is debatable. Tax experts themselves can't agree on VAT's contribution to price hikes in the midst of general inflation.



Theoretically the full tax can be passed on to the consumer. This in fact was the expressed intention of the European

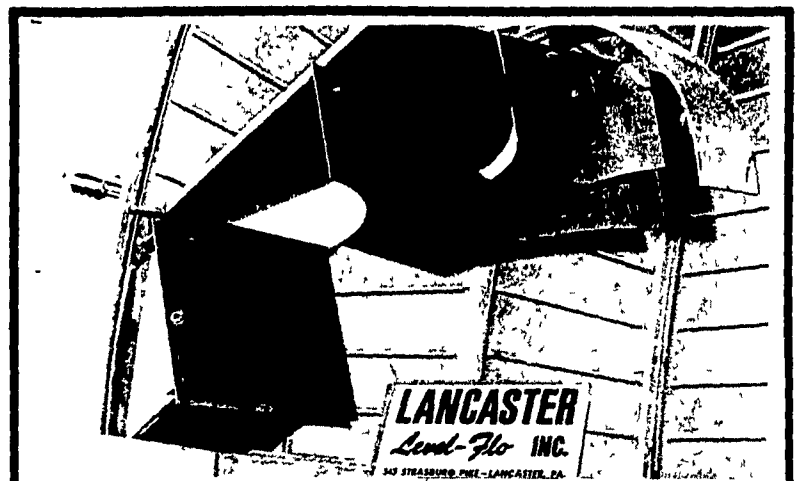
Community (EC) when it first imposed the VAT in the late 1960's as a replacer for a turnover tax. EC members, by the way, rely on the VAT for 24 to 40 percent of all tax revenues.

In the EC the VAT works like this, albeit oversimplified: Each time a product changes hands the government collects a tax on the value added by the firm (gross sales less cost of purchased inputs). The firm then

passes along the tax in the form of higher prices, and gets reimbursed for the tax by the next firm in the production-distribution chain.

In practice, however, the forward shifting of VAT doesn't quite mesh with theory. "Backward" shifting of the VAT is not

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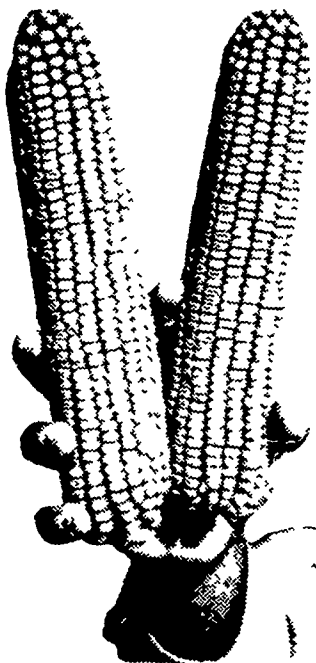
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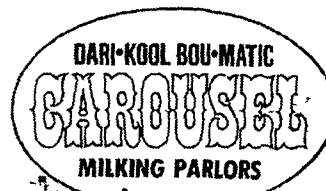
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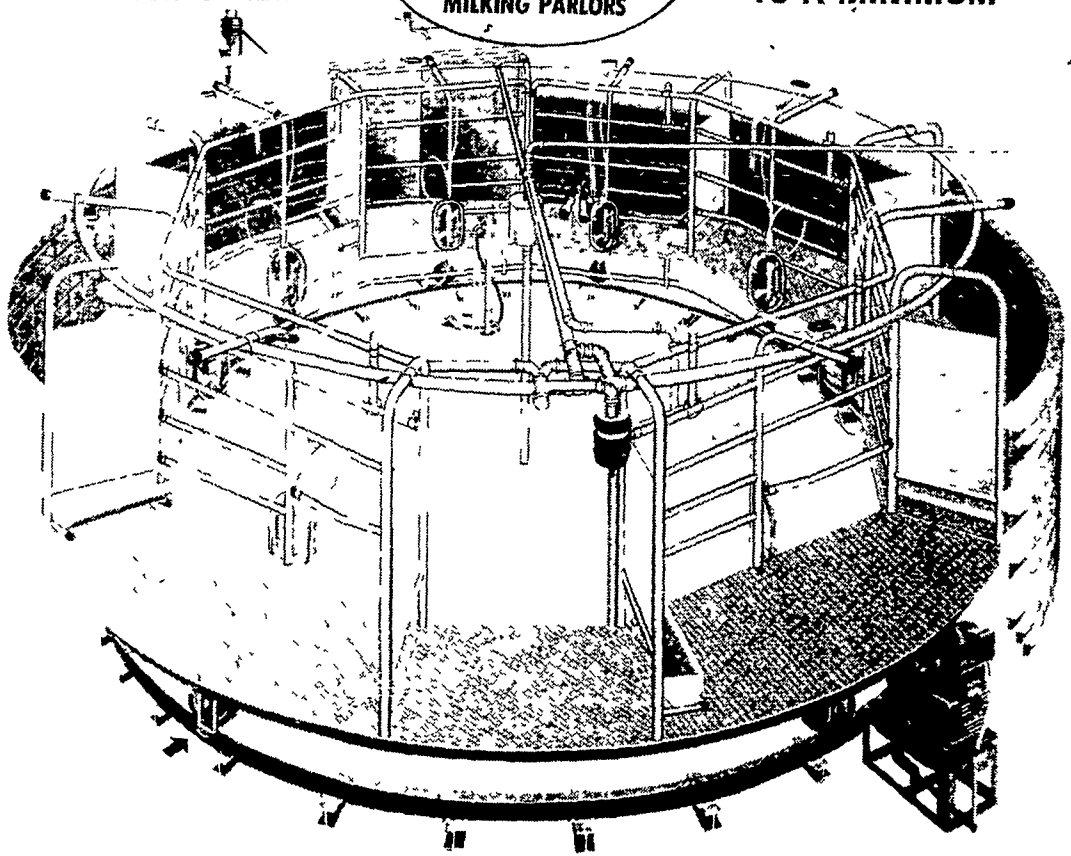
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