南華大學社會科學院國際事務與企業學系公共政策研究碩士班

碩士論文

Master Program in Public Policy Studies

Department of International Affairs and Business

College of Social Sciences

Nanhua University

Master Thesis

增值稅及其對蒙古國的影響研究

A Study on Value Added Tax and Its Impacts on Mongolia

赫達

Kherlen Batbaatar

指導教授：張心怡 博士

Advisor: Hsin-Yi Chang, Ph.D.

中華民國 108 年 12 月

December 2019

南 華 大 學

國際事務與企業學系公共政策研究碩士班

碩 士 學 位 論 文

增值稅及其對蒙古國的影響研究
A Study of Value Added Tax and Its Impacts on Mongolia

研究生：赤赤達 Kherlen Batbaatar

經考試合格特此證明

口試委員：

指導教授：

系主任(所長)：

口試日期：中華民國 108 年 12 月 23 日

ACKNOWLEDGEMENT

First of all, I would like to express my deepest respect and gratitude to my advisor Professor Hsin-Yi Chang for her kindness, patience, precious times, support and inspiration during the time I have worked with her. I could not have come this far without her support and mentorship. Very special thanks go to all of the Department of International Affair and Business lecturers and staff, Professor Tzu-Yang Chang, Professor Dong-Ching Day, and Professor An-Li Peng. They all have provided useful lessons for me during the study in Taiwan. Specially, I will never forget my life of studying in Nanhua.

Finally, on a more personal level, I would like to thank my family who encourage me since beginning. I give my thankful to my parents, younger brothers and sister. To my wife and children for their emotional and moral support and understanding during my period of study out of the busy working schedule and demanding family roles. I dedicate this project to them.

Title of Thesis: A Study on Value Added Tax and Its Impacts on Mongolia

Department of International Affairs and Business, University of Nanhua
Graduate Date:2020.01.11 Degree Conferred: M.P.P
Name of Student: Kherlen Batbaatar Advisor: Hsin-Yi Chang

增值稅及其對蒙古國的影響研究

摘要

在現今世界中，許多國家希望能透過稅收來增加國家收入，特別是增值稅。增值稅是基於商品或服務在每一個商業環節的增值來課徵稅收的一種間接稅，其優點包括：經濟交換的透明化、促進投資、生產與輸出、自動勾稽以防止逃漏稅、避免重複課徵及稅上加稅等。在 1990 年代初期*前蘇聯瓦解後，前蘇聯各*成員國及前東歐等原本採行計劃經濟的社會主義*國家*轉變成資本主義的市場經濟體制，同時也進行稅制結構的全面改革，而如何在改革的同時能夠維持政府預算的穩定和經濟的效率與公平性，則成了新稅制在設計上必須考量的重點。作為一個前社會主義國家，蒙古國在 1993 年展開轉型的過程，並在國際貨幣基金及日本的協助下，發展出一套新的徵稅制度和稅務單位。本研究擬回顧蒙古國進行稅制改革的過程，同時探討增值稅對蒙古國之影響，而本研究認為，任何要進行重大稅制改革及採行增值稅制度的國家在進行改革時，宜考量稅制的簡化、稅率、課稅門檻、免稅額的設定、稅收客體,，同時提供合宜的法律支援。

關鍵詞：增值稅、門檻、免稅額、增值稅政策、稅務局

ABSTRACT

In modern world, many countries try to be good revenue collection from tax, especially VAT (value added tax). VAT has the great potential for collecting government revenue making. Advantages of this value added tax are such as: transparency of economic exchanges, to encourage investment, production and export, to take more tax from those society people that consumes more luxury and unnecessariness goods and services, to prevent from taking additional tax from product or services etc.

In early 1990s, after gaining independence, the Baltics, Russia, and other countries of the former Soviet Union started the transition process to a market economy, large-scale structural reforms were initiated in virtually all sectors of their economies, including the fiscal operations of governments. These structural changes required fundamental tax reforms that would allow the governments to maintain fiscal stability and, at the same time, provide a framework for economic efficiency and equity. As former socialist country, Mongolia also started transition process and new tax law bunches have created in 1993 after migrated from communist regime to democratic regime. During that time, Mongolia also tried to create better revenue collection tax system and actively co-worked with International monetary fund and Japan international cooperation agency for modern tax system.

This study investigates tax reform and VAT and how its implementation impacts Mongolia. During the tax reform and VAT implementation, the tax administration and government should pay attention to tax simplification, tax rate, tax threshold, exemptions, broad base of taxpayer and compatible legal support.

Keywords: VAT rate, threshold, exemption, VAT policy, VAT administration

CONTENTS

LIST OF TABLES

LIST OF FIGURES

LIST OF ABBREVIATIONS

ADB – Asian Development Bank

BRO - Baltics, Russia and Other

CIS – Commonwealth of Independent States

CIT – Corporate Income Tax

DTE – Developing and Transition Economy

EPT – Enterprise Profit

EU – European Union

GDNT – General Taxation of National Taxation

GDP – Gross Domestic Product

GST – Goods and Services Tax

IMF – International Monetary Fund

JICA – Japan International Cooperation Agency

LTO – Large Taxpayer Office

MOFE – Ministry of Finance and Economy

MTA – Mongolian Tax Administration

NIS – Newly Independent States

OECD – Organization for Economic Cooperation and Development

PIT – Personal Income Tax

QCA – Qualitative Comparative Analysis

VAT - Value Added Tax

CHAPTER ONE: INTRODUCTION

1.1 Research Background and Research Motivation

In early 1990s, after gaining independence, the former Soviet Union countries started the transition process to a market economy. Large-scale structural reforms were initiated in virtually all sectors of their economies, including the fiscal operations of governments. These structural changes required fundamental tax reforms that would allow the governments to maintain fiscal stability and, at the same time, provide a framework for economic efficiency and equity. From mid 1990s to 2000, most former Soviet Union countries began to introduce substantial changes in their tax systems, in which many of them had introduced new tax codes while tax policies and tax administration are interrelated and that the tax administration plays a crucial role in successful tax policy implementation. VAT has the great potential for moneymaking and that the scholars called it as money machine. Advantages of this value added tax are many such as transparency of economic exchanges, to encourage investment, production and export, to take more tax from those society people that consumes more luxury and unnecessary goods and services, to prevent from taking additional tax from product or services etc. (Hamed Erfani, 2013).

As former socialist country, Mongolia started transition process and new tax law bunches have created in 1993 after migrated from communist regime to democratic regime. During that time, Mongolia also tried to create better revenue collection tax system and actively co-worked with IMF (International Monetary Fund) for modern tax system. The VAT was introduced in 1998 replacing former Sales tax, with a single rate of 10 percent, which was raised to 15 percent in 2001. A Zero rate applies for exports. In 2006, the VAT rate was lowered 15 to 10 percent with effective from January 2007. VAT is currently the single most important tax in Mongolia. In recent years, its yields averaged about 9 percent of GDP or about 30 percent of total taxes (Sambuu U, 2010).

When planning and thinking about which master thesis topic I should choose, I felt that I needed to study about tax. Once I have worked in Mongolian tax authority last two years I often wanted to know more about Value Added Tax. It is one of the main taxes for Mongolian tax authority, which collect more income for the government. While I was working as a tax inspector there was debate among people that Value Added Tax rate is higher than their expectation. Some people wanted to decrease Value Added Tax rate from current level. In addition, I thought and answered from myself this tax have burden or not? Also, why this tax rate is higher or lower than other post-communist BRO countries that are changed their regime to democratic almost same time with Mongolia? When I was reviewing relevant studies on Mongolian VAT rate, the research show that the VAT rate was lower than those BRO country's VAT rate. Above reasons have aroused my interest to study the VAT. Moreover, in order to conduct this research, I have to review other former Soviet Union countries and then find out the influencing factors for the Mongolian VAT.

This research adopts the following research steps. First, to go through a broad literature survey in relevant areas such as what are the tax policy and modern tax reform, what is the value added tax and its cause of wide propagation worldwide. Secondly, how post-communist countries did modern tax policy reform after Soviet Union collapsed down, and its implementations and results. Finally, to introduce the Mongolian modern tax system, tax policy reform specialties, how value added tax implemented and what was its main factors, and try to review the VAT impacts on Mongolia and former Soviet Union countries. Also will be made conclusions according to chapters and made conclusion, recommendation to future researchers.

1.2 Research Questions and Purpose

Based on the above research background and research motivations, and purpose of this thesis are

- To make brief overview of what are TAX policy and administration, their core principles, difference between former Soviet Union countries central planned economy tax concept and western market oriented modern tax system concept,
- To explore what is the consumption tax and modern Value Added Tax main principles and why it became most popular government revenue collecting tax,
- To review after the Soviet Union countries including Mongolia central planned system collapsed down, what happened to those countries economy, government revenue and tax system,
- Finally, review and conclusion for former Soviet Union countries and Mongolia Value Added Tax system impacts and its results.

Based on the above research background and research purposes, questions of this thesis are:

- What is the Tax Reform?
- What is the VAT tax?
- What are the impacts on post-Soviet Union countries tax reform and VAT implementation?
- What are the implications for Mongolian tax reform and VAT implementation?

1.3 Literature Review

There are number of articles and books written on tax policy and administration, Value added tax, former Soviet Union countries tax reform but mostly talking about BRO excluding Mongolia. In this thesis author intends to explain after former Soviet Union countries made tax reform, what happened to Mongolian tax system and Value Added Tax implementation. In addition, author will try to review the VAT influence factors on Mongolian tax system and other former Soviet Union countries.

To understand Mongolian modern new tax system and its reform, there are some of the works published by International Monetary Fund (IMF) that discuss about its cooperation with Mongolia. One public information notice “IMF Concludes Article IV consultation with

Mongolia” stated that Mongolia has made extensive progress toward economic reform since it began its transition to a market economy in the early 1990s. However, important structural weaknesses remain, including a weak banking system, a distortionary tax system, a large and inefficient public sector, and an inadequate legal infrastructure. Directors welcomed the authorities' decision to eliminate import duties, which had given Mongolia one of the world's most liberal import regimes, and could be expected to encourage a more efficient pattern of investment. In view of the loss of revenue that would likely result from the abolition of tariffs and other tax reforms, Directors stressed the importance of implementing other improvements in the tax system, especially the early implementation of a value-added tax with a broad base.

Another IMF report stated that important reforms such as the VAT were introduced to broaden the tax base, and tax rates were adjusted to bring closer to those in other countries (IMF, 2005). Also there is another report mentioned that Mongolia’s transition has been less painful than in many other post-communist economies, particularly compared with CIS countries. A Value Added Tax (VAT) was successfully introduced and the extractive industry provided an expanding and easily targeted tax base, although very vulnerable to fluctuations in prices of Mongolia’s exports (IMF, 2005). As pointed out Korea Institute of Public Finance (Jongseok An, 2002) Even though the market-oriented tax system and implementation practices are relatively new to tax officials and taxpayers, they adapted the new system relatively well. Improving the efficiency of tax administration is a long-standing issue in most of the countries in the world. Especially in countries like Mongolia where presumption is a prevailing practice in tax administration, it is urgent and important for the government to build up fair, transparent, and efficient administration practices. Also as pointed out Japan International Cooperation Agency (JICA, 2016) stated that The government of Mongolia has been moving from a socialist planned economy to a market economy, and as part of that process, it has been receiving technical support from JICA to help modernize its tax collection system. Since 1998, JICA has provided cooperation to the Mongolian tax authority (the General Department of Taxation) in the following five stages in order to strengthen Mongolia’s tax collection capacity and increase the tax collections that form the foundations for public policy.

Those works of IMF, JICA and other researchers have supported the author in a further research of the study on VAT and its influences on Mongolia and motive behind. In addition, this became a stepping-stone to look for other resources relevant to the thesis.

This thesis not only provides historical background of the VAT which was propagated about 70 years but also provides former Soviet Union countries transition process and more detailed literature for tax policy reform and vat propagation and its implementation. There are several literatures on the VAT history in general and its propagation in particular that provide a good general overview. When selecting references for this thesis, the author has been chosen for the recognition within field. In this regard, two books, which are Alan A.Tait "Value Added Tax International Practice and Problems 1988", Liam Ebrill and others "The Modern VAT- 2001", provide a general understanding of the history of VAT, its development and challenges. A compilation of Alan's book on VAT history from its starting until its implementation in 1988, gave the background to the VAT understanding (Alan A.Tait, 1988). In addition, a compilation of Liam's book on VAT history from its starting until its implementation in 2001, gave the background to the VAT understanding and some challenges to tax reform transition countries (Liam Ebrill M. K.-P., 2001). There are also several literatures on the former Soviet Union countries tax reform history in general and its implementation in particular that provide a good general overview. Here is also some research papers which are Liam Ebrill and Oleh Havrylyshyn,-"Tax Reform in the Baltics, Russia, and Other Countries of the Former Soviet Union 1999", provides overview of the tax revenue performance and survey of former Soviet Union countries' effort to modify tax policy in line with needs of increasingly market-oriented economies and to increase the effectiveness of tax administration (Liam Ebrill O. H., 1999). Vahram Stepanyan "Reforming Tax Systems: Experience of the Baltics, Russia, and Other Countries of the Former Soviet Union 2003" provides reviews country experiences and suggestions to those countries tax policy reform (Stepanyan, 2003).

