

Institution: The University of Leeds		
Unit of Assessment: 18 Law		
Title of case study: Shaping VAT law reforms globally		
Period when the underpinning research was undertaken: 2016-2020		
Details of staff conducting the underpinning research from the submitting unit:		
Name(s):	Role(s) (e.g. job title):	Period(s) employed by submitting HEI:
Rita de la Feria	Chair in Tax Law	Jan 2016-
Period when the claimed impact occurred: 2016-2020		
Is this case study continued from a case study submitted in 2014? No		
1. Summary of the impact (indicative maximum 100 words)		
<p>Professor Rita de la Feria's research into the legal design of value-added tax (VAT) systems and her novel analysis of the political economy dynamics of tax reforms has contributed to the design and approval of VAT law reforms in several countries, helping to create more equitable and efficient tax systems. Her research has influenced tax reforms at every stage of the policy process: from the development of tax policy in Brazil, Timor-Leste, [text removed for publication], UK, and the EU (stage 1); to assisting with drafting of new tax laws in Timor-Leste, [text removed for publication] (stage 2); to finally, the political debate that precedes legal approval in Brazil (stage 3).</p>		
2. Underpinning research (indicative maximum 500 words)		
<p>Value-added tax (VAT) is a general consumption tax applied to goods and services in more than 160 countries around the world, accounting for approximately 30% of total world tax revenues, according to the Organisation for Economic Co-Operation and Development (OECD, 2019). The relative significance of VAT to developing countries' economic sustainability is even greater, with this tax raising as much as 40% of total tax revenues (OECD et al, 2018). Yet performance assessments regularly carried out by the International Monetary Fund (IMF) and the OECD indicate that most VATs around the world do not fulfil their full potential, both as a result of their design (<i>policy gap</i>) and their implementation (<i>compliance gap</i>). This has significant consequences for economic sustainability, as it limits the state's capacity to deliver the public services that are key to long-term development. In developing countries, where income tax revenues tend to be smaller and there is often limited tax administration capacity, a badly designed VAT will have particularly negative effects on sustainability, frequently increasing dependency on foreign aid.</p> <p>Since 2016, Professor de la Feria's research has focussed on two elements of VAT design that have an impact on the tax's performance. First, research on VAT fraud and anti-fraud policy has established a link between fraud and legal design of VATs, and has identified legal measures to reduce the opportunity for fraud and help to counteract it. Second, research on the tax base has examined why certain products are excluded from full taxation, whether those exclusions are justified, and if not, how policy-makers can overcome political resistance to the introduction of a broad-base VAT.</p>		
Findings		
<p>The efficiency, neutrality, and equitability of a VAT are largely dependent on its legal design. A poorly designed VAT limits its capacity for revenue collection, increases the tax administration's collection costs, and creates economic/market distortions (efficiency issues). Poor design also increases opportunities for tax avoidance and fraud, creating an unequal playing field amongst businesses (neutrality issues), and inequality amongst taxpayers (equity issues). In her research, de la Feria has identified key limitations in the design of many VATs around the world:</p> <ul style="list-style-type: none"> • There has been a fundamental lack of understanding of VAT fraud and its costs, which has ultimately undermined equity and overall tax compliance [3]. Contrary to the traditional 		

perception that tends to concentrate on revenue loss, de la Feria highlights extensive economic and social costs associated with tax fraud. In her ground-breaking research she presents a novel multidisciplinary framework for research into tax fraud, identifying these costs for the first time. This presents tax administrations with evidence of uncomfortable truths – namely that anti-fraud measures consistently prioritise maximising revenue over combating the fraud itself, even where the effect is to aggravate economic and social costs [3]. She advocates introducing powerful anti-fraud provisions that combat fraud itself, addressing all its associated costs, whilst respecting taxpayers' rights and the rule of law [1,3].

- VAT design often plays a significant role in facilitating fraud and tax avoidance. In particular, exclusions from full taxation [5] and outdated legislation failing to take account of the digitalised and global nature of world economies [1], create new opportunities for fraud and avoidance. The research demonstrates that the effectiveness of anti-fraud measures depends heavily on those specific legal design features [1-3,5], and that ad hoc administrative measures, without legal reform, are unlikely to yield significant compliance benefits [2]. The research challenges prevailing views of the separation between tax administration and tax policy, by demonstrating that combating VAT fraud requires recognition of the symbiotic nature of the relationship between tax policy and tax administration [2].
- VAT exemptions and reduced VAT rates are blunt, and often ineffective, instruments to address distributional and social aims. Most VATs around the world exclude certain products, such as food items, from full taxation, with the aim of protecting low-income households or increasing the consumption of meritorious items, such as books. Research on the VAT base challenges this approach, demonstrating that the use of reduced rates and exemptions not only makes VATs less efficient, creating opportunities for avoidance and fraud, but it is also unlikely to address concerns regarding distribution. On the contrary, such use often makes the tax less equitable [4,5] and, in an EU context, extending such use can be regarded as unconstitutional [4].
- Extensive use of exclusions from full taxation in VAT results more often from political dynamics than from efficiency or equity considerations. De la Feria's research delivers the first comprehensive analysis of the political dynamics that lead to poorly-designed VATs with narrow tax bases and extensive use of exclusions from full taxation, and provides insights on how to counteract these dynamics and build public support for well-designed VATs [5].

