

Europe Shuns UK VAT Cutting Strategy

Richard Asquith comments on Europe's reaction to the recent reduction in the standard rate of VAT in the UK.

VAT cuts

VAT Cuts: an incisive act of fiscal brilliance aimed at curbing the growing economic crisis; or a pitiful waste of taxpayers' cash? It seems that the rest of Europe is now putting itself in the second camp on this and looking at EU VAT increases as the inevitable solution to combating the recession.

UK VAT cut grabs the European initiative

Alongside the UK's recapitalisation of the banking sector, its December VAT cut was initially envied internationally as demonstrating leadership in the fight against the impending global recession. It was met with calls from all sorts of pressure groups within the EU to help keep hard-pressed shoppers spending and economies afloat.

However, once the initial excitement cooled, European politicians queued up to deride the UK's cut, and mock the underlying economic judgment. The German finance minister teased: Would 2.5% off the price of a DVD-player really encourage spending when retailers are hacking chunks off prices to keep sales up?

Europe goes for VAT increases

The fiscal reality for many European countries actually means that they are now coming to the opposite conclusion.

The overwhelming pressure on state deficits means that many European countries are being forced to look at revenue-generating measures – including VAT rises. So far, it has only been the smaller countries which enjoyed recent explosive economic growth – Ireland, Latvia and Lithuania – that have had to raise VAT. But, in the medium term, other bigger economies are likely to follow.

The UK is not *quite* alone

The UK government should not be too downcast. It is not without compatriots in placing its trust in the benefits of VAT decreases. Recently, it has been joined by Kazakhstan and Sri Lanka.

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