In the end, the use of other literatures such as some scholar research papers, World Bank research books, International Monetary Fund that main supporter, researcher and developer for developing and transition countries tax policy and reform related to the topic in this thesis is used extensively to support the completeness of the thesis. The author cited and noted resources obtained into chapters, which all inter-related and logically connected between the chapters.

1.4 Methodologies and Research Limits

Qualitative research is a scientific method of observation to gather non-numerical data (Babbie, 2014). This type of research "refers to the meanings, concepts definitions, characteristics, metaphors, symbols, and description of things" and not to their "counts or measures." This research answers why and how a certain phenomenon may occur rather than how often (Berg & Lune, 2012). This thesis used historic, comparative case study.

Qualitative historical research involves examining past events to draw conclusions and make predictions about the future. Historical Research let possibility to discuss past and present events in the context of the present condition, and allows one to understand and provide possible answers to current issues and problems. Historical research helps us in answering questions such as: Where have we come from, where are we, who are we now and where are we going? Last 50 years many countries made tax reform to their system and author needed to do historic research for exploring those countries tax reform especially BRO countries that make big economic and tax reform during 1990's.

Another research method, which is also needed to use on qualitative research, is comparative study approach. Qualitative Comparative Analysis is introduced as a research design, which can be a fruitful tool for the (comparative) analysis of social movements. Qualitative Comparative Analysis is a case-study methodology that enables researchers to compare mid-sized numbers of cases in view of sufficiency and necessity set relations. It is especially suitable for the assessment of "if… then" hypotheses. It takes into account complex causal structures, referring to equifinality, conjunctural causation, and asymmetrical causality (Porta, 2014). The analysis begins with listing and counting all the combinations of variables observed in the data set, followed by applying the rules of logical inference to determine which descriptive inferences or implications the data supports. The technique was originally developed by Charles Ragin in 1987 (Ragin, 1987). After making historic research, author also need to make comparative study for comparison and conclusion between central planned countries who is BRO countries and Mongolia.

Even though the research reached its aim, there may be some possible limitations in this study.

First, the writer did not use primary data, which obtained from respondents and interviews directly to the object involved.

Second, the lack of knowledge that writer had. Value added tax is one the of many tax system. Tax understanding and tax theory is very big and related to many fields such as economy, society and politics. Therefore, the author will be limited.

Third, Limit of time that writer had. Value Added Tax reform is long and complex process. Therefore, author's aims more pay attention to fundamental and solid base of Mongolian tax system and VAT reform. Moreover, tried to review their impacts on Mongolia and BRO countries. It will limit historic time research and set between 1990 and first decade of 21st century.

1.5 Thesis Structure

This thesis was divided into 5 chapters. The purpose of this part is to simply introduce the contents of each chapters.

First chapter is an introduction. This is the beginning of the study, which introduces what the author wants to explain in the thesis. It gives a brief summary of the main thesis and introduce the research objectives. These parts are: Research background and research motivation, Research purpose, Literature review, Methodologies and research limits and Thesis structure.

Second chapter explains about the Tax policy reform concepts and tax reforms on post-communist countries after central planned economy regime collapsed down.

When speaking about a good tax system, we think of a system that allows a country's authorities to implement tax policy in the most efficient way. The main characteristics of such a system generally include the provision of adequate revenue-generating capacities, achievement of economic efficiency, provision of equity, an optimal tax mix, simplicity, effective tax administration and transparency. Free economic countries have already intended to this way but in case of former Soviet Union countries, it were a challenge. Due to there is no experience for market economy tax system in former Soviet Union countries they got the market economy tax system implementation help from International Monetary Fund (IMF). In this chapter, not only about good tax system, tax policy and reform but also explained about for Soviet Union countries new tax system reform from beginning of 1990s until 2000. In this time, almost all the former central planned countries including Mongolia made tax policy reform and faced many challenges. In market economies, roles of tax and fiscal policies follow from the view of the government in organizing economic activities. The recent evolution of the structure of the tax system in *market economies* reflects a fundamental shift in taxation philosophy away from interpersonal equity objectives and toward economic efficiency objectives (Shome, 1995).

Third chapter provides about value added tax, its propagation and vat reform in former Soviet Union countries. The concept of value-added taxation is not new-- T.S. Adams first advanced it in 1921 and France was eventually the first country to introduce a VAT in 1954, based on the proposal of Lauré, then joint director of the French tax authority. Over the last decades, VAT has swept the world. The principal reason for the rapid spread of this form of taxation were, first early adoption of this form taxation in the European Union(EU) and, second, the key role played in the spreading the word to developing and transitional countries by the international monetary fund (IMF) in particular and by international agencies advisors more generally. The success of VAT in EU showed that VAT worked. Despite its name, the VAT is not generally intended to be a tax on value added as such: rather it is usually intended as a tax on consumption. Its essence is that it is charged at all stages of production, but with the provision of some mechanism enabling firms to offset the tax they have paid on their own purchases of goods and services against the tax they charge on their sales of goods and services . Countries introduce a VAT because they are dissatisfied with their existing tax structure. This dissatisfaction falls broadly into one, or possibly all, of four categories: (1) the existing sales taxes are unsatisfactory; (2) a customs union requires discriminatory border taxes to be abolished; (3) a reduction in other taxation is sought; or (4) the evolution of the tax system has not kept pace with the development of the economy. Tax reforms in almost all former Soviet Union countries started with the overhaul of existing enterprise profit tax (EPT) system and introduction of a personal income tax (PIT), excises and VAT, the latter to replace the turnover taxes. Even almost all former central countries made VAT reform but results were many different due to their implementation attitude, each countries special conditions, and tax administration management etc.

Fourth chapter describes the Mongolian new tax system, its reform, value added tax influences and its influencing factors compared to other former Soviet Union countries. Mongolia's transformation towards a market-oriented economy in the 1990's was accompanied with a parallel transformation of its tax system. To this end, the General Law of Taxation, which established the legal framework for tax system, was introduced in 1993. The government of Mongolia reformed tax system almost every year from the early 1990's with the help of technical assistance from IMF and other professionals of industrialized countries. Moreover, in 1991, there were IMF and Japan Ministry of Finance's consulting works for the tax system re-design. In addition, in 1997, unified system of MTA was launched. Consequently, Mongolia got to the current tax system and administration that are consistent with those of market-oriented economies. General The VAT was introduced in 1998 replacing former Sales tax, with a single rate of 10 percent, which temporarily was raised to 15 percent in 2001 and again was lowered to 10 percent with effective from January 2007. A Zero rate applies for exports. VAT is currently the single most important tax in Mongolia and plays an important role in terms of revenue. The author tried to make a review of the VAT main factors for its impacts on Mongolia and former Soviet Union countries once there is different VAT implementation results.

Fifth chapter is the conclusion. The thesis all chapter are summarized chapter by chapter and made main conclusion of the thesis. This part answered the thesis question that arose before. Here author make summary for VAT and modern tax reform, Mongolia and former Soviet Union countries tax system reform and VAT and Mongolian main impacts during reforming and implementing VAT. Finally give some research recommendation to future researchers.

CHAPTER TWO: TAX POLICY AND REFORM

2.1 Tax Policy

When speaking about a good tax system, we think of a system that allows a country's authorities to implement tax policy in the most efficient way. The main characteristics of such a system generally include the provision of adequate revenue-generating capacities, achievement of economic efficiency, provision of equity, an optimal tax mix, simplicity, effective tax administration and transparency (Stepanyan, 2003).

The best tax policy in the world is worth little if it cannot be implemented effectively. Tax policy design in developing and transitional countries must therefore take the administrative dimension of taxation carefully into account. What can be done to a considerable extent determines what is done in any country. Tax policy and tax administration interact at three distinct levels: (1) the formation of policy and the drafting of legislation, (2) the administrative procedures and institutions needed to implement legislation (such as forms), and (3) the actual implementation of the tax system. These matters were thrown into sharp relief in the early 1990s in eastern and central Europe as a result of the major political changes that produced what are commonly called the transitional countries out of the former Soviet sphere (Bird R. M., 2003).

The standard theory of optimal taxation posits that a tax system should be chosen to maximize a social welfare function subject to a set of constraints. The literature on optimal taxation typically treats the social planner as a utilitarian: that is, the social welfare function is based on the utilities of individuals in the society. In its most general analyses, this literature uses a social welfare function that is a nonlinear function of individual utilities. Nonlinearity allows for a social planner who prefers, for example, more equal distributions of utility. However, some studies in this literature assume that the social planner cares solely about average utility, implying a social welfare function that is linear in individual utilities (Yagan, 2009).

In market economies, roles of tax and fiscal policies follow from the view of the government in organizing economic activities. The recent evolution of the structure of the tax system in market economies reflects a fundamental shift in taxation philosophy away from interpersonal equity objectives and toward economic efficiency objectives (Shome, 1995).

In practice, according to OECD two trends are for tax policy. First one is the macroeconomic trends that look at for trends and forecasts on growth, productivity, investment, employment, public finances and inequality. Tax policy developments are closely connected with economic trends: tax revenues are affected by changes in macroeconomic conditions and economic developments themselves are key drivers of tax reforms. Another one the tax revenue trends in OECD countries – looking at both total tax-to-GDP ratios and tax mixes (OECD, 2016).

As quoted Stepanyan Vahram, the characteristic of providing equity relates to the issue of equity in taxation or fairness in sharing the burden of tax. Two types of equity are considered: vertical equity and horizontal equity. Vertical equity in taxation is typically taken to mean that people with higher income (or consumption or wealth) should be taxed more heavily, and accordingly, that taxation is "progressive". Horizontal equity in taxation is generally taken to require that equals (people in like circumstances) should be treated equally. Thus, according to this criterion, households with similar income and family circumstances should pay roughly equal taxes. Tax systems are also characterized by the composition of taxes or the so-called tax mix, with taxes generally divided into direct and indirect taxes. Many recent proposals on the change in tax mix have involved the reduction in income taxation and introduction of, or growing reliance on, a broad based consumption tax like the VAT, which is seen as less distortionary. However, it should be noted that the net efficiency effects of a tax mix change are difficult to assess and often ambiguous because of imperfect knowledge of key elasticities in the labor and capital markets (Stepanyan, 2003).

Also Stepanyan Vahram additionally argued that simplicity is another important consideration when designing tax systems. Tax systems that are excessively complicated undermine tax administration due to difficulties in enforcing such a system, and can lead to worsening of taxpayer compliance. In cases where tax systems include taxes with a multiple rate structure and numerous deductions and exemptions, a tax administration with limited resources may have significant difficulties in preventing tax evasion.

2.2 Tax Reform

Tax reform is a change from the existing tax structure. In practice, tax reform is piecemeal and dynamic in contrast to the once-and-for-always character of tax design (Feldstein, 1976).

In words echoing some of the points made earlier, (Wallschutzsky, 1989) some years ago suggested that the key elements in such a strategy might be summarized as follows: Keep the tax laws as simple as possible; Aim for a global tax with few exemptions, credits, rebates, or deductions; Do not try to use the tax system to achieve too many social and economic goals; Continually monitor the tax system; Concentrate on basic tasks such as collection of tax at source and an ID number system; Do not collect more information than can be processed; Actively encourage good record keeping; and Aim, as a long term goal, for self-assessment. Such words of wisdom are undoubtedly clichés to some extent. But they are nonetheless both clearly applicable to the case of tax reform in most transitional and developing countries and have, equally clearly, sometimes been honored much more in the breach than the observance (Bird R. M., 2003).

With admirable succinctness for such a complex topic, Bird and Oldman have suggested that the best approach to tax reform is one that takes (Bird R. a., 1990): into account taxation theory, empirical evidence, and political and administrative realities and blends them with a good dose of local knowledge and a sound appraisal of the current macroeconomic and international situation to produce a feasible set of proposals sufficiently attractive to be implemented and sufficiently robust to withstand changing times, within reason, and still produce beneficial results (James, 2008).

James and others also quoted that VAT/GST has similarities with other forms of taxation. For example, a VAT that exempts capital expenditure and money spent on inputs is in some ways equivalent to an income tax that exempts savings. There is also a correspondence between such a VAT and an expenditure tax (see for example (Prest, 1985) where an expenditure tax is a tax on personal incomes after deducting savings and specifically taxes spending from savings (Meade, 1978), therefore saw VAT as a possible way of achieving an expenditure tax. However, in general most forms of VAT/GST exempt capital inputs and are therefore basically taxes on consumption rather than income.

Many articles have appeared in the literature proposing tax reform for economies in transition (Tanzi, 1993). They can be divided into two main groups: (1) those that recommend a one-shot transformation of a prevailing tax system with features found in a command economy to one that deals fully with the concerns of an optimal tax system in a market economy; and (2) those that recommend a step-wise approach that allows only broad approximations to an ideal tax structure to prevail during the transition to a market economy. Advice related to technical assistance to the Newly Independent States (NIS) also reflects these two views over tax reform (Escolano, 1993).

The IMF has provided input into the design of tax reforms in many transition and developing countries, and generally recommended that tax systems have the following characteristics:

- Heavy reliance on a broadly-based sales taxes, such as VAT, preferably with a single rate and minimal exemptions, and excise taxes levied on petroleum products, alcohol, tobacco and a few items that are considered luxuries.
- No reliance on exports duties, which inhibit international competition, or on small nuisance taxes, administration of which is not effective.
- Import taxation at as low levels as possible, with a limited dispersion of rates to minimize effective rates of protection.
- An administratively simple form of personal income tax, with limited deductions, a moderate top marginal rate, an exemption limit large enough to exclude persons with modest incomes, and a substantial reliance on withholding.
- A corporate income tax levied at only one moderate-to-low rate aligned with the top personal income tax rate, with depreciation and other non-cash expenditure provisions uniform across sectors and minimal recourse to sector or activity-specific incentive schemes (Shome, 1995).

