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Successful Tax Reform: The Experience of Value Added Tax in the United Kingdom and Goods and Services Tax in New Zealand

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Abstract

Tax reform provides many examples of failures - where reforms did not achieve their objectives successfully and sometimes even had to be reversed. However, value added tax (VAT) in the UK and goods and services tax (GST) in New Zealand have survived successfully for many years. This paper describes the nature and brief history of VAT and GST and then assesses the factors that contributed to their success. A key factor is the process of implementation both in allowing effective prior consultation to identify possible problems and improvements as well as preparing the taxpaying public for change. It is also important that the reform was seen to be fair, that there were gains as well as losses and the change was a net improvement. In assessing how the arguments for the introduction of VAT/GST turned out in practice, it is clear that this is a robust form of taxation and has been well able to accommodate the different political pressures in the UK and New Zealand.

1. Introduction

In the introduction to his *Philosophy of History*, Hegel (1837) suggested that the only thing we learn from history is that we never learn from history. This seems to be as true for tax reform as anything else and, furthermore, achieving successful tax reform is not a simple or easy process. Quite often a particular solution is proposed to deal with a particular problem without a full appreciation of the wider context in which the tax system is operated and the other aims and objectives of government policy (see, for example, James and Edwards, 2007). Indeed it is easily possible for a particular reform to have visible benefits in one area but for these to be outweighed by costs in other areas that are not fully recognised before the reform is introduced (James and Edwards, 2008). The Mirrlees Review (forthcoming 2009) sets out factors that make a good tax system and how the UK tax system could be moved in that direction. With admirable succinctness for such a complex topic, Bird and Oldman (1990, p. 3), have suggested that the best approach to tax reform is one that takes:

into account taxation theory, empirical evidence, and political and administrative realities and blends them with a good dose of local knowledge and a sound appraisal of the current macroeconomic and international situation to produce a feasible set of proposals sufficiently attractive to be implemented and sufficiently robust to withstand changing times, within reason, and still produce beneficial results.

There are many important examples of tax reforms that failed to survive at all – for instance in the UK selective employment tax (SET), capital transfer tax and the community charge, better known as the poll tax. Interestingly both capital transfer tax and the community charge were replaced by arrangements that had strong similarities with the arrangements that preceded their introduction. However SET and purchase tax (PT) were replaced with value added tax (VAT) that has survived, indeed even thrived in fiscal terms. The introduction of both VAT in the UK in 1973 and its equivalent GST in New Zealand (NZ) in 1986 are consistent with the approach described by Bird and Oldman by meeting the range of criteria for successful tax reform. Indeed, such taxes have now been successfully introduced by many countries including members of the European Union and all but one of the OECD countries. It is therefore worth reflecting on the experience of the introduction of VAT in the UK and the GST in NZ in order to identify key factors in these successful tax reforms.

Earlier reviews of VAT in the UK have been undertaken by Prest (1980) and James (2000). The purpose of this paper is to assess the introduction and subsequent

experience of VAT and GST as possible examples of successful tax reform. The paper therefore reflects on the original process, arguments and legislative differences for the introduction of VAT in the UK and GST in NZ and examines how they have been applied and justified by subsequent events. Section 2 briefly considers the nature and history of VAT and GST. Section 3 examines the process of introducing VAT and GST. Section 4 assesses how far the original arguments for their introduction were actually realised. Section 5 briefly turns to the experience of implementation elsewhere and, finally, section 6 draws some conclusions.

2. VAT and GST

VAT/GST has similarities with other forms of taxation. For example a VAT that exempts capital expenditure and money spent on inputs is in some ways equivalent to an income tax that exempts savings. There is also a correspondence between such a VAT and an expenditure tax (see for example Prest and Barr, 1985) where an expenditure tax is a tax on personal incomes after deducting savings and specifically taxes spending from savings. The Meade Committee (1978) therefore saw VAT as a possible way of achieving an expenditure tax. However, in general most forms of VAT/GST exempt capital inputs and are therefore basically taxes on consumption rather than income.

As its name suggests, the tax is levied on the value added at each stage of production and is therefore payable when goods or services are supplied to another business or to the final consumer. Products can be treated favourably either by zero-rating or by exemption. Zero rated goods are in principle subject to VAT but the rate is zero. This means firms do not have to charge their customers VAT but can reclaim the tax paid on their inputs so the final output is completely free of the tax. Exemption is less advantageous because exempt goods and services are outside the VAT system altogether so that although firms do not have to charge their customers VAT they cannot reclaim tax paid on their inputs.

VAT was originally introduced in the UK in 1973 at a standard rate of 10%. In 1974 this was reduced 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 abolition of the Community Charge a substantial slice of local government taxation was also replaced by a further increase in the rate of VAT to 17.5% in 1991. In December 2008 the rate was temporarily reduced to 15% until January 2010 in order to stimulate spending in the face of an economic downturn. In NZ GST was introduced in 1986 at a rate of 10% and in 1988 the rate was raised to 12.5% where it has remained.

