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THE RISE OF THE VALUE-ADDED TAX

This book explores one of the most significant trends in the evolution of global tax systems by asking how, within less than half a century, the value-added tax (VAT) has risen from relative obscurity to become one of the world's most dominant revenue instruments. Despite its significance, very little is known about why so many countries have adopted the VAT and, in particular, why different countries adopt the types of VAT that they do. The popular mythology provides that the merits of the VAT have underpinned its global spread; however, this book contends that much scholarship on the VAT confuses the question of why the VAT has risen to dominance with the issue of what makes a good VAT. This book combines policy and legal analysis to propose a new way of understanding the rise of this important revenue instrument so as to better reflect the realities of the VATs that are actually implemented.

Kathryn James is a lecturer in the Faculty of Law at Monash University. She researches in the field of comparative tax law and policy, with particular emphasis on the value-added tax. She has published in a number of leading journals, including the *British Tax Review* and *Theoretical Inquiries in the Law*.

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To Colin and Christine James
And for Ms Billie Winsome

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Preface

Little known outside a handful of jurisdictions in the 1950s, the VAT has now been adopted by more than 150 countries and accounts for approximately 20 per cent of global taxation revenues. Interestingly, despite its significance, very little is known about why so many countries have adopted VATs and, in particular, why different countries adopt the types of VAT they do. This book identifies the source of this myopia and provides an independent, critical and scholarly account of the rise of the VAT so as to better understand this important revenue instrument.

Although the task of research and writing can be a solitary one at times, there are many people to whom I owe a debt of gratitude for helping make this book a reality. This book arose from a doctoral dissertation completed through the Faculty of Law, Monash University. I must therefore express my sincere thanks to the handful of supervisors who steered me through the dissertation: Jeff Waincymer, Rick Krever, Graeme Hodge, Stephen Barkozcy and Patrick Emerton. The latter I owe a special debt for his curiosity, integrity and boundless generosity toward this project and toward my development as a researcher. I am also grateful to the examiners of the dissertation for their enthusiastic and useful feedback and for encouraging me to take the bold next step of converting the dissertation into a monograph.

I am the lucky beneficiary of many wonderful colleagues who lent invaluable support at various stages, from IT support to proofreading. I am sure I have left important names off this list, but thanks to Kay Tucker, Rebecca Giblin, Annegret Kaempf, Ronli Sifris, Melissa Castan and Peter Mellor – who brought my attention to early VAT-like proposals in the United States. Thanks to Sandra Pyke for creating the index. I have presented various parts of this research in a number of different fora and am grateful to colleagues in Australia and overseas for their valuable comments and feedback.

Thanks to John Berger for backing this project and providing steady guidance throughout. Thanks also to the wonderful staff at Cambridge who have helped

make this book a reality – Dave Morris, Britto Fleming Joe, Ezhil Sugu Maran and Marianne Tatom deserve special mention.

Although a paragraph is entirely insufficient to do it justice, I would like to express my enormous gratitude to my partner, Melanie Hodge, whose efforts went well beyond the usual struggles that accompany the unwieldy task of partnering a doctoral candidate and then first-time book author. Not only did you, unlike most others, think this project interesting, but you provided me with the intellectual, emotional and practical support to see it through. I am forever grateful to you for that and for so much more.

Thanks to my wonderful parents, Christine and Colin James. All my achievements are a product of the opportunities provided for me by both my parents – opportunities which they were not able to access themselves. My greatest sorrow is that my dad is not here to share these victories that are as much his as they are mine.

This book has had a long gestation that now spans the birth of my own daughter, Billie Winsome. My hope is that, just as my parents did for me, I can enable Billie to find her own place in this world from which to grow, thrive and shake things up just a little.

The law is current at 28 February 2014.

List of commonly used abbreviations and key terms

ATO	Australian Taxation Office
BoT	Board of Taxation
B2B	Business-to-business supply
B2C	Business-to-consumer supply
GATT	General Agreement on Tariffs and Trade
GDP	Gross domestic product
GNP	Gross national product
EU	European Union
IMF	International Monetary Fund
OECD	Organisation for Economic Cooperation and Development
RST	Retail sales tax
UK	United Kingdom
US	United States
VAT	Value-added tax
WST	Wholesale sales tax
WTO	World Trade Organization
§	This symbol is used to denote sections within the chapters of this book.

All cross-references to section numbers are made to sections within a chapter unless indicated otherwise.