Informed by her research findings, de la Feria developed an overarching framework – the **SLiM VAT model** – which conveys the characteristics of an ideal VAT, namely one that is both efficient and equitable, yet well-adapted to the country's own social and economic context. A SLiM VAT is therefore: *Simple*, with minimal exceptions and exclusions from the base [4,5]; *Local*, accounting for local constraints, such as limited capacity at tax administration level [2]; and *Modern*, making use of modern legal drafting techniques to combat fraud [1-3].

3. References to the research (indicative maximum of six references)

- [1] de la Feria, R. and Foy, R. 2016. 'Italmoda: the birth of the principle of third-party liability for VAT fraud'. *British Tax Review* 4, 262-73. <http://eprints.whiterose.ac.uk/101748/>.
- [2] de la Feria, R. and Schoeman, A. 2019. 'Addressing VAT fraud in developing countries: the tax policy-administration symbiosis'. *Intertax* 47/11, 950-67. <http://eprints.whiterose.ac.uk/149052/>.
- [3] de la Feria, R. 2020. 'Tax fraud and selective law enforcement' *Journal of Law and Society* 47(2), 240-70. <https://doi.org/10.1111/jols.12221>. Listed in REF2.
- [4] de la Feria, R. and Schofield, M. 2017. 'Towards an [unlawful] modernized EU VAT rate policy'. *EC Tax Review* 26/2, 89-95. <http://dx.doi.org/10.2139/ssrn.3477386>.
- [5] de la Feria, R. and Walpole, M. 2020. 'The impact of public perceptions on general consumption taxes'. *British Tax Review* 67/5, 637-669. <https://uk.westlaw.com/Document/IE2B7EA50350311EB896ADCE34595958F/View/FullText.html>. Listed in REF2.

4. Details of the impact (indicative maximum 750 words).

Research by de la Feria has shaped VAT reforms and legal changes worldwide. It has identified the limitations of existing VATs – particularly in anti-fraud policy and tax base design – and how to overcome them. The research has influenced tax reforms at every stage of the policy process: from the development of tax policy (stage 1), to drafting of new tax laws (stage 2), finally to the political debate that precedes legal approval (stage 3). These reforms are critical for countries' economic sustainability, as well as their capacity to deliver public services, such as education and healthcare, that are key to long-term development. In developing countries, reforms can also decrease dependency on foreign aid, contribute to formalising the economy, and help attract foreign investment.

(i) Tax reforms (stage 1): shaping VAT policy development

De la Feria's research has benefited several national governments and parliaments, European Union institutions, and the International Monetary Fund (IMF), helping policymakers develop VAT policy to deliver VAT laws that are more efficient, neutral and equitable. Her impact on tax policy worldwide, and particularly on VAT design, has been recognised by various awards, such as a place in the International Fiscal Association's [100 Years of Women in Tax](#) (2019).

In **Brazil** – a G20 country and one of the world's biggest economies – de la Feria's research findings on VAT anti-fraud policy and VAT base design [2,3,5] have shaped tax reform proposals currently under discussion. These are the constitutional amendment known as PEC 45, proposed by Congress, which paves the way for a new goods and services tax (known as IBS) and a new federal tax (known as CBS). De la Feria engaged directly with policy-makers and other stakeholders (2018-20), highlighting the need for a tax reform to replace the various existing consumption taxes with a single new tax that follows the SLiM VAT model [A]. She held private meetings with the Economy Minister and with CONFAZ (the heads of Treasury of all Brazilian federal states) in March 2020, and testified before Congress on a need for a well-designed VAT base [B]. She was the first witness called upon by the Congress and one of only two academics; she participated in meetings, seminars and Q&As with business stakeholders [C]; and she gave media interviews to support the reform [A]. The co-director of the Centro de Cidadania Fiscal, which co-drafted PEC 45, explained: '*Professor de la Feria provided an evidence-base justification for a new Brazilian VAT, helped shape our proposal, and has contributed to the debate as a respected third-party. Her intellectual and academic capital, as well as her ability to engage with politicians and other stakeholders, and with the general public, has been critical to advancing the reform agenda, overcoming the political economy obstacles, and helping to build a growing consensus on the need for reform*' [C]. [text removed for publication] [D].