The effectiveness of tax systems depends not only on the design of tax policies but also on effectiveness of tax administration. Once governments have their tax policies appropriately designed, the tax administration plays the main role by securing the effective implementation of these policies for achieving the objectives (Stepanyan, 2003).

Tax system design should also address issues of its transparency and governance. Tax laws, regulations, and other documents, including explanatory materials, should be accessible to the public and be kept up-to-date. Changes to tax legislation should be given sufficient publicity so that taxpayers understand how they might be affected and there should be mechanisms in place whereby taxpayers can have their queries answered. In addition, administrative discretion in applying tax laws must be limited. Negotiation of tax liabilities between officials and taxpayers should not be the general rule, both because of no transparency of such practices and the potential for corruption (IMF, 2002).

The experience of many tax reform initiatives suggests that the following three general characteristics may be useful in comparing and assessing tax reform efforts in terms of implementation and outcomes: (i) objectives of reforms, (ii) scope of reforms, and (iii) breadth of reforms. Tax reforms may be designed to achieve a number of objectives**,** for example to: (i) increase tax yields, in which case they are intended to be revenue enhancing, (ii) simplification of the tax system, while being revenue neutral, (iii) target specific equity objectives, where tax equity is understood to involve both vertical and horizontal dimensions, (iv) reduce the scope for tax-induced barriers to more efficient resource allocation, and (v) influence the flow of resources to particular economic sectors or activities of priority to governments. In terms of scope, tax reform may be comprehensive in the sense that it is intended to encompass most of the important revenue sources and often involves adoption of new tax codes, or it may be partial, wherein reform efforts are confined to one or two significant components of the tax system. Regarding the breadth of reform, a tax reform may focus on the entire tax system, including institutions for tax administration and compliance, or may be concerned only with changes in tax policy that focus on tax base and rate structure. There are certain difficulties in measuring success or failure in tax reform programs. In particular, non-revenue objectives like redistribution, promotion of growth, simplification, and improved resource allocation are not so easily quantified. For this reason, the impact of reform upon the revenue-generating capacity of the tax system is probably the most serviceable measure of the tax reform's success (Stepanyan, 2003).

2.2.1 Developing Country's Tax System Reforming

Almost all developing and transition countries have performed tax reforms under difficult economic, social, and political conditions. The establishment and successful implementation of effective and efficient tax systems faced a few barriers emerging from the structure of economies, low growth rates, decline in output and weak institutions.

In many developing countries, governments may find it difficult to impose and effectively collect certain taxes with a given structure of the economy. This is particularly true for countries where the economy is characterized by a large share of agriculture in total output and employment, existence of a large informal sector, and a small share of wages in total national income. Such characteristics reduce the scope for effective implementation of direct taxes like the personal income tax and reduce the possibility of achieving high effective tax rates. Another major obstacle for effective implementation of tax reforms in developing countries has been inadequate tax administration capacity. The lack of well-trained personnel, resources to pay good salaries and provide necessary equipment, and adequate taxpayer education results in an inefficient tax administration. Therefore, countries often develop tax systems characterized by too many small tax sources, heavy reliance on foreign trade taxes and relatively insignificant use of personal income taxes (Vito Tanzi, 2000).

A tax reform that reduces the complexity of the tax system may lead to lower collection costs and may reduce the costs to individuals of complying with the requirements of the tax laws. In addition, reductions in the marginal tax rate may reduce the potential benefit from tax evasion and a lower potential benefit will lead to reduced evasion activities. However, if the authorities reduce tax enforcement efforts in the belief that the lower tax rates and simplified tax system will automatically lead to reduced evasion, for taxpayer the probability of being detected will fall and the overall net result may leave the level of tax evasion unchanged (Stepanyan, 2003).

The effects of taxation on the ability and willingness of economic agents to work, save and invest vary, depending on the base of the tax, the rate structure of the tax and the level of the tax burden.

Several studies on developing economies have shown that the structure of taxation can have a major influence on the real sector and that taxation policy can therefore be an important tool for promoting saving, capital formation and economic growth. An empirical study based on a cross-sectional analysis of 20 countries, compared the selected countries because of lower and higher levels of taxation and their influence on growth rates over a ten-year period. In all cases, the countries that imposed a lower effective average tax burden on their populations achieved substantially higher rates of GDP growth than did their more highly taxed counterparts (Stepanyan, 2003).

In sum, from the empirical literature and tax reform studies it seems that there are no universal laws that can be discovered concerning the influence of the tax mix and tax policies on a country's economic growth and development. Appropriate tax mix and policies differ from one country to another, depending upon the economic, social and political circumstances of the country. While there has not been unanimity on the issue, most of the empirical studies reveal an inverse relationship between the level of direct taxation and the rate of savings and capital formation (Stepanyan, 2003).

2.2.2 Characteristics of Successful Reforms in Developing Countries

By the mid-1980s, many of the world's countries—both advanced and developing had either enacted or were considering substantial tax reforms. This extraordinary series of tax reforms occurred in response to intellectual, historical, and political currents that appeared during the 1970s. In some cases the reforms reflected primarily domestic economic and political circumstances; in others they reflected economic circumstances common to many countries and although the world's economies have widely varying tax systems even after a decade of reform, some common themes - most notably, the attempt to lower marginal tax rates - run through most of these reforms (Michael J. Boskinand Charles E. McLure, 1990).

In 1970s and 1980s, many developing countries made repeated attempts to fundamentally reform their tax systems. A review of these reform initiatives and their outcomes may reveal rich worldwide experience and provide some lessons for those countries that are contemplating tax reforms. There have been several studies on tax policy reforms in developing countries that covered various aspects of the reforms. The results of one particular research project funded by the US Agency for International Development and edited by (Gillis, 1989) present a comprehensive review of tax reform initiatives in more than 20 developing countries. Below the researcher will summarize some evidence and lessons from these reform experiences (Stepanyan, 2003).

Tax reform provides many examples of failures - where reforms did not achieve their objectives successfully and sometimes even had to be reversed. However, value added tax (VAT) in the UK and goods and services tax (GST) in New Zealand have survived successfully for many years. A key factor is the process of implementation both in allowing effective prior consultation to identify possible problems and improvements as well as preparing the taxpaying public for change. It is also important that the reform was seen to be fair, that there were gains as well as losses and the change was a net improvement (James, 2008).

There are objective, scope and breadth of reforms and consider in terms of the objectives of reforms, revenue performance has been one of the principal criteria employed in judging the success or failure of tax reform programs. If judged by this criterion, tax reform efforts have been largely successful in most of the developing countries. During the period of 1950-1980, when major tax reforms were implemented in developing countries, the typical share of taxes in GDP increased from 11 percent to around 18 percent. A major driving force for tax revenue increases has been the introduction of VAT. More generally, most of the increased revenues from tax reform have come not from direct taxes on income and wealth, but from indirect taxes, including the VAT (Stepanyan, 2003).

As quoted in Stepanyan Vahram, discussing the scope of tax reforms, the experience from developing countries is rather mixed and does not allow deriving conclusive lessons on the relative merits of comprehensive versus partial reforms. Some evidence shows that a greater proportion of partial reforms have been successful. For example, after examining the tax reform measures in developing countries over the past few decades, (Oldman, 1990) claimed that a series of incremental improvements in tax systems is better than a once and for all comprehensive reform. This is explained by the fact that the tax problems are highly complex, objectives are often conflicting and tax administration is generally weak in these economies.

When reviewing the breadth of reforms, the experience of various tax reform programs in developing countries suggests that successful tax reforms require fundamental changes in the tax system, both in its policies and administration. It seems that changes in tax bases and rates alone were not sufficient, and that elements in the tax system that needed most attention in developing economies were tax administration and tax compliance.

2.3 Tax Reform on Former Soviet Union Countries

In 1989, general government revenue in the Soviet Union was 41 percent of GDP—not far from the average for member countries of the Organization for Economic Cooperation and Development (OECD). However, by 1995, revenues in the countries of the former Soviet Union were down to an average of 25 per-cent of GDP (Cheasty, 1996).

Since 1992, the IMF has supported the process of transition in the countries of the Commonwealth of Independent States (CIS), as well as in other transition economies, by providing financial support, working closely with authorities in designing stabilization, adjustment, and structural reform programs, and providing technical assistance. One important element of this work has been the reform of tax policy and tax administration (O. Havrylyshyn, 1999).

For most transition countries, the contraction in output in the early stages of transition led to substantial decline in the traditional tax base (i.e. industry) and as a result, government tax revenues fell sharply. Though other sectors of economy like agriculture experienced less contraction and started to recover earlier, and the share of private sector has been growing, these sectors did not contribute significantly to tax revenues in the past because of tax policy and tax administration weaknesses, including various exemptions that eroded the tax base and a failure to bring a large portion of informal sector into the tax net. In terms of institutional and administrative constraints, the transition economies faced a number of challenges: (i) the institutional capacity of the tax administration did not improve much, while the scale and functions necessary for the market economy increased compared to a planned economy; (ii) planned economies typically were concentrated in a state-owned industrial sector, while the transition to a market economy assumed more taxpayers and growing share of private sector; (iii) unfamiliarity of tax officials and taxpayers with the new system; (iv) limited resources for capital costs, like computer equipment, and training; and (v) old traditions and attitudes-the tradition of negotiation and bargaining in taxation needed to be broken and taxpayers' attitudes towards tax evasion and voluntary payments changed (Stepanyan, 2003).

In early 1990s, after gaining independence, the Baltics, Russia, and Other (BRO) countries of the former Soviet Union started the transition process to a market economy. Large-scale structural reforms were initiated in virtually all sectors of their economies, including the fiscal operations of governments. These structural changes as well as fast-changing external economic conditions required fundamental tax reforms that would allow the governments to maintain fiscal stability and, at the same time, provide a framework for economic efficiency and equity. The period that is of particular interest covers the mid-1990s to 2000, when most BRO countries introduced substantial changes in their tax systems, with many of them introducing new tax codes. While recognizing that tax policies and tax administration are interrelated and that tax administration plays a crucial role in successful tax policy implementation, the research does not aim to address in detail issues related to tax administration (Stepanyan, 2003).

Starting in the beginning of the 1990s, BRO countries began the transition process to a market economy. Drastic changes in economic and political circumstances resulted in the disruption of trade and a substantial decline in the industrial output and GDP, Though public expenditure was substantially cut, output and tax revenues declined at a faster rate, resulting in severe fiscal imbalances in many of these countries, which in turn led to broad macroeconomic instability. The inherited Soviet-type tax systems, characterized by the dominance of turnover and enterprise profit taxes, could not operate efficiently under the conditions of liberalization of prices and methods of payment, the privatization of state enterprises and increasing share of the private sector in GDP. There was an urgent need to reform both the statutory and the administrative aspects of the tax systems (Liam Ebrill M. K.-P., 2001).

As Stepanyan Vahram mentioned that the tax reforms in almost all BRO countries started with the overhaul of existing enterprise profit tax (EPT) system and introduction of a personal income tax (PIT), excises and VAT, the latter to replace the turnover taxes. By the mid-1990s, these taxes had already been introduced in most countries. Although the initial implementation of tax reforms was similar in many countries, with a number replicating the reforms initially enacted by the Russian Federation, at the later stages the reforms varied more widely. According to IMF conclusion, the first group includes Estonia, Latvia, and Lithuania, which can be considered as successful examples of tax reform implementation amongst BRO countries and which managed to adopt new tax systems consistent with best international practices in relatively short period and recover tax revenue levels prevailing before transition. It should be noted that starting in the mid-1990s, all three countries' governments' tax policies have been influenced by their medium-term objective of accession to European Union.

The second group includes Armenia, Azerbaijan, Georgia, Kazakhstan, Kyrgyz Republic, Moldova, Ukraine and Uzbekistan. These countries achieved certain progress in tax reforms in the mid-1990s, but later on faced many challenges in terms of maintaining good tax policies, completing transformation of their tax systems into ones similar to that of developed market economies, and recovering previous tax revenue levels.

For example, Georgia introduced a comprehensive unified tax administration law in mid-1997 and made substantial progress in organizational reforms, establishment of a large taxpayer unit, collection and enforcement, taxpayer registration, sanctions and penalties, filing and payment procedures, computerization, and VAT administration (Liam Ebrill M. K.-P., 2001).

Countries in the third group, Belarus, Tajikistan and Turkmenistan, can be considered late or conservative reformers, with a slower overall transition to a market economy, relatively stable tax revenue levels-with the exception of Turkmenistan-and major tax reforms initiated only in late 1990s. During most of 1990s, Russia implemented relatively few changes to its tax system and only starting in 1999 did the authorities initiate tax reforms that covered all major revenue sources. These reforms were gradually implemented during the next two years making Russia an advanced tax reformer and inspiring similar reforms in some other BRO countries (Stepanyan, 2003).

One interesting issue is how Russia’s tax effort differs from that of other economies in transition, and whether tax effort in the economies in transition has been systematically different from other countries. Among other factors, relatively low tax effort in the economies in transition might be due to a limited capacity of their tax administrations and an established tradition of tax evasion (Michael Alexeev, 2009).