3. The Process of Introducing VAT and GST

Bird and Oldman point out that successful tax reform requires ‘ a feasible set of proposals sufficiently attractive to be implemented’ and here the process of introduction can be very important both in allowing effective prior consultation to

identify possible problems and improvements and to prepare the taxpaying public for the change. There were wide ranging discussions in both the UK and NZ though there were different emphases reflecting their different circumstances and the extent of experience of such taxes at the time of implementation. In the UK, the Government announced its intention to introduce a VAT some two years before it was to be operational. A Green Paper (1971) was published setting out details of the proposals so that consultation could take place with those who might be affected by the new tax. That process of consultation continued for a 12 month period and attracted a large number and variety of submissions. This consultation resulted in a White Paper (1972) which set out the structure of the tax, draft clauses and schedules for further discussion.

It is possible that NZ did not need quite as long a consultation period as the UK as it was well placed to benefit from the earlier experience of other countries and the NZ Treasury had already looked at a value added tax for NZ in 1982. Nevertheless it is also possible that extensive consultation may perhaps lead to too many compromises with special interests. Green (2007, p. 24), 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!

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.

In NZ there was also a different emphasis on the nature of the consultative process which 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?” ’ (Douglas, 2007, p. 8). In 1984 when GST was first mooted in NZ, as the former Minister of Finance Roger Douglas (2007, p. 4) 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.’

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 – as discussed, for example by Alley and Bentley (2005). It also set out to explain expected and possible difficulties and how these could be tackled. There was a genuine aim to find and solve problems, to explain difficult concepts and to inform all parties. 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 clear examples. The total tax package gained credibility by

explaining the need to move the tax system away from the heavy dependence of direct taxes such as income tax to a more balanced use of indirect taxes such as GST.

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 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.

It is interesting to note how GST was named in NZ:

The IRD [NZ Inland Revenue Department] 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 (Dickson, 2007, p. 50).

A further important characteristic of successful tax reform is that there are gains as well as losses. In the UK the VAT replaced PT and the much criticised SET. In NZ 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 (Douglas, 2007, p. 6). In 1988, following the share market crash in 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 (Douglas, 2007, p. 6).

4. Assessing the Reasons for the Introduction of VAT and GST

An important feature of tax reform identified by Bird and Oldman above was that a tax reform would have to be 'sufficiently robust to withstand changing times' and VAT and GST have proved to be so. Among other reasons this is clear from the fact

that the way the taxes developed did not altogether match the original arguments for their introduction but they were still able to continue successfully.

Although many reasons were put forward for introducing VAT in the UK (James, 2000) the main ones consisted of a desire for a tax:

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

In NZ in 1984 there was general consensus within the Government (Douglas, 2007, p. 4) that:

- 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.

A broadly based tax

In the debate leading up to the introduction of VAT one of the main arguments was that the tax should be broadly based in order to reduce the economic distortions caused by taxes being levied on some things but not on others – as analysed, for example, by James and Nobes (2008). Historically, indirect taxation developed as the taxation of goods rather than services for straightforward reasons (see, for instance, Webber and Wildavsky, 2006). In less developed economies goods were more easy to see, value and tax, than were services. Furthermore service industries in general form a smaller proportion of overall economic output in less developed economies than in more advanced economies. 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 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 (see Reddaway, 1970 and 1973).

However, the aim of a very broadly based VAT 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 the zero-rate. As a result of the extensive exemptions and zero rating only just over half of consumer expenditure was covered by VAT (Davies and Kay, 1985) and the proportion has not increased much since its introduction. However this had a perceived advantage in that 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 VAT was levied on many forms of consumption that tended to be more the prerogative of those on higher incomes.

In NZ there was a different emphasis. 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 (Douglas, 1984). 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. To quote Douglas (2007, p. 4):

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 limiting the cost of compliance).

There was much debate on the regressive nature of taxing consumption such as food and clothing. Although low income families consume a greater proportion of their income on food than do those on higher incomes, most of the benefit of exempting food would go to benefit the latter group. As Douglas (2007, p. 8) described the situation:

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.

Todd (2007, p. 30) 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 task of selling the GST and were key to its successful implementation.

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 (Todd, 2007, p. 30).

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.

Moving from direct to more indirect taxes

Before the introduction of GST, 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 were 25%. In 2006 personal income tax had dropped to 43% of total tax revenue, GST was 25% and other indirect taxes 8%, making a total for indirect taxes of 34%. There had been an increase of over 10 points in company taxes (McCleod *et al.* 2001).

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 (Cullen, 2007, p. 2). 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.

Harmonisation

One consideration for VAT in the UK 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 system of VAT. 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 already having or proposing to introduce a VAT so whether or not it joined the European Community the tax would be relevant to the UK (National Economic Development Office, 1971, p. 4). It also appeared that the 'general experience of the tax 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' (Green Paper, 1971, p. 9).