De la Feria's experience in Brazil replicated her previous role in shaping the government VAT law proposal in **Timor-Leste**, where she also engaged directly with policymakers and other stakeholders, testified before Parliament, met with the Cabinet of Ministers, and delivered training on VAT legal drafting to ministry officials (Feb 3-5, 2016). [text removed for publication], de la Feria worked as part of an IMF team closely assisting governments in the development and introduction of well-designed VATs [E]. As part of that process, she held meetings with policy-makers and other stakeholders [text removed for publication], who have appropriated the SLiM VAT model (described in a tax news publication as the '*brainchild of professor Rita de la Feria, chair in tax law at Leeds University*' [F]), expressly referring to it in official documentation. [text removed for publication] de la Feria was part of an IMF team that assisted the governments to improve the design of existing VATs, using her research insights on VAT anti-fraud policy and VAT base design [2,3,5] to help shape the advice provided [E]. Even in countries where de la Feria had no direct involvement in the design of VAT policy, the SLiM VAT model (and the research insights that it conveys) has been appropriated by national policy-makers, including in **Poland**, where the government recently approved a SLiM VAT package of reforms ([KPMG](#), 2020).

In the **UK**, de la Feria's research insights on VAT anti-fraud policy [1,3] was critical in substantiating the concerns of campaign groups and contributed to the introduction of anti-fraud legislation for online VAT fraud in the [Finance Bill 2017-2018](#) [H]. She worked directly with the campaign groups Retailers Against VAT Abuse Schemes ([RAVAS](#)) and [VATFraud.org](#) (composed of businesses who had been directly affected by growing levels of VAT fraud on online platforms) to promote stronger VAT fraud enforcement and new legislative measures to address VAT fraud,

in line with her research on anti-fraud policy (2016-2017). The founder and manager of RAVAS remarked: *'Prof de la Feria added a great deal of credibility to the arguments that RAVAS put forward regarding the VAT liability of online platforms for third party sellers who are outside the jurisdiction of EU law'* [H]. De La Feria engaged directly with various stakeholders, including HMRC (April 2017) and the National Audit Office (February 2017) [I], and contributed to various media pieces ([Guardian](#), 2017; [Independent](#), 2017), most notably providing expert advice to [BBC Panorama](#) for its documentary on the topic, which aired in November 2017 [H]. That year, she was also called to testify before the House of Commons Public Accounts Committee on online VAT [1,3]. She was the only academic witness; her testimony is referenced in five paragraphs in the Committee's twenty-seven-paragraph report and embedded in its six recommendations (especially numbers 1, 2 and 4) [I]. The founder and manager of RAVAS noted that *'after five years of campaigning RAVAS together with VATfraud.org were successful in making online marketplaces collect VAT. The UK is due to introduce a set of measures designed to prevent UK sellers on online marketplaces evade VAT in 2021. The success ... is in part because Prof. de la Feria endorsed it adding both credibility and factual rigour'* [H].

In the EU, de la Feria has engaged with European institutions to promote a better-designed VAT base and anti-fraud measures to combat online VAT fraud. In this context, in May 2017, she was asked by the European Economic and Social Committee (EESC), an EU institution with a consultative role in approving new legislation, to testify on new legislative measures proposed by the European Commission, and assisted with drafting that Committee's Opinion. This Opinion expressly endorsed concerns raised in her research regarding deterioration of the VAT base [4]: *'the proposed measures are ... a prelude to wider reform of the EU VAT rate structure, and [the EESC] is concerned about the impact that such de-harmonisation would have'* ([J], para. 1.4); leading the European Commission to also acknowledge those concerns in a response [document](#). In April 2018, she was asked by the European Parliament to testify on the same legislative proposals ([J] – again, as the only academic witness).

(ii) Tax reforms (stages 2 & 3): assisting with drafting of VAT laws and informing the political debate

In several countries where national policy-makers used de la Feria's research into VAT anti-fraud policy and VAT base design, de la Feria herself was asked (by the IMF or by national policy-makers) to be involved in stages 2 and 3 of tax reform. Thus, she helped draft new laws – either directly, as in the case of Timor-Leste, or via the IMF, [text removed for publication] (stage 2) – and engaged with the political debate that precedes legal approval, as in the case of Brazil (stage 3) [A,C,E].