The Baltic countries were among the first BRO countries to introduce a VAT. Unlike other BRO countries, VAT rates in Baltics were initially set at relatively low levels (10-15 percent) although the rates were subsequently raised to 18 percent. Regarding exemptions and preferential rates, all three countries had introduced some exemptions mainly on food items, agriculture and energy sectors, but these were gradually reduced. By 2000, the Baltic countries had VAT revenues of around 8 to 10 percent of GDP, one of the highest ratios amongst BRO countries, and relatively few exemptions (Stepanyan, 2003).

The advantage of the Lithuanian tax reform lies in the national public finances stabilized, i.e., the objective of the reform is achieved, as the stability of the public finances is ensured by the compensation of the revenue loss. The changes in tax laws have preconditioned greater State revenue (tax revenue share in GDP has increased by 0.1 percentage points) (Ilona Skačkauskienė1, 2012).

When DTE have a VAT, it is invariably among the most important sources of government revenue. Indeed, anyway one cares to look at it VAT has clearly been an enormous success (Bird R. M., 2005).

Countries in the second group introduced VAT in 1992, at rates mostly set at 28 percent (in case of Uzbekistan 30 percent) and with exemptions for basic foodstuffs. During the next two years, the VAT rate was reduced to 20 percent and some countries, including Georgia, Kazakhstan, Moldova and Uzbekistan, introduced lower preferential rates for certain foodstuffs rather than eliminating exemptions to compensate for loss in revenue. Starting in the mid-1990s, the countries in this group implemented substantial changes to their VAT systems by moving them to accrual basis and invoiced-based determination of liabilities. Although by the late 1990s, most of these countries had attempted to reduce the number of exemptions (Uzbekistan increased the standard VAT rate back to 20 percent), most still had VAT exemptions and preferential rates for either agriculture sector related activities and/or energy sector, Regarding VAT efficiency rates for countries in the second group, those have ranged from 20 to 70 percent and, with the exception of Ukraine and Moldova, showed some improvement during the period under consideration (Stepanyan, 2003).

The investigation conducted by Alexeev and Conrad showed that tax reforms in Russia did not significantly change its position relative to other countries with respect to tax effort. Russia’s relative tax effort and VAT efficiency peaked in 2001 but later returned to essentially pre-reform levels (Michael Alexeev, 2009).

Russia, Belarus, Tajikistan and Turkmenistan can be considered as slow reformers in terms of changes implemented to their VAT systems. They were the last ones amongst BRO countries to move from origin to destination principle for CIS trade as well as from gross margin taxation to credit/invoice methods. The other three countries in the group have tended to follow Russia's policies regarding tax rates and exemptions. This has been true in particular for Belarus, where tax policies have been guided by the Union agreement with Russia that required harmonization of tax systems of the two countries. Only in the late 1990s did countries in the third group initiate major changes to their tax systems. In particular, Tajikistan and Russia prepared and started to implement new tax codes that modernized their VAT systems and removed some exemptions. In terms of VAT efficiency, Tajikistan had the lowest VAT efficiency rates at below fifteen percent, and Russia's VAT efficiency seemed to be improving in the late 1990s (Stepanyan, 2003).

Fiscal reform in transition countries has involved fundamental re-structuring of both the revenue and expenditure systems to facilitate the larger transition to market-oriented resource allocation in the economy. On the expenditure side, fiscal reform efforts have rationalized public sector responsibilities, introduced hard budgets and modern budgeting processes, and established treasury functions. On the revenue side, the focus of fiscal reform efforts has been on the development of a comprehensive tax code, the establishment of a destination-based consumption-type VAT, the implementation of a corporate income tax based on market-based net income, the widespread elimination of exemptions and preferences (Anderson, 2005).

There are objective, scope and breadth of reforms and consider in terms of the objectives of reforms, by end-2000, the Baltic countries had higher or similar levels of government revenues compared to the beginning of transition process and had largely achieved the tax reform objectives. Their objectives primarily comprised maintaining tax revenue levels, lowering the tax rates, minimizing distortions created by taxes and simplifying the tax system. Relatively fast implementation of revenue-neutral reforms at the initial stage of transition allowed the Baltic countries to avoid the sharp revenue declines that most of the other BRO countries have experienced. Tax systems in the Baltics were initially characterized by numerous exemptions and concessions, however, these countries moved towards simplification and base broadening and by the late 1990s, most of the exemptions and preferential provisions were repealed and their tax systems were transformed into ones largely similar to tax systems prevailing in Western Europe (Stepanyan, 2003).

Starting in the mid-1990s, Armenia, Georgia, Kazakhstan, Russia and Turkmenistan managed to reverse the declining trend in their tax revenues, while others continued to experience serious difficulties with raising revenues. At the initial stage of transition, most countries in the second and third groups recorded a decline in their tax revenues and one of the priority objectives of their tax policies was to increase tax yield relative to GDP. This situation seems to have resulted from a combination of the following factors: negative growth rates, weak tax administration, and distortions in the tax structure which probably contributed to a significant amount of informal economic activity. From 1991 to 1996, output continued to decline and state enterprises, which were the largest taxpayers, experienced a severe contraction in output. From mid-1990s, when the economies started to record positive growth rates, private sector share in GDP has been growing. However, the taxation of the emerging private sector was complicated as most of the transactions were carried out on cash basis and the tax administration was not able to fully capture the income generated outside the state enterprise sector (Stepanyan, 2003).

By end 2000, Armenia, Azerbaijan, Kazakhstan, Kyrgyz Republic and Moldova had relatively simple tax systems with fewer exemptions and rates than other countries in the second group. After the initial stage of successful introduction of market-oriented tax system elements, further reforms in many countries resulted in more complicated and less transparent tax systems, with numerous exemptions and deductions (Escolano, 1993). Starting in the mid-1990s, BRO countries started to implement tax policies aimed at improving the structural aspects of taxation, minimizing tax-induced distortions and simplifying the overall tax system. Not many attempts, however, were successful in this regard. In many cases, governments had difficulties in maintaining good tax policies and later amendments to tax legislation undermined the success of reform initiatives. Also, frequent changes in the tax system tended to create uncertainty in the overall business environment with potential negative effects on economic performance (Stepanyan, 2003).

In case of scope of reforms, tax reform experience in BRO countries shows that initially all countries implemented piece meal approach in changing their tax systems which in some cases included amendments to existing laws and in others introduction of completely new tax laws. With the progress in transition and as tax systems became excessively complex, countries like Kazakhstan, Georgia, Kyrgyz Republic, Moldova and Uzbekistan adopted new tax codes in the mid-1990s, Russia and Tajikistan adopted them in the late 1990s, Azerbaijan implemented new tax code in 2001, and Ukraine was recently considering the adoption of a new tax code.

Especially in countries where tax policy reforms have lagged, there must be a renewed effort to complete the reforms and modernize the tax sys-tem through legislative and other policy changes (Liam Ebrill M. K.-P., 2001).

Finally, discussing about breadth of reforms, by the late 1990s, in most of the BRO countries tax policy reforms were generally more advanced than reforms in tax administration. As mentioned earlier, the success of achieving tax policy objectives depends not only on the design of the tax system but also on the implementation of tax administration, and this has been proven by the experience of BRO countries. Tax administration reforms have mainly focused on enactment of necessary legislation, establishment of organizational structures, development of systems and procedures; however, little has been accomplished in collection and enforcement areas. The reforms, with the exception of those carried out in the Baltic states, have been slow and have proceeded with difficulties for several reasons: (i) tax administration has been a highly politicized function of government with tax liabilities largely negotiated instead of determined by law; (ii) the tax administration capacity has not been adequate to handle the significant increase in the number of taxpayers and the different types of taxpayers (particularly small and medium-sized taxpayers in the emerging private sector); (iii) widely used barter trade and non-cash transactions, as well as the use of offsetting operations to pay taxes, have complicated the tax administrations' task of collecting taxes in cash from important segments of the economy; and (iv) in many countries there has been a lack of political commitment by the government officials towards major changes in tax administration (Stepanyan, 2003).

Consider first the critical issues for tax administration reform in the CIS countries (in rough order of priority) as evidenced by this study: focusing arrears collection on the taxpayers with the largest arrears and with arrears that have arisen in the most recent period; establishing fully functioning large taxpayer units; controlling stop filers in a timely fashion; imposing reasonable penalties and interest charges; establishing a single, nationwide taxpayer registration system with unique taxpayer identification numbers; establishing an annual audit plan to deter evasion; and organizing the tax service along functional lines (Liam Ebrill M. K.-P., 2001).

CHAPTER THREE: VAT AND ITS PROPAGATION

3.1 VAT and Its Development

The concept of value-added taxation is not new-- it was first advanced in 1921 by T.S. Adams (Oakland, 1964). Adoption of the VAT began slowly. France was eventually the first country to introduce a VAT in 1954, based on the proposal of Lauré, then joint director of the French tax authority (Lamensch, 2015).

Over the last decades, VAT has swept the world. The principal reason for the rapid spread of this form of taxation were, first early adoption of this form taxation in the European Union (EU) and, second, the key role played in the spreading the word to developing and transitional countries by the International Monetary Fund (IMF) in particular and by international agencies advisors more generally. The success of VAT in European Union showed that VAT worked. The consistent support and advocacy of this form of taxation by the IMF and others in a variety countries, first in Latin America and then around the world, encouraged and facilitated the adoption of VAT by countries with much less developed economic and administrative structures than those in the original EU member states. At the same time, for various reasons of their own, all of the non-EU countries of the OECD apart from the United States have also, one by one , introduced VAT (Bird R. M., 2005). One of the most visible tax reforms undertaken by developing countries during the past three decades has been the introduction of the VAT (or a VAT-like tax). Since the VAT can now be found in an overwhelming majority of developing countries, the outstanding tax policy issue in the domestic consumption tax area in these countries is no longer the replacement of cascading turnover taxes, but the proper design of the VAT and the scope of excise taxes (Vito Tanzi, 2000).

Value added is the value that a producer (whether a manufacturer, distributor, advertising agent, hairdresser, farmer, race horse trainer, or circus owner) adds to his raw materials or purchases (other than labor) before selling the new or improved product or service. That is, the inputs (the raw materials, transport, rent, advertising, and so on) are bought, people are paid wages to work on these inputs and, when the final good or service is sold, some profit is left. Therefore, value added can be looked at from the additive side (wages plus profits) or from the subtractive side (Escolano, 1993). A broad-based tax levied on commodity sales up to and including, at least, the manufacturing stage, with systematic offsetting of tax charged on commodities purchased as inputs—except perhaps on capital goods—against that due on outputs (Liam Ebrill M. K.-P., 2001).

Despite its name, the VAT is not generally intended to be a tax on value added as such: rather it is usually intended as a tax on consumption. Its essence is that it is charged at all stages of production, but with the provision of some mechanism enabling firms to offset the tax they have paid on their own purchases of goods and services against the tax they charge on their sales of goods and services (Liam Ebrill M. K.-P., 2001). Compared with alternatives in indirect taxation, the VAT has more revenue potential: it is generally more broad-based and entails a trail of invoices that helps improve tax compliance and enforcement. Note also that the VAT may eliminate the cascading problem, which is typical for the turnover tax (Le, 2003). The experience of successful and unsuccessful countries show that levering value added tax can be helpful in solving the problems when there would be the required and environmental capacities to correct tax system within the system and whole economy (Hamed Erfani, 2013).

Countries introduce a VAT because they are dissatisfied with their existing tax structure. This dissatisfaction falls broadly into one, or possibly all, of four categories: (1) the existing sales taxes are unsatisfactory; (2) a customs union requires discriminatory border taxes to be abolished; (3) a reduction in other taxation is sought; or (4) the evolution of the tax system has not kept pace with the development of the economy (Alan A.Tait, 1988). Many developing countries have introduced the VAT to replace turnover tax or some type of single-stage sales tax. The replaced taxes are inherently troublesome in terms of either revenue leakage or economic inefficiency or both (Le, 2003).

VAT is basically a multiple stage tax. According to which, a person has to pay tax at every stage of production and distribution. Hence, tax would be charged at every step of value addition. Since, the tax is charged on commodities purchased for consumption, it is therefore a consumption tax. (Qamruz Zaman, 2012).

Followings are the fundamental cases that should be executed by every country in designing a value added tax system (Hamed Erfani, 2013):

1. The fundamental of this tax is usually on the consumption. The basic material was concerned as the links.

2. The factorial tax method (included tax that received in sale time minus receiving of paid taxes in saline) is used for the competing the borrowings.

3. The target aim (exporting rates is zero and importing is included tax) that is always used for foreign business.

4. The existence of various tax ratios, but according to many reasons it is use for mango goods and services and for some other types it use low or zero type of that. 5. Offish or leave for some goods or special parts that often act to the social reasons distributing reasons and or in agricultural parts.

Hamed Erfani and others also noted that followings: The value added tax has the great potential for money making just like that the scholars called it as money machine. The advantages of executing of this value added tax could be mentioned like this:

- Transparency of economic exchanges
- To encourage investment, production and export
- To take more tax from those society people that consumes more luxury and un-necessaries goods and services.
- To prevent from taking additional tax from product (Hamed Erfani, 2013).

3.2 VAT Implementation in Former Soviet Union Countries

Most developing and transition countries have implemented tax reforms under difficult economic, social, and political conditions. The establishment and successful implementation of effective and efficient tax systems encountered several barriers emerging from the structure of economies, low growth rates, decline in output and weak institutions (Stepanyan, 2003). According to Vito Tanzi and others, in many developing countries, governments may find it difficult to impose and effectively collect certain taxes with a given structure of the economy. This is particularly true for countries where the economy is characterized by a large share of agriculture in total output and employment, existence of a large informal sector, and a small share of wages in total national income. Such characteristics reduce the scope for effective implementation of direct taxes like the personal income tax and reduce the possibility of achieving high effective tax rates.