The main difficulty is that Member States of the European Union 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 (1996, p. 165), as Director of VAT policy at Customs and Excise seems to reveal that concessions made are usually ones that do not affect the UK. 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 and which did not affect the UK 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!

The balance of payments

Although harmonisation was not a consideration in NZ, in both countries international competitiveness was a factor in the case for a VAT/GST. 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' (Green Paper, 1971, p. 5). Some parts of the existing PT were an indirect burden on exports and SET was often wholly unrelieved on exports.

The position was similar in NZ. Around the time of enactment of GST and, indeed, subsequently there has been 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. Nevertheless such arguments perhaps became less convincing since the introduction of VAT/GST. Such taxes certainly reduce the tax burden on exports. However, in the UK since the introduction of VAT the value of the pound has normally been left to markets to determine and the balance of payments has not been the policy concern it was under a system of fixed exchange rates. More generally the advantage of having such a tax in this respect has diminished since such taxes have been introduced by more and more countries.

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 PT 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 and a half 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 respects.

There was considerable debate over the inflationary impact of GST. Nana and Philpott (1985) estimated a price effect of the change from WST to GST to be 7%. Wells and Fraser (1986) 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 being 3% in the September 1986 quarter and 8.9% in the December 1986 quarter, falling to 2.4% in the March 1987 quarter.

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 PT and SET with VAT in the UK 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 (Kay and King, 1990, p. 129). In order to estimate the compliance costs of VAT, an extensive study was undertaken at the University of Bath by Sandford *et al.* (1981) 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 firms. 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. In a report on VAT compliance, the National Audit Office (1994) found costs that were the equivalent of about 20% of the tax paid.

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 percentage of revenue collected fell substantially. It is also likely to have fallen significantly further since then and Sandford *et al.* (1989, p. 135) later estimated that, for 1986/87, compliance costs were approximately 3.7% of VAT revenue. 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.

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.

Sandford and Hasseldine (1992) undertook a study of compliance costs for all business related taxes in NZ. 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 more broadly based without some of the problems associated with its predecessors. Furthermore the disadvantages have not proved as bad as some had claimed.

One of the main advantages of VAT/GST is that such a tax has proved adaptable to the perceived needs or preferences of the host country. For instance, while NZ was able to introduce successfully a very broad based tax, the situation in the UK was such that it was not possible to gain political support for the taxation of certain items such as food, children's clothes and domestic fuel and power. Even subsequent attempts have not been successful. For example, domestic fuel and power had been zero-rated when VAT was introduced in 1973. With increasing concerns about the consumption of fossil fuels it became subject to a rate of 8% in 1994 with the intention that it be subject to the full rate of VAT from 1995. It then became clear again that this was a very sensitive area politically and the second increase was abandoned. In fact the rate of tax on domestic fuel and power was reduced to 5% in 1997 and this rate has since been used frequently to favour a range of other areas – for example, energy saving materials for home insulation from 2000, children's safety car seats and

women's sanitary products from 2001, extending the coverage for energy saving materials in 2005, contraceptive products from 2006 and smoking cessation products from 2007. Although, of course, such changes have reduced the broadness of the tax, they have allowed VAT to be used to support a range of government policies.

5. Implementation Elsewhere

VAT/GST has been widely adopted in recent years and such taxes are now used by 130 countries. After the introduction of GST in Australia, the United States of America (USA) remains the only member of the Organisation for Economic Cooperation and Development (OECD) without a VAT but the possibility of introducing such a tax in the USA has been frequently examined, for example by Sullivan (1965), Lindholm (1980) and Graetz (2007). The more general European experience has also been assessed from a viewpoint of the USA (see, for example, Aaron, 1981). Burchell *et al.* (1985) may give some clues as to why the UK and NZ have such a tax and the USA does not. Apart from the USA however, the widespread adoption of a VAT testifies to its advantages.

6. Conclusion

The experiences of VAT in the UK and GST in NZ have clearly indicated that such taxes meet the complex requirements for successful tax reform described by Bird and Oldman. 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 but it was essential that the tax met the sometimes difficult requirements of political acceptability. 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. On the other hand the disadvantages that had been asserted regarding VAT were not as serious as its opponents had argued. Thirty-five 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.

In NZ the experienced has been summarised as follows:

The success of the GST can be traced to five key process elements; political will, the right people, the way in which the proposal was packaged, an effective consultative process, and an effective communication process (Douglas (2007, p. 3).

Its success has also been well demonstrated and 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. For example, Cnossen one of the world's leading experts on GST/VAT, had this advice for the USA:

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. (Cnossen, 2002, pp. 243-4).

However in both countries the introduction of VAT/GST can be considered a success, in contrast to the examples given above - of SET, capital transfer tax and the community charge. In considering the introduction of future taxes there is much to learn from the successful introduction of VAT/GST in the UK and NZ, in particular in the process of implementation, the need to appear fair and to adopt a tax that is sufficiently robust to accommodate differing political pressures.

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