OECD: Lower VAT not always helpful for the poor

PARIS: Lower rates of value added tax do not always benefit the poor, the Organisation for Economic Cooperation and Development (OECD) think-tank said yesterday in a report urging governments instead to consider means-tested and other direct benefits to boost income equality.

The conclusion challenges a widely-held belief among policymakers that one way to help low-income groups is to reduce value-added tax (VAT) and other forms of indirect taxation. It came after a separate OECD study this week said that rising income inequality was hurting economic growth.

The organisation found that reduced VAT rates on certain goods and services disproportionately benefit the rich when the impact is measured as a proportion of household spending rather than the often used benchmark of household income.

It said the discrepancy was most stark in relation to discount rates offered by many countries on hotel accommodation, restaurant meals and cultural goods such as books, theatre and cinema tickets-services often used more by the rich.

"Many governments have sought to protect the poor by giving reduced rates," said David Bradbury Tax Policy and Statistics Division head at the OECD's tax centre.

"But through reduced rates in this area, you are delivering a cash hand-out to the wealthiest," he added, singling out the impact of reduced tax rates on meals served in restaurants.

The report highlighted that cheaper rates on food, water supply and energy products did provide more support to the poor relative to the rich in the countries where they are used.

But to distribute wealth more equally, the OECD recommended countries widen their VAT tax base by cutting out reduced rates and exemptions while giving targeted benefits to the most needy.

However, Bradbury acknowledged political and practical difficulties involved in implementing income-tested systems.

The OECD on Tuesday issued a report concluding that moves by national governments to reduce inequality would lift economic growth, writing that high levels of income inequality had a "negative and significant impact" on growth.

In most developed nations the gap between rich and poor reached its highest level in 30 years last year, with the top 10 per cent of the population earning 9.5 times the income of the poorest 10 per cent, it found.

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