Another major obstacle for effective implementation of tax reforms in developing countries has been inadequate tax administration capacity. The lack of well-trained personnel, resources to pay good salaries and provide necessary equipment, and adequate taxpayer education results in an inefficient tax administration. Therefore, countries often develop tax systems characterized by too many small tax sources, heavy reliance on foreign trade taxes and relatively insignificant use of personal income taxes (Vito Tanzi, 2000).

Vahram Stepanyan continues to emphasize that for most transition countries the contraction in output in the early stages of transition led to substantial decline in the traditional tax base (i.e. industry) and as a result, government tax revenues fell sharply. Though other sectors of economy like agriculture experienced less contraction and started to recover earlier, and the share of private sector has been growing, these sectors did not contribute significantly to tax revenues in the past because of tax policy and tax administration weaknesses, including various exemptions that eroded the tax base and a failure to bring a large portion of informal sector into the tax network. In terms of institutional and administrative constraints, Stepanyan argues that the transition economies faced a number of challenges:

(i) the institutional capacity of the tax administration did not improve much, while the scale and functions necessary for the market economy increased compared to a planned economy;

(ii) planned economies typically were concentrated in a state-owned industrial sector, while the transition to a market economy assumed more taxpayers and growing share of private sector;

(iii) unfamiliarity of tax officials and taxpayers with the new system;

(iv) limited resources for capital costs, like computer equipment, and training; and

(v) old traditions and attitudes-the tradition of negotiation and bargaining in taxation needed to be broken and taxpayers' attitudes towards tax evasion and voluntary payments changed.

The inherited Soviet-type tax systems, characterized by the dominance of turnover and enterprise profit taxes, could not operate efficiently under the conditions of liberalization of prices and methods of payment, the privatization of state enterprises and increasing share of the private sector in GDP. Tax reforms in almost all BRO countries started with the overhaul of existing enterprise profit tax (EPT) system and introduction of a personal income tax (PIT), excises and VAT, the latter to replace the turnover taxes. By the mid-1990s, these taxes had already been introduced in most countries. Although the initial implementation of tax reforms was similar in many countries, with a number replicating the reforms initially enacted by the Russian Federation, at the later stages the reforms varied more widely (Stepanyan, 2003).

Liam Ebrill and others stated that some cause for hope is visible in the renewed efforts by the government in countries like Moldova, Tajikistan, and Ukraine to push forward substantial and comprehensive changes in the tax system. However, without a political effort at implementation, these plans will not bear fruit. Nevertheless, even if such renewed efforts at tax policy reform are successful, a parallel acceleration of tax administration reform is also needed. Consider first the critical issues for tax administration reform in the post-Soviet Union countries (in rough order of priority) as evidenced by this study (Liam Ebrill M. K.-P., 2001) :

- focusing arrears collection on the taxpayers with the largest arrears and with arrears that have arisen in the most recent period;
- establishing fully functioning large taxpayer units;
- controlling stop filers in a timely fashion;
- imposing reasonable penalties and interest charges;
- establishing a single, nationwide taxpayer registration system with unique taxpayer identification numbers;
- establishing an annual audit plan to deter evasion; and
- organizing the tax service along functional lines.

Researchers also mentioned to ideally implement modern VAT: Implementing tax administration reforms involves significant institutional changes. Government leaders must give high priority to needed bureaucratic changes; senior tax administration officials must agree on the path of reform; and reluctant line employees must be brought on board. While, ideally, institutional change should progress on all fronts simultaneously, resource constraints demand that the authorities establish priorities and adopt the proper sequencing of reforms. Where the commitment to reform is strong and pervasive at all levels, the assignment of one or possibly two long-term technical assistance experts can catalyze the requisite changes. Where commitment is lacking, the value of continued technical assistance may be quite limited (Liam Ebrill O. H., 1999).

Adrienne Cheasty discussed some important factors which badly influenced to successful value added tax (VAT) implementation: the introduction of the VAT also led to a net loss of revenue for half of the countries in the region, compared with the previous turnover tax regime, which had levied (tax-exclusive) rates of several hundred percent on some goods. Moreover, to cushion businesses against the effects of price liberalization, several countries subsequently cut their VAT rates. Part of the revenue loss from the VAT arose from defects in the former Soviet Union countries' versions of the tax, compared with industrial countries' VATs. The former Soviet Union countries' VATs were levied partially on a cash basis and in an asymmetric way that exacerbated the revenue losses from arrears described earlier. In addition, in sectors where accounting practices were not sufficiently developed to include the use of invoices as payment records, the VAT was often levied on a fixed markup over cost rather than on actual prices. This meant that value added higher than the markup an amount that could be large when prices were rising rapidly and unpredictably remained untaxed. Further, because borders were not well established within the former Soviet Union, VATs on mutual trade were levied on an origin basis with exports subject to VAT while imports were not taxed—while the customary destination basis (with imports taxed, exports not) was (with some delay) applied to VAT levied on trade with the rest of the world. This dual system created incentives and opportunities to divert and misrepresent trade flows and values, and resulted in a low compliance rate for VATs on trade (Cheasty, 1996).

The author cited other researcher's review that tried to assess the VAT implementation by several paragraph sections. For instance, Vahram Stepanyan divided the post-Soviet Union countries into three groups in order to estimate VAT implementation in his research. According to his research, the Baltic countries were among the first post-communist countries to introduce a VAT. Unlike other post-communist countries, VAT rates in Baltics were initially set at relatively low levels (10-15 percent) although the rates were subsequently raised to 18 percent. Regarding exemptions and preferential rates, all three countries had introduced some exemptions mainly on food items, agriculture and energy sectors, but these were gradually reduced. By 2000, the Baltic countries had VAT revenues of around 8 to 10 percent of GDP, one of the highest ratios amongst BRO countries, and relatively few exemptions from the tax (Stepanyan, 2003).

Below table-1 which illustrated in Vahram Stepanyans research summarizes the estimates on VAT efficiency in Baltics, Russia and other post-Soviet Union countries (BRO) and shows that while the Baltics had lower VAT statutory rates compared to most of the other BRO countries, they also had the highest effective tax rates (TRe-computed as actual VAT collections divided by VAT base) and tax efficiency rates (TE-computed as effective rate divided by VAT statutory rate), demonstrating the relative strength of VAT administration in the Baltics .

Table-1 VAT implementation in Former Soviet Union countries

	Groups	1997		1998		1999		2000	
		TRe	TE	TRe	TE	TRe	TE	TRe	TE
Estonia	1	11	63	10	55	10	54	11	60
Latvia	1	10	58	11	61	10	56	10	55
Lithuania	1	11	62	11	58	10	56	10	53
Armenia	2	6	28	8	38	8	41	8	39
Azerbaijan	2	6	29	5	25	6	28	6	29
Georgia	2	5	23	4	22	4	22	5	27
Kazakhstan	2	5	26	6	30	6	32	8	42
Kyrgyz	2	13	67	10	49	8	40	11	55
Moldova	2	15	76	17	84	12	58	10	52
Russia	3	8	42	7	37	6	30	6	32
Ukraine	2	12	58	10	51	10	51	10	48

Source: *Source: Author's own estimates*

The results are as follows: Countries in the second group introduced VAT in 1992, at rates mostly set at 28 percent (in case of Uzbekistan 30 percent) and with exemptions for basic foodstuffs. Moreover, during the next two years, the VAT rate was decreased to 20 percent and some countries, including Georgia, Kazakhstan, Moldova and Uzbekistan, introduced lower preferential rates for certain foodstuffs rather than removing exemptions to compensate for loss in revenue. Starting in the mid-1990s, the countries in this group implemented substantial changes to their VAT systems by moving them to accrual basis and invoiced-based determination of liabilities. But by the late 1990s, most of these countries had attempted to reduce the number of exemptions (Uzbekistan increased the standard VAT rate back to 20 percent), most still had VAT exemptions and preferential rates for either agriculture sector related activities and/or energy sector, Regarding VAT efficiency rates for countries in the second group, those have ranged from 20 to 70 percent and, with the exception of Ukraine and Moldova, showed some improvement during the period under considerations. Russia, Belarus, Tajikistan and Turkmenistan can be considered as slow reformers in terms of changes implemented to their VAT systems. Except Russia, three other countries VAT implementation result did not introduced in the research. The VAT reform started slow in these countries or not started yet. They were the last ones amongst BRO countries to move from origin to destination principle for CIS trade as well as from gross margin taxation to credit/invoice methods. The other three countries in the group have tended to follow Russia's policies regarding tax rates and exemptions. This has been true in particular for Belarus, where tax policies have been guided by the Union agreement with Russia that required harmonization of tax systems of the two countries. Only in the late1990s did countries in the third group initiate major changes to their tax systems. In particular, Tajikistan and Russia prepared and started to implement new tax codes that modernized their VAT systems and removed some exemptions.

In terms of VAT efficiency, Tajikistan had the lowest VAT efficiency rates at below fifteen percent, and Russia's VAT efficiency seemed to be improving in the late 1990s (Stepanyan, 2003). Here is one notable feature of VAT systems in the countries of the second and third groups, which are members of Commonwealth of Independent States (CIS), was the application of the origin principle for intra-CIS trade. Almost all countries moved to the destination principle in between 1997 and 1998, while Russia stayed on origin principle until 2001 with the exception for trade in oil and natural gas and all trade with Belarus, where it still applies the origin principle.

Russia’s relative tax effort and VAT efficiency peaked in 2001 but later returned to essentially pre-reform levels. As noted, tax effort might be low due to the country’s unwillingness to tax itself and VAT efficiency might be high because exporters are not given VAT refunds in a timely manner or are not allowed to use legitimate VAT credits. On the one hand, high taxes and tax administration are no longer perceived by Russia's business taxpayers to represent serious problems and both the bribe tax and sales hidden from tax authorities declined as a percentage of total sales between 2000 and 2005. On the other hand, according to most of these indicators the tax environment in Russia remains worse than in Eastern European economies (Michael Alexeev, 2009).

According Liam Ebrill and others' research, all CIS countries have unified VAT rates except for Russia and Uzbekistan. In these two countries, dual-rate structures were introduced, comprising a basic rate and a reduced rate of 10 percent on basic food items and, in Russia, some other "necessary" goods. While there has been some progress in broadening coverage, a large number of exemptions and zero rated items remain in many countries, even after the adoption of new tax codes (e.g., Georgia). During 1997, a number of exemptions were removed in Azerbaijan (foodstuffs, non-CIS imports), Belarus, and Ukraine (electricity for business use). However, the amendment to the VAT law in Ukraine introduced many additional exemptions. In Moldova, the decrease in VAT exemptions implemented in the beginning of 1997 was later partially reversed by parliament; but a new government and parliament eliminated a large number of exemptions in mid-1998. A few countries such as Armenia, Georgia, and Ukraine raised the exemption threshold for small traders and Georgia extended the VAT to non-juridical persons. Tajikistan removed most VAT exceptions; agricultural products are now subject to VAT.

In most cases, the VAT continued to be implemented according to the origin principle for trade with CIS countries and the *destination principle* for non-CIS countries. However, in 1997, Armenia and Moldova switched to the destination principle for CIS countries and Kazakhstan and the Kyrgyz Republic made partial moves in that direction. By January 1, 1998, Georgia switched to the destination principle with all the Baltics, and other countries of the former Soviet Union, except Russia. Belarus and Russia imposed in the law a 20 percent VAT on imports from Ukraine while retaining the VAT on their exports. Even it is not clear, that this VAT on imports has been applied by Russia. Regarding *accounting and payment procedures*, the assessment of VAT liabilities was shifted to an accrual basis in Kazakhstan, although certain transitional problems remain to be addressed. Azerbaijan, Georgia, and Ukraine began to require invoices, and together with Tajikistan and Uzbekistan started to grant immediate credit for VAT paid on inputs. The retail sector was shifted from the gross margin basis to a credit method in Armenia, Azerbaijan, and Ukraine. Beginning in 1997, excess credits were to be refunded on a timely basis in Georgia, Tajikistan, and Ukraine. In Armenia and Ukraine VAT on imported goods is to be collected by Customs, instead of after the domestic sale takes place. The Kyrgyz Republic has adopted an accrual invoice-based VAT with a credit mechanism for inputs. Rates are unified, but the agricultural sector is exempt (Liam Ebrill O. H., 1999).

Finally Liam Ebrill and others again warned that following bad experiences: obviously, improvements in tax administration will be more effective if there is also a strengthening of the political will to collect taxes. The nonpayment of taxes, using a variety of mechanisms such as tax arrears, noncompliance, and special exemptions, is a device exploited by state enterprises in transition to avoid hard budget constraints. Governments have, in general, been able to tighten up on earlier devices, especially subsidies and directed credits, but are taking longer to come to grips with nonpayment of taxes. To do so they must tackle some governance problems, including political interference in tax collection, corruption in the tax service, and weak judicial systems, which impede progress in this area (Liam Ebrill O. H., 1999).

Author agree that implementing practice problems that those researchers mentioned above. For example, considering again in case of VAT arisen big problem and the way to avoid is eliminate exemptions and shift to the destination principle. Moreover, the author may suggests following several conclusions for VAT implementations on post-Soviet Union countries. First, and especially in countries where tax policy reforms have lagged, there have to be a renewed effort to finish the reforms and modernize the tax system through legislative and other policy changes. Second, still greater effort should be applied to the area of tax administration. Sizeable technical assistance in tax administration has been ineffective because of weak implementation and the lack of necessary involvement on the part of senior officials. Maybe most fundamental, government leaders and parliaments must indicate a much greater political will to collect the needed revenues by, among other positions or moves, removing undesirable exemptions and the use of "noncash methods" of paying taxes based on Liam Ebrill and other researchers.

CHAPTER FOUR: MONGOLIAN NEW TAX SYSTEM AND VAT

4.1 Tax System Reform in Mongolia

Mongolia’s transformation towards a market-oriented economy in the 1990s was accompanied with a parallel transformation of its tax system. To this end, the General Law of Taxation, which established the legal framework for tax system, was introduced in 1993. Sweeping reforms in the tax system and tax administration had taken place during 1998 to 2003 mainly focusing on changing rate structure of taxes, but radical reforms in the package of the tax laws adopted in 2006 (Sambuu U, 2010).

Sambuu Uyanga and others emphasized that bearing in mind the need to reduce the tax burden on labor and businesses, encourage private sector growth, and strengthen Mongolia’s competitiveness in the global market, Mongolia is making greater efforts to improve its tax system by undertaking further reforms of its tax policies while clarifying and simplifying the tax laws. At the same time, VAT rate was lowered from 15 percent to 10 percent in an effort of creating favorable business environments for taxpayers to grow and save on the consumption expenses. Thus, Mongolia has become one of the low-tax countries with favorable environment induced production and investment (Sambuu U, 2010).

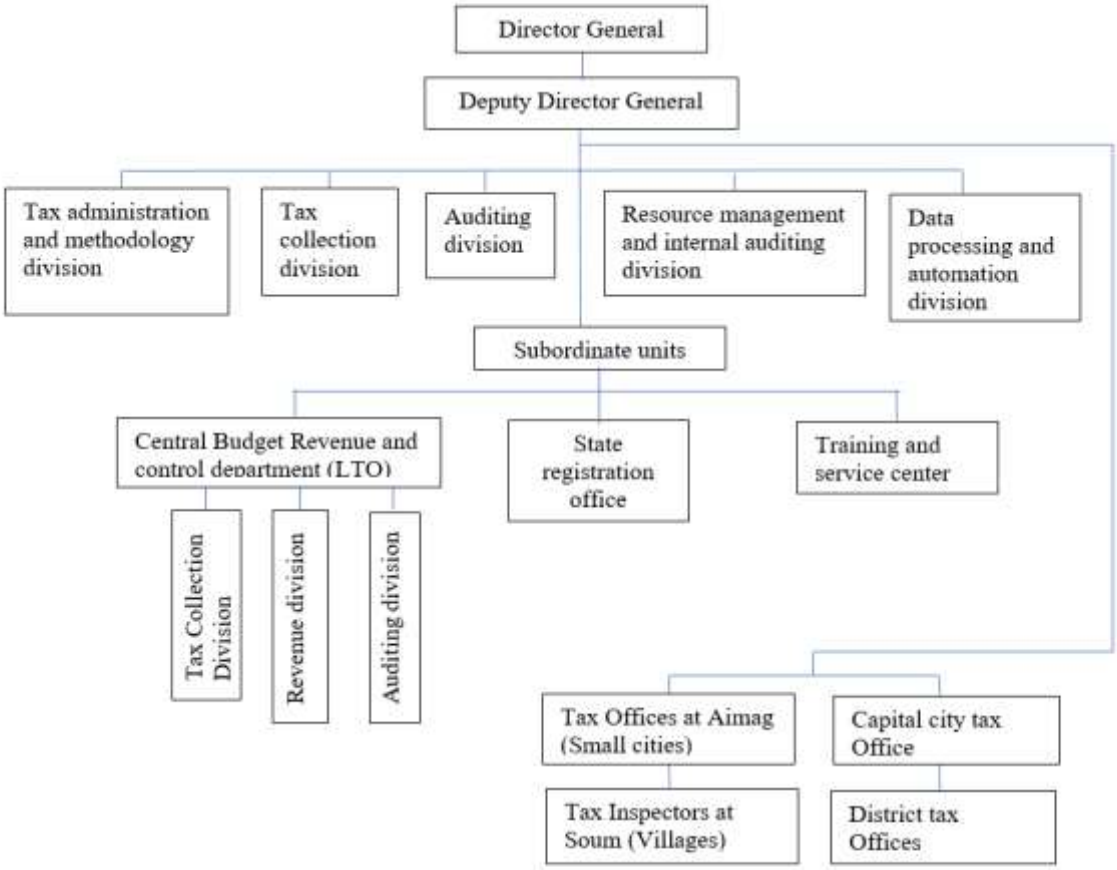
The government of Mongolia reformed tax system almost every year from the early 1990s with the help of technical assistance from the IMF and other professionals of industrialized countries. In 1990, 15 members began to work as tax officers under the Ministry of Finance. In addition, in 1991, there were IMF and Japan Ministry of Finance’s consulting works for the tax system re-design. In 1993 General Tax Law, Corporate Income Tax Law, Personal Income Tax Law, and Sales Tax Law were passed and there were independent Mongolia Tax Administration (MTA here after) institutionalized outside of Ministry of Finance and Economy (MOFE). Moreover, in 1997, unified system of MTA was launched. Consequently, Mongolia got to the current tax system and administration that are consistent with those of market-oriented economies (Jongseok An, 2002).

Twelve years ago, after its conversion to a market economy, the government of Mongolia suffered from severe fiscal deficits, caused by chronic revenue shortfalls. To improve this situation and establish healthy economic growth, Japan International Cooperation Agency (JICA) became the main foreign donor to provide technical cooperation to the General Department of National Taxation, Mongolia (GDNT) to reform its fiscal base, recognizing that the majority of government revenues were derived from the tax regime. Thanks to outstanding economic growth in recent years, Mongolia achieved a fiscal surplus in 2006. Although economic growth powered the elimination of the deficit, the relationship was not straightforward. The fiscal surplus is the result of a program of technical support and cooperation between Mongolia and Japan to link growth with government revenues. It is the product of joint effort among staff members from both countries. The project was implemented in five phases, from 1998 to 2008. In each phase, appropriate action was taken to address aspects of Mongolia's taxation problems. The result was a dramatic rise in tax revenue (JICA, 2008).

The Mongolian tax administration was created as the government agency in 1991. It reports to the Minister of Finance, who, in turn, informs to the Ministry of Finance and Economy. The main objective of tax administration is to implement tax policy and tax laws of the government. It collects both national and local taxes and deposits to the national and local tax budgets respectively. It also gives inputs to the tax policy division of Ministry of Finance and Economy, which is responsible for formulating tax policy (Sambuu U, 2010).

Improving the efficiency of tax administration is a long-standing issue in most of the countries in the world. Especially in countries like Mongolia where presumption is a prevailing practice in tax administration, it is urgent and important for the government to build up fair, transparent, and efficient administration practices (Jongseok An, 2002).

Table 2: General Department of National Taxation organizational structure



Resource: General Department of National Taxation of Mongolia

There are 31 tax offices nationwide, 21 Aimag (local city) and 1 Ulaanbaatar City Tax Office. There are nine district tax offices under the Ulaanbaatar city tax office while Soum (village) tax inspectors under the Aimag (small city) tax offices. As the country is geographically very big, it is difficult to control Soum inspectors from the center. Therefore, Sums tax inspectors are located at Soum Governor’s office for the local supervision and control, of course, over all control remains in the hand of General Department of National Taxation (GDNT). There are about 1200 employees in the whole tax administration. Head Quarter of the tax administration was initially created as the General Department of State Taxation that was later renamed as General Department of National Taxation (GDNT). The GDNT has five divisions: Tax Administration and Methodology Division, Collection Division, Auditing Division, Data Processing and Automation Division and Resource Management and Internal Auditing Division. There are three sub-ordinate units under this department. They are Large Taxpayers Office (LTO), Training and Service Centre and State Registration Office.

State Registration Office carries out registration of entities. Large Taxpayers Office (LTO) was created in 2001 in order to deal with the large taxpayers scattered all over the nation. However, the scope of work of this office was expanded in 2002, when it was made responsible for the collection of CIT, PIT, VAT, Excises, and withholding taxes, relating to all taxpayers through local tax offices. It also deals with all kinds of refunds (refunds to taxpayers, foreign aided projects and diplomats). LTO also supervises local tax offices. There are three divisions of the LTO. They are collection division, audit division and local tax collection/revenue division. The collection division is responsible for the collection of revenue from about 100 large taxpayers that pay revenue directly to this office. Audit division is responsible for the audit of large taxpayers while local tax collection division is responsible for monitoring and providing guideline to the local tax offices.

There is a training center, which organizes training programs for tax officials and tax education programs for the taxpayers. The center arrange systematically three levels of training programs. Training center also solves the problems of taxpayers and circulates to each tax offices. Another organization responsible for collecting taxes is the customs administration. The central level organization is called Mongolian Customs General Administration and field offices are called customs offices. These offices are located not only at the border but also inside the country. Inland customs office located in Ulaanbaatar city is the largest customs office that collects about 70 percent of total import revenue. Largest seven offices collect about 95 percent of total import revenue. This administration collects import duties, export duties, VAT on imports and excise duties on imports. Tax administration is organized in functional line. Since the central and field level organizational structure follows the same pattern, line of communication is easy. Responsibilities are well defined and performance standards have been developed. There is a system of evaluating performance each quarter. Additionally, each year they have tests for each tax inspector on tax law, auditing, accounting, which tax inspectors are required to know to perform their activities

Mongolia has a modern tax history of about only a decade and therefore the level of tax compliance among the people is not high. Volitionally compliance has been one of the challenges confronting Mongolian tax administration. In the effort of enhancing level of tax compliance among citizens and bringing all possible taxpayers into the tax network, the tax administration has been making greater effort by initiating taxpayer service centers in each tax offices, conducting a survey of possible taxpayers in each year, enforcing the allocation of invoice on those who do not proceed invoices, ensuring real and correct accounting among those who do not implement real accounting and also confirming that all taxpayers submit the income statement tax return through continuous reminders and tax is paid by those who do not pay tax, conducting tax audit and investigation, increasing the activities related to tax collection and punishing tax defaulters.

An effective tax administration system consists of well-defined business processes that include taxpayer registration, tax collection, verification, accounting and auditing, and other supporting mechanisms. A well-designed and integrated ICT system has a substantial role in improving the taxpayer base as it enables the government to (i) identify unregistered and potential taxpayers; (ii) manage the life cycle of taxpayer registration and tax liabilities assessment, collection, and reporting; and (iii) enhance accountability in tax administration. Existing systems were developed separately for each tax type (e.g., personal income tax, corporate tax, value-added tax, property tax, etc.) and processes on various technology platforms resulting in more than 20 ICT systems in use with unintegrated data sources (ADB, 2018). The proposed project will support the Government of Mongolia in enhancing accountability and efficiency of public financial resource mobilization and management through improved information and communication technology (ICT), especially for tax administration and public investment management (ADB, 2018).

4.2 VAT Implementations in Mongolia

Project on introducing VAT in Mongolia is an apparent evidence of continued assistance from international organizations and donor communities extended since a period when Mongolia embarked on transition to market-oriented economy. IMF and World Bank mission and experts assigned to Mongolia since 1995 had repeatedly recommended to introduce VAT replacing "sales tax" and highlighted importance of this measure on tightening budget deficit and strengthening overall taxation system. Thus the project on adoption of VAT commenced in 1997 with the World Bank funding where the IMF experts formulated a draft law and its implementation plan. Accordingly, the VAT law was approved on January 6, 1998 and was effective from 1 July of that year. It was also emphasized that adoption of VAT would bring taxation system of Mongolia closer to international standards thereby giving rise to a variety of positive implications to foreign investors, export-oriented production and foreign trade (Tsogt.O, 2011).

The VAT was introduced in 1998 replacing former Sales tax, with a single rate of 10 percent that was raised to 15 percent in 2001. Mongolia's 10 percent VAT should serve as an efficient, neutral tax that is collected at each stage of production and distribution. Properly designed, the base of the tax would be domestic consumption (Emil M. Sunley, 2010). A Zero rate applies for exports. In 2006, the VAT rate was lowered from 15 to 10 percent with effective from January 2007. VAT is currently the single most important tax in Mongolia. In recent years, its yield has averaged about 9 percent of GDP or about 30 percent of total taxes. VAT plays an important role in terms of revenue. The amount of VAT revenue (collected by GDNT as well as Customs Service) in 2000 was 33.3% of the whole tax revenue (Jongseok An, 2002).

Productivity of VAT is 60 percent, which is quite high. If classify by industry types: about 50 percent of VAT is from fuel, 19 percent from trading (whole and retail), 13 percent from Telecommunication, 10 percent from power and electricity supply, and 8 percent from catering etc. (Sambuu U, 2010). Moreover there were expectations towards enhancement of the tax administration information system and information technology level, and development of new applications and new modules of the integrated database. It was highlighted that in case of indirect taxes, delivering various training and awareness programs to taxpayers and improving tax staff competencies would greatly contribute to reducing collection cost and restricting tax avoidance (Tsogt.O, 2011).

