

How Could We Improve the Federal Tax System?

What is the history of the VAT?

VALUE ADDED TAX (VAT)
11/12

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A. The value-added tax is a relatively new tax. It was designed by two people, independently, in the early 20th century. Many European countries enacted a VAT in the 1960s and 1970s. Other countries followed in the 1980s and thereafter.

The value-added tax (VAT) is a relatively new tax. It was designed by two people, independently, in the early 20th century. To Wilhelm Von Siemens, a German businessman, the VAT was a way to resolve the cascading problems that arose in implementing gross turnover taxes and sales taxes. To Thomas S. Adams, an American, the VAT was a better version of the corporate income tax.

In practice, governments have implemented the VAT largely as an improved sales tax. European countries, for example, have largely used the VAT to reduce or eliminate other sales taxes. The countries continue to maintain separate corporate income taxes.

Many European countries enacted a VAT in the 1960s and 1970s. Other countries followed in the 1980s and thereafter. Sijbren Cnossen, a leading VAT expert from Maastricht University in the Netherlands, called its spread “the most important event in the evolution of tax structure in the last half of the 20th century” (1998, 399).

US policymakers have found it tempting to consider the VAT, but no one seems to be able to muster the courage to call it by its real name. The “destination-based cash flow” tax that House Speaker Paul Ryan and Ways and Means Committee Chair Kevin Brady proposed in the 2016 Republican “blueprint” is just a VAT with a wage deduction. VATs are embedded in Ryan’s “business consumption tax,” libertarian Kentucky Senator Rand Paul’s “Fair and Flat Tax,” 2012 Republican presidential candidate Herman Cain’s “9-9-9” proposal, and Republican Senator Ted Cruz’s “Business Flat Tax.” VATs have also been proposed (and renamed) in Senate Finance Committee Democrat Ben Cardin’s “progressive consumption tax” and the Bipartisan Policy Center’s 2010 Domenici-Rivlin commission report, which called it a “deficit reduction sales tax.”

Although these leading policymakers proposed to use the resulting revenues differently, they all viewed the VAT favorably for three reasons: it raises lots of money, it creates few negative economic incentives, and it’s administratively feasible.

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Further Reading

Bipartisan Policy Center. 2012. "[Domenici-Rivlin Debt Reduction Task Force Plan 2.0](#)." Washington, DC: Bipartisan Policy Center.

Crossen, Sijbren. 1998. "[Global Trends and Issues in Value Added Taxation](#)." *International Tax and Public Finance* 5 (3): 399–428.

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James, Kathryn. 2011. "Exploring the Origins and Global Rise of VAT." In [The VAT Reader](#), 15–22. Falls Church, VA: Tax Analysts.