De la Feria helped draft the new VAT laws in **Timor-Leste** (2016), [text removed for publication], ensuring that policy recommendations – including those informed by her research insights on VAT anti-fraud policy and VAT base design [2,3,5] – were reflected in the law itself. As such, in Timor-Leste, [text removed for publication], the new VAT laws were characterised by broad bases and strong anti-fraud legal mechanisms [F]; [text removed for publication]. In **Brazil**, where the tax reform process is ongoing, de la Feria remains actively engaged with the debate, which is informed by her research insights on the political dynamics of VAT base reforms [5]. She has co-organised various online seminars ([JOTA](#), July 2020), participated in political debates ([Congresso em Foco](#), Sept 2020), engaged directly with the media through interviews ([Folha](#), Jul 2020; [Estadao](#), Jul 2020) and podcasts ([Economista](#), Oct 2020), and helped design a media campaign, where she featured as an influencer ([PraSerJusto](#), December 2020) to foster awareness and build support for the reform amongst key stakeholders (businesses, tax and legal communities) and the general public.

Whilst it is too early to assess the ultimate economic results of most of the tax reforms to which de la Feria contributed, [text removed for publication]. Despite contractions in consumption due to the COVID-19 pandemic, the Government's tax performance bulletin for August 2020 confirms that VAT revenue has outperformed all other taxes, becoming the second biggest source of [text removed for publication]. This has reduced the country's dependence on natural resources and made a significant contribution to its long-term economic sustainability.

5. Sources to corroborate the impact (indicative maximum of ten references)

[A] Brazilian media engagement, in relation to 4(ii): 'Brazilian lawmakers push ahead with major VAT overhaul', *Tax Notes International*, 6 March 2020: <https://www.taxnotes.com/featured-news/brazilian-lawmakers-push-ahead-major-vat-overhaul/2020/03/05/2c7z7>; 'Brasil tem pior taxa o ao consume do mundo, diz especialista portuguesa', *Valor Econ mico* (Brazil's premier financial newspaper), 10 March 2020. PDF supplied. (Portuguese).

[B] Brazilian Cross-Party Committee on Tax Reform: Official Congress video reports of testimony, 11 March 2020, in relation to 4(i): <https://www.youtube.com/watch?v=EhTFqpp7aMs> and <https://www.youtube.com/watch?v=HuwvX4v6dIA>. Video of de la Feria giving evidence: <https://www.youtube.com/watch?v=WcAttIAnF00>. (Portuguese).

[C] Co-director of Centro de Cidadania Fiscal (Tax Citizenship Centre), S o Paulo, responsible for the co-drafting of the Brazilian Constitutional Amendment Proposal PEC 45. Letter of corroboration, dated 9 September 2020, in relation to 4(i).

[D] Special Advisor to the Brazilian Economy Ministry, responsible for the Government proposal for a new Federal VAT. Letter of corroboration, dated 1 October 2020, in relation to 4(i).

[E] [text removed for publication]

[F] 'The real SLIM VAT ain't shady', *Tax Notes International*, 1 April 2019, in relation to 4(i) and (ii): <https://www.taxnotes.com/tax-notes-international/value-added-tax/real-slim-vat-aint-shady/2019/04/01/298w4>. PDF supplied.

[G] [text removed for publication]

[H] Founder and manager of campaign group RAVAS (Retailers Against VAT Abuse Schemes). Letter of corroboration, dated 22 November 2020, in relation to 4(i).

[I] Documents concerning UK authorities, in relation to 4(i): National Audit Office report on overseas sellers failing to charge VAT on online sales, 13 April 2017 (pp. 33 and 39): <https://www.nao.org.uk/wp-content/uploads/2017/04/Investigation-into-overseas-sellers-failing-to-charge-VAT-on-online-sales.pdf>; House of Commons – Public Accounts Committee, Tackling Online VAT Fraud and Error, First Report of Session 2017-19 (pp. 7, 9-11, 15, 16; qq. 2, 7, 8, 12-18, 21-24): <https://publications.parliament.uk/pa/cm201719/cmselect/cmpublicacc/312/312.pdf>.

[J] Documents concerning European institutions, in relation to 4(i): 'VAT overhaul accused of being contrary to EU treaties', *Euractiv*, 27 April 2018: <https://www.euractiv.com/section/economy-jobs/news/vat-overhaul-accused-of-being-contrary-to-eu-treaties/>; EESC, Digital Single Market VAT (e)-package (VAT on e-commerce, e-publications, e-books), OPINION of the European Economic and Social Committee ECO/421, OJ C 345, 13.10.2017, p. 79: <https://www.eesc.europa.eu/en/our-work/opinions-information-reports/opinions/digital-single-market-vat-e-package-vat-e-commerce-e-publications-e-books>.