

VENEZUELA

Chávez's flagship tax cut reversed by global downturn

In a remarkable turnaround of one of Venezuela's most popular fiscal reforms, President Hugo Chávez announced this week that VAT would rise from nine percent to 12 percent.

Riding on the back of rising oil prices, the Caracas government had been able to cut its VAT rate from 14 percent in 2007 down to today's nine percent. This was seen as a fundamental redistribution of oil revenues down to the population, and a central policy in maintaining popular support for the government.

However, with the dramatic fall of oil prices from nearly USD150 per barrel at its peak in July 2008 to today's USD52 this is no longer supportable. The Venezuelan Government has now revised its assumption on oil prices from USD60 to USD40 per barrel for its budgetary forecast.

"This was probably an inevitable reversal of a policy which was going against the global tide of VAT increases. Across this world, governments from Ireland to Japan have been looking at VAT rises to help fund lower business taxes and retain their competitive position for international inbound investment. The slump in oil price means Venezuela has to fall into line on this movement."

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