4.3 VAT Impacts on Mongolia

Hence, in considering the introduction of a VAT, the choice of an appropriate VAT variant, principle, and computation method must he made. In addition, a variety of other VAT design issues must also be addressed. These include the number of tax rates, the scopes of zero-rating and exemptions, the level of exemption threshold, and possible special mechanisms to deal with businesses that are to be exempt (Shome, 1995).

The effectiveness of tax systems depends not only on the design of tax policies but also on effectiveness of tax administration. Once governments have their tax policies appropriately designed, the tax administration plays the main role by securing the effective implementation of these policies for achieving the objectives (Stepanyan, 2003).

Legal Framework of VAT

The legal framework of the VAT is one of the most “changeable” taxes in Mongolia. Since its effectiveness, the VAT have been subject to amendments for 31 times in addition to separate 26 independent laws approved with regard to exemption from VAT. The first amendment to the VAT law occurred on August 28, 1998 in its 58th days of effectiveness where the rate was raised to 13 percent along with abolishment of numerous exemptions. These changes were legalized to be effective in three days of their approval. Thereafter the rate was raised again to 15 percent by the law dated on November 17, 2000 and then reduced to 10 percent by the revised law of June 29, 2006. The registration threshold was decreased to 10 million by the law of June 29, 2001. The most of the amendments were associated to exemption (Tsogt.O, 2011).

Tax Threshold

Tsogt.O mentioned in his report, under the general principle of VAT, the tax is applied to most goods and services with exclusion of small variety of exempt goods and services to prevent from its negative impact to living standards and minimize regressive effect of taxes. All goods and services are subject to exemption under current VAT legislation of Mongolia and thus resulting to narrow the tax basis inherit reasonable justifications based on above-mentioned principle. Most of the countries set a turnover threshold to exempt those who are below this threshold from VAT. Enlargement of VAT taxpayers will give rise to growth in VAT credit on inputs, overpayment and refund rather than raising budget revenue. IMF mission analyzed implementation of VAT in Mongolia (1999) and considered it appropriate to set registration threshold at 15 million tugrugs and accordingly recommended to keep it indexing in line with further capacity strengthening of tax administration, economic growth, and taxpayers’ business activities. Despite of those exemptions in place, VAT is considered as broad-based in terms of tax base (Tsogt.O, 2011).

It has a threshold of tugrugs 10 million (US$ 8532) taxable sales and permits businesses below the threshold to be registered voluntarily provided they satisfy proper bookkeeping requirements and have taxable sales of at least 80 percent of the threshold in their main line of business or have made investment of more than two million USD to Mongolia. Group registration is also allowed (Sambuu U, 2010).

IMF consultant Jack Grigg introduced own consultation for VAT.The criteria for VAT exempt in Mongolia are relatively low, and by increasing the VAT threshold this can reduce the costs associated with VAT registration, settlement and payment of a large number of smaller firms. Criteria for registration of VAT in Mongolia are below international and regional standards, and as of 2010, US $ 6,800 was a dollar. Criteria for developing and emerging economies are $ 50-100 thousand. It is recommended by the IMF Budget Department to set the dollar. In this way, burden of registration of small merchants will be released the , and the revenue collecting authority is able to direct their scarce resources to larger and more profitable taxpayers. A decline in revenue cuts due to raising the criteria for registering VAT is limited, and revenue can be increased by transferring effectively the central direction of operating revenue authorities (Grigg, 2011).

Taxpayer

As of beginning of 2001, there are totally 14358 VAT taxpayers. It worth deeming that taxpayers registered for VAT are withholding agents obligated to charge VAT on consumers and subsequently remit to the budget. In contrast, all consumers, individuals and legal entities importing goods and products bear incidence of this tax burden by being taxed on their consumption. Therefore, we have to understand the number of taxpayers not in a sense of those actually paying taxes, but in a sense of those withholding agents imposing and remitting VAT under supervision of tax authorities, issuing VAT invoice, entitled to claiming for VAT on their purchases and receiving refunds. The main characteristics of VAT is that VAT taxpayers registered with the tax authorities eliminate incidence of VAT burden by remitting to the budget only the net of VAT charged on their sales and VAT paid on their purchases and imports.

The total sales reflected in VAT return summary grew from 75 percent of total sales in CIT return in 2005 to 94.6 percent in 2009. This indicates that 94.6 percent of total sales of those entities registered with the tax administration are subjected to VAT through a fewer number of VAT taxpayers. However, due to VAT exemption provided to mining products (intermediate/not final) on second half of 2009, this figure declined by 11.75 percent in 2010 compared to the preceding year (Tsogt.O, 2011).

Rates

Initially Mongolia introduced VAT at 10 percent that gradually increased to 13 and 15 percent, and then reduced to 10 percent starting from January 1, 2007. 10 percent is simple to estimate and similar if compared with VAT rates of regional countries. For indirect tax, it is the most optimal rate (Tsogt.O, 2011).

The reforms are intended to create favorable conditions for entrepreneurs, individuals and foreign and domestic investors and are viewed by the authorities as an important step towards supporting economic growth and the future expansion of the tax base. The staff recommends that the authorities reverse at least part of the 5-percentage point cut in the VAT rate. This simply seems to be politically impracticable at this stage and would risk unraveling other parts of tax reform.

Mongolia's 10 percent VAT should serve as an efficient, neutral tax that is collected at each stage of production and distribution. Properly designed, the base of the tax would be domestic consumption (Emil M. Sunley, 2010).

Moreover, IMF Directors broadly supported the recent efficiency-enhancing tax reform, including the elimination of most VAT exemptions and new tax holidays, but observed that some tax cuts might need to be partially reversed to ensure fiscal sustainability, starting with the cut in the VAT rate. Also, cuts in non-mining tax rates could increase the sensitivity of revenues to commodity price shocks. Directors encouraged the authorities to keep the mining regime under review to ensure an internationally competitive tax regime, and they supported Fund technical assistance in this area (IMF, 2007).

VAT revenue, refunds and other factors

According to IMF report which is "Mongolia: Ex Post Assessment of Longer-Term Program Engagement 2005", an early transformation of the tax system succeeded in mobilizing revenues, which increased by 15 percentage points of GDP. Fund fiscal technical assistance was extensive, complementary to the programs, detailed and very specific. A Value Added Tax (VAT) was successfully introduced and the extractive industry provided an expanding and easily targeted tax base, although very vulnerable to fluctuations in prices of Mongolia's exports.

Mongolia's tax effort and its revenue productivity (especially that of the VAT) compare favorably with those of post-Soviet Union countries at similar levels of development.

However, the tax system continues to exhibit areas for improvement. The base of the CIT limits deductions and has no provision for loss carry forward. The dual rates create economic distortions. The threshold of the PIT is low, bringing too many low-income individuals into the tax net. The high level of social security contributions imposes a relatively high tax burden on labor. The VAT has a significant amount of cascading, mainly because the refund system does not work well and there are many exemptions. The system of tax incentives is distortionary and is not cost effective. Similarly, export taxes on raw materials are inefficient and inconsistent with Mongolia's open trade policy. Overall, while Fund-supported programs, conditionality and technical assistance have contributed to strengthening the Mongolian financial system, significant weaknesses remain (IMF, 2005) .

Another IMF report which named- "Mongolia: Selected Issues and Statistical Appendix 2005, between 1997–2000 and 2001–04", states that Mongolia achieved an impressive consolidation of its general government budget. The average overall budget deficit (after grants) was reduced by more than half, from 10.6 percent of GPD during 1997–2000 to 4.4 percent of GDP during 2001–04, and the budget deficit reached a low of 2.2 percent of GDP in 2004. Strong revenue performance more than offset the growth of government expenditures. Rising commodity prices, increasing imports, and the successful introduction of the VAT, were all major contributors to the higher revenues.

Much of it was achieved by increasing revenues, with new taxes (especially the VAT) being introduced or replacing old ones, an increase in foreign trade, and an overall broadening of the tax base. The starting point, however, was not low: revenues already averaged 29 percent of GDP in the period 1997-2000. Meanwhile, overall expenditures increased from 39.3 percent of GDP during 1997–2000 to 43 percent of GDP during 2000-03. By 2004, at 39 percent of GDP, Mongolia's revenue effort compares very favorably with that of post-communist countries at similar levels of development. This high revenue productivity stems partly from the broadness of the tax base and the efficient functioning of the tax and customs administrations, but it also reflects a high cascading under the VAT, low income tax thresholds, and discretionary enforcement practices in the enterprise tax. Thus, the burden and distortions of taxation are significant, and both tax reform and tax administration strengthening remain high on the agenda (IMF, 2005).

In the Statistical Appendix, this report also mentioned about Mongolian mining based economy and policy change of tax types, the composition of revenues changed sharply between 1997–2000 and 2001–04 periods (Table 2). Mongolia's very high revenue and expenditure levels make it different from the other CIS-7[1] countries in the region. Indeed, at over 40 percent of GDP, spending by the Mongolian government is even higher than that of the CIS-7 countries (Table 2). Revenues from the mining sector increased substantially in parallel with the rise in world copper and gold prices and the accompanying increase in mining activity. Important reforms such as the VAT were introduced to broaden the tax base, and tax rates were adjusted to bring closer to those in other post-communist countries.

Table 3. Mongolia and CIS 7: General Government Expenditures and Revenues

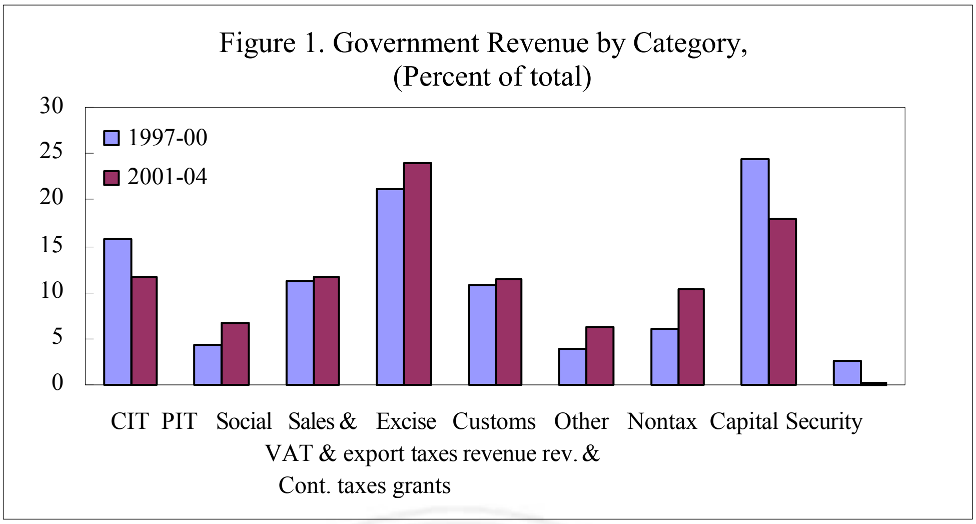
	Expenditures (In percent of GDP)	Revenues (In percent of GDP)
Armenia	19.3	18.3
Azerbaijan	28.6	27.4
Georgia	18.0	15.6
Kyrgyz Republic	27.3	22.3
Moldova	30.0	30.6
Tajikistan	14.5	12.7
Uzbekistan	26.5	26.6
CIS - 7	**23.5**	**21.9**
Mongolia	**42.1**	**37.9**

Source: GFS data and Mongolian authorities

Overall, the share in total general government revenues of direct taxation, including the CIT and the PIT decreased, while the share of social contributions remained relatively unchanged, and indirect taxes increased substantially. Other revenues declined. The increased share of indirect taxes results from the successful implementation of the VAT and the increasing openness of Mongolia's economy (imports have increased from 50 percent of GDP in 1997 to almost 70 percent of GDP in 2004.)

[1] The CIS-7 is an especially relevant comparator group because it closely resembles Mongolia in a number of respects, including Mongolia's recent (and in some respects still on-going) transition from central planning to a market economy.

Figure 1. Government Revenue by Category, 1997 and 2001 (Percent of total)



Source: GFS data and Mongolian authorities

IMF report 2006 which named-"Mongolia: 2006 Article IV Consultation—Staff Report 2007", explained more about VAT 5 percent cut and future tax mission. The fiscal position has improved markedly in recent years due to strong economic growth, a sharp increase in mining sector revenues, and improved tax administration. On the revenue side, the challenge would be to maintain a broadly based tax regime that does not discourage investment and growth and is not overly sensitive to commodity price shocks. Many of the elements of the tax reform package coming into effect on January 1, 2007, including the elimination of tax holidays, the introduction of loss carry forward, and the deductibility of a fuller range of business expenses, are consistent with this objective and with past technical and policy advice from the Fund. However, the government's decision to place increased reliance on mining taxation while cutting non-mining taxes entails risks. To maintain medium-term fiscal sustainability, the authorities might need to undo some of the tax rate cuts, particularly if copper prices decline significantly. Reversing part of the 5-percentage point cut in the VAT rate would be the least distortionary way to accomplish this (IMF, 2007).

The government should also keep the mining regime under close review to ensure that it is appropriately designed to limit risks to the public sector balance sheet to maintain an internationally competitive fiscal regime. Finally, IMF Directors encouraged the authorities to keep the mining regime under review to ensure an internationally competitive tax regime, and they supported Fund technical assistance in this area.

