



# Information sharing for consumption tax purposes: An empirical analysis

Jenny E. Ligthart \*

*Department of Economics and CentER, Tilburg University, P.O. Box 90153, 5000 LE Tilburg, The Netherlands*

*Department of Economics, University of Groningen, P.O. Box 800, 9700 AV Groningen, The Netherlands*

*CESifo, Germany*

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## Abstract

The paper studies the determinants of information sharing between Swedish tax authorities and 14 EU tax authorities for value-added tax (VAT) purposes. It is shown that trade-related variables (such as the partner country's net trade position and population size), reciprocity, and legal arrangements are significant determinants of Sweden's trade in tax information. Countries that are net exporters of goods to Sweden appear to be net importers of information from Sweden, reflecting their need for information to combat export-related VAT fraud. Reciprocity plays a more important role in Sweden's export of information upon official request than in its spontaneous export of information. © 2006 Elsevier B.V. All rights reserved.

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## 1. Introduction

The increased globalization of business coupled with tendencies toward regional integration—generally involving an easing of physical border controls—has made it more difficult for countries' tax authorities to levy value-added tax (VAT)<sup>1</sup> on cross-border sales

\* Tel.: +31 13 466 8755; fax: +31 13 466 3042.

*E-mail address:* [j.ligthart@uvt.nl](mailto:j.ligthart@uvt.nl).

<sup>1</sup> Ebrill et al. (2001) define a VAT as a broad-based tax levied on commodity sales throughout the production-distribution chain, with offsetting of tax charged on commodities purchased as inputs—the so-called input tax credit—against tax due on outputs.

transactions. In this context, tax authorities have to cope with an increasing number of disappearing taxpayers, prompting calls for an internationally coordinated policy response. As a result, the exchange of VAT information has featured prominently on the international tax policy agenda during the last decade.<sup>2</sup>

Countries seek case-specific VAT information from foreign tax authorities to ensure compliance with the destination principle, which prescribes taxation of commodities at the place of consumption. Under the destination principle, export of goods are exempt from VAT and are subsequently taxed upon importation in the country of destination. Owing to the abolition of physical border controls between EU member countries as of January 1993, the necessary border-tax adjustments for intra-EU trade could no longer be operated and controlled by customs. Since then, the so-called transitional regime is operational,<sup>3</sup> in which VAT is levied on intra-EU business-to-business sales according to the deferred payment principle. Deferred payment means that intra-EU supplies are zero rated, and are taxed instead (when the firm submits its periodic VAT return) at the place of delivery. Such a form of self-assessment has increased VAT evasion substantially, giving rise to unfair competition for complying traders and a loss of public revenues to national tax authorities. By its nature, it is difficult to put a reliable estimate on the VAT evasion rate in the European Union; formal estimates vary between 13.5% and 21%.<sup>4</sup>

Not much is known about countries' incentives to exchange tax information, except for a few theoretical contributions focusing on information sharing for income tax purposes.<sup>5</sup> Moreover, little is known about the actual experiences of countries in terms of the extent, nature, and effectiveness of information sharing. No formal empirical work has been conducted yet, except for a study by [Huizinga and Nicodème \(2004\)](#) who study whether tax information sharing has had a negative effect on cross-border savings deposits of residents.<sup>6</sup> Their study has not analyzed the determinants of tax information sharing, however. Furthermore, [Huizinga and Nicodème \(2004\)](#) do not employ actual data on information sharing, but instead resort to a dummy variable to indicate whether information sharing is legally feasible.

The current paper investigates what factors determine the sharing of tax information between Sweden and EU tax authorities for VAT purposes. To this end, a unique cross-sectional data set for Sweden over the period 1998–2000 is used to estimate information supply and demand equations. The approach taken bears resemblance to the popular gravity model of international trade flows. A key purpose of the analysis is to present a

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<sup>2</sup> Simultaneously, information exchange for income taxation purposes has received a great deal of attention, as witnessed by the release of the [OECD \(2002\)](#) Model Tax Convention for tax information exchange on request and the implementation of the EU savings taxation directive in July 2005.

<sup>3</sup> It was the intention to replace the transitional VAT regime with a definitive VAT system before 1997. Since then, the transitional arrangement has been extended several times.

<sup>4</sup> The European Court of Auditors has estimated a discrepancy between actual VAT collections and potential collections (based on national accounts statistics and revenue statistics) of 21% of aggregate net EU-VAT revenue (European Commission, 2000). [Gebauer et al. \(2005\)](#) estimate (also using national accounts data) an average VAT evasion rate of 13.5% for a selection of 10 EU countries during 1994–1996.

<sup>5</sup> See the contributions of [Bacchetta and Espinosa \(1995, 2000\)](#); [Eggert and Kolmar \(2002, 2004\)](#); [Huizinga and Nielsen \(2003\)](#); [Makris \(2003\)](#), and [Keen and Ligthart \(2005, 2006a\)](#). These authors have studied tax information sharing for income tax purposes. Because of information sharing, domestic tax authorities can tax residents on their world wide income. See [Keen and Ligthart \(2006b\)](#) for an overview.

<sup>6</sup> [Huizinga and Nicodème \(2004\)](#) cannot find a significant effect, raising doubts about the effectiveness of information sharing. An explanation for the absence of a significant effect could be that the causality runs from cross-border deposits to the degree of information sharing.

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