If we try to see above report on the revenue side and VAT future purpose, it should be noted that the authorities have taken measures for broadening the non-mineral tax base and cutting tax rates. It should help diversify and increase efficiency of the economy through reducing distortions in the tax system. The reforms are intended to create favorable conditions for entrepreneurs, individuals and foreign and domestic investors and are viewed by the authorities as an important step towards supporting economic growth and the future expansion of the tax base. The staff recommends that the authorities reverse at least part of the 5-percentage point cut in the VAT rate. This simply seems to be politically impracticable at this stage and would risk unraveling other parts of tax reform. Nevertheless, the Mongolian authorities are keeping the whole tax area under review and are seeking FAD technical assistance on addressing the mineral tax issues (IMF, 2007).

In IMFs' 2008 Statistical Appendix, it again clarified Mongolian various tax law and especially about VAT (IMF, 2008) : "The current fiscal regime for the mining sector is governed by the Minerals Law and various tax laws. The direct taxes under the regime include a royalty, a CIT, withholding taxes (WT), and the windfall profit tax (WPT), which applies to copper and gold sales". There are also certain fees, including exploration and mining license fees, but these are of less importance. The indirect taxes applicable to the mining sector include import duties and VAT. The current VAT law became effective from January 1, 2007, which reduced the VAT rate from 15 to 10 percent and eliminated a number of exemptions, including the exemption for capital goods imports for use in export oriented industries. The mining sector is now treated for VAT purposes on par with other importers. As mining companies in Mongolia export most of their output and exports are zero-rated, they are in a VAT refund situation.

IMF's fifth and sixth review report still emphasized Mongolian reform and mentioned structural fiscal reforms. The authorities intend to pass the social transfer reform law in the fall session of parliament which begins in early October. The reform, which is being designed with assistance from the Asian Development Bank and World Bank, would introduce a targeted poverty benefit that will substantially strengthen the social safety net. Separately, the authorities are also considering options for (IMF, 2010):

- Reforming the mineral taxation regime. The windfall profits tax will expire at the end of this year and reform of the mineral tax regime will be necessary to recover some of the lost revenue. The authorities' goal is to establish a more modern and less distortionary mineral tax regime that balances the government's revenue needs with the goal of promoting development of the mineral sector

- Revising the organic budget law. A draft law has been prepared.
- Improving tax administration. Tax administration efforts focus on improving the large taxpayer office (LTO), including creating an extractive industries group within the LTO, increasing LTO staffing, and enhancing training of LTO audit staff and senior management. FAD is providing technical assistance in each of these areas.

Tax revenue in Mongolia is highly concentrated – some 400 large enterprises account for about 50-60 percent of total domestic revenue. Among these large enterprises, about 100 large mining companies account for 40 percent of tax revenue, reflecting the importance of the mining sector. Many of these large businesses are also the country's largest investors. The IMF and the government identified several areas for improvement in the large taxpayer offices (LTO) organizational structure and staffing, legal framework, core tax administration processes and computer systems. To address this, the IMF helped (IMF, 2010):

- Reorganize the LTO into units based on tax administration functions, triple the LTO's staff, and create a special mining audit unit within the LTO.
- Issue administrative guidance to clarify how the tax laws apply in practice (and draft amendments to the tax laws to provide further clarity).
- Develop a comprehensive strategy to improve the compliance of mining companies.
- Design industry-specific audit methods for the mining, banking and construction sectors.
- Acquire a new computer system that was deployed initially deployed at the LTO.
- Arrange an information exchange agreement with Mineral Resources Authority.

The final impact of the IMF-supported reforms helped improve large taxpayer administration are:

- The largest portion of tax revenue was brought under effective control.

- A high rate of on-time tax return filing (nearly 100 percent) was achieved, with all tax returns filed electronically.
- Tax arrears were sharply reduced.
- Taxpayers expressed a high degree of satisfaction with the reforms.

Japan International Cooperation Agency (JICA) became the main foreign donor to provide technical cooperation to the General Department of National Taxation, Mongolia (GDNT) to reform its fiscal base, recognizing that the majority of government revenues were derived from the tax regime. In addition, from 2006, the project The Enhancement of Tax Administration Project started for (JICA, 2006):

- Personnel education and training- The GDNT's system for personnel education and training was overhauled. A training history was prepared, the capabilities of tax officials were carefully assessed, and training was provided according to the abilities of each, to improve the effectiveness of training. Regional training centers in regions such as Darkhan-Uul and Uvurkhangai were set up, and support was provided to increase tax officials' opportunities for training. Distance learning was also instituted on a trial basis.
- Tax collection- Collections of auditing examples and manuals for each type of industry were prepared, to enable more detailed and effective audits. After conclusion of the project, the GDNT will continue to supplement the examples and manuals. In tax collection, a notification system was implemented on a trial basis as a means of dealing with arrears. We expect that this approach will be expanded to improve tax collection rates. The third party information system was further refined. The processing of VAT invoices, which was a long-standing problem for the Mongolian tax regime, was made more systematic with the introduction of electronic systems for submission of VAT statements. Gathering of information from other government organizations[2] was expanded.

---

[2] According to The Enhancement of Tax Administration Project 2006, third party information system is developing. Those third party organizations are such as Custom Administration Agency, Immovable Property Registration Agency, the State Social Insurance General Office, the Ministry of Finance

Statistical data of the last decade demonstrates that VAT accounts for 17-33 percent of total tax revenue, which is about 14-22 percent of the total budget revenue. This level is relatively high compared to level of countries with similar rate of VAT. Whereas royalty from mineral resources and CIT are directly dependent on world market price of key export products of Mongolia and economic downfall, the VAT employees relatively incessant and regular characteristics. Collection of taxes equal to 4.8-9.5 percent of the GDTN at the VAT rate of 10-15 percent indicates high compliance of this tax in terms of its imposition and collection. Whereas there is a common tendency in an international practice that considered it efficient if each unit of the VAT rate collects the revenue no less than 0.4 percent of the GDP, but this figure is 0.48-0.8 percent in Mongolia (Tsogt.O, 2011).

In addition, there are still potentials to yield additional tax revenue, reduce tax burden and recover tax revenue loss expected due to measures aimed to increasing effective registration through using third party organizations, reducing tax burden through enhancement of auditing, and services provided by the Mongolian tax administration.

CHAPTER FIVE: CONCLUSIONS

5.1 Research Findings

Tax system reforms and VAT research study are covers many areas, fields and require wide information. Author made a research only in according to thesis structure, author divided the research findings in three sub topics and tried to do conclusions more detail in each topics.

I. Tax Policy Reform and Former Soviet Union Countries Tax Reform

The experience of various tax reform programs in developing countries advises that successful tax reforms need fundamental changes in the tax system, both in its policies and administration. It seems that changes in tax bases and rates alone were not sufficient, and that elements in the tax system that required most attention in developing economies were tax administration and tax compliance. Factors contributing to accomplishment of the reforms varied widely, but several may be contemplated particularly significant, and amongst them, the followings seem to be particularly applicable to BRO countries:

- the chances for successful tax reform were considerably enhanced when reform attempts went well beyond mere changes in tax policies, to fundamental reform of the broader tax system that also involved measures to simplify tax administration and improve compliance,
- a worldwide trend in taxation has been noticed in the past two decades: a drift away from high marginal rates of tax and away from fine-tuned tax structures, toward lower and more uniform rates and simpler structures. Both simplification and rate reduction have worked best where the other is present. Thus, we can affirm that simplification and rate reduction are mutually reinforcing.
- reforms that were successful in terms of revenue performance have also tended to be reforms that have gone furthest in satisfying redistributive, growth, simplification, and resource allocation goals.

In the beginning of the 1990s, BRO countries began the transition process to a market economy. Drastic changes in economic and political circumstances developed in the disruption of trade and a substantial decline in the industrial output and GDP, although public expenditure was substantially cut, output and tax revenues declined at a faster rate, resulting in severe fiscal imbalances in many of these countries, which in turn caused to broad macroeconomic instability. The inherited Soviet-type tax systems, characterized by the dominance of turnover and enterprise profit taxes, could not operate efficiently under the conditions of liberalization of prices and methods of payment, the privatization of state enterprises and increasing share of the private sector in GDP. There was an urgent need to reform both the statutory and the administrative aspects of the tax systems.

Tax reforms in almost all post-communist countries started with the overhaul of existing enterprise profit tax (EPT) system and introduction of a personal income tax (PIT), excises and VAT, the latter to replace the turnover taxes. By the mid-1990s, these taxes had already been introduced in most countries. Although the initial implementation of tax reforms was similar in many countries, with a number replicating the reforms initially enacted by the Russian Federation, at the later stages the reforms varied more widely.

Estonia, Latvia, and Lithuania, which can be considered as successful examples of tax reform implementation amongst BRO countries and which managed to adopt new tax systems consistent with best international practices in relatively short period of time and recover tax revenue levels prevailing before transition. It should be noted that starting in the mid-1990s, all three countries' governments' tax policies have been influenced by their medium-term objective of accession to European Union.

Their objectives primarily comprised maintaining tax revenue levels, lowering the tax rates, minimizing distortions created by taxes and simplifying the tax system. Relatively fast implementation of revenue-neutral reforms at the initial stage of transition allowed the Baltic countries to avoid the sharp revenue declines that most of the other BRO countries have experienced. Tax systems in the Baltics were initially characterized by numerous exemptions and concessions, however, these countries moved towards simplification and base broadening and by the late 1990s, most of the exemptions and preferential provisions were repealed and their tax systems were transformed into one largely similar to tax systems prevailing in Western Europe.

At the initial stage of transition, most countries except Baltic countries recorded a decline in their tax revenues and one of the priority objectives of their tax policies was to increase tax yield relative to GDP. This situation seems to have resulted from a combination of the factors (negative growth rates, weak tax administration, and distortions in the tax structure that probably contributed to a significant amount of informal economic activity). From 1991 to 1996, output continued to decline and state enterprises, which were the largest taxpayers, experienced a severe contraction in output. From mid-1990s, when the economies started to record positive growth rates, private sector share in GDP has been growing. However, the taxation of the emerging private sector was complicated as most of the transactions were carried out on cash basis and the tax administration was not able to fully capture the income generated outside the state enterprise sector. The countries experienced substantial declines in the standard of living of the population, and in some countries, increasing poverty levels became a serious concern.

After the initial stage of successful introduction of market-oriented tax system elements, further reforms in many countries resulted in more complicated and less transparent tax systems, with numerous exemptions and deductions. Starting in the mid- 1990s, the countries started to implement tax policies aimed at improving the structural aspects of taxation, minimizing tax-induced distortions and simplifying the overall tax system. Not many attempts, however, were successful in this regard. In many cases, governments had difficulties in maintaining good tax policies and later amendments to tax legislation undermined the success of reform initiatives. In addition, frequent changes in the tax system tended to create uncertainty in the overall business environment with potential negative effects on economic performance.

Tax reform experience in BRO countries shows that initially all countries implemented piecemeal approach in changing their tax systems which in some cases included modifications to existing laws and in others introduction of completely new tax laws. With the progress in transition and as tax systems became excessively complex, countries like Kazakhstan, Georgia, Kyrgyz Republic, Moldova and Uzbekistan adopted new tax codes in the mid-1990s, Russia and Tajikistan adopted them in the late 1990s, Azerbaijan implemented new tax code in 2001, and Ukraine considered the adoption of a new tax code.

The success of achieving tax policy objectives depends not only on the design of the tax system but also on the implementation of tax administration, and this has been proven by the experience of post-communist countries. Tax administration reforms have mainly focused on enactment of necessary legislation, establishment of organizational structures, development of systems and procedures, however, little has been accomplished in collection and enforcement areas. The reforms, with the exception of those carried out in the Baltic states, have been slow and have proceeded with difficulties for several reasons:

- tax administration has been a highly politicized function of government with tax liabilities largely negotiated instead of determined by law;
- the tax administration capacity has not been adequate to handle the significant increase in the number of taxpayers and the different types of taxpayers (particularly small and medium-sized taxpayers in the emerging private sector);
- widely used barter trade and non-cash transactions, as well as the use of offsetting operations to pay taxes, have complicated the tax administrations' task of collecting taxes in cash from important segments of the economy; and
- in many countries, there has been a lack of political commitment by the government officials towards major changes in tax administration and many of them still remain valid.

A close review of tax reforms in the BRO countries suggests that the experience has been mixed and that it is difficult to extricate the rate-reduction effects since policy reforms were often accompanied, by efforts to strengthen tax administration. Considering the current fiscal situation in many BRO countries, in particular the absence of expenditure cuts and the need to avoid primary deficits on the path to achieving fiscal sustainability, tax reforms should aim to be revenue neutral. Tax policies should focus on maintaining the overall tax burden while broadening the tax base and rationalizing the tax structures to remove all tax-related distortions. In addition, reform efforts should move well beyond mere changes in tax policies to fundamental reform of the broader tax system that also requires measures to strengthen administration and compliance.

II. VAT and VAT Implementation in Former Soviet Union Countries

Over the last decades, VAT has swept the world. The principal reason for the rapid spread of this form of taxation were, first early adoption of this form taxation in the European Union (EU) and, second, the key role played in the spreading the word to developing and transitional countries by the International Monetary Fund (IMF) in particular and by international agencies advisors more generally. The success of VAT in European Union proved that VAT worked. The consistent support and advocacy of this form of taxation by the IMF and others in variety countries, first in Latin America, then around the world, encouraged, and facilitated the adoption of VAT by countries with much less developed economic and administrative structures than those in the original EU member states.

VAT is basically a multiple stage tax. According to which, a person has to pay tax at every stage of production and distribution. Hence, tax would be charged at every step of value addition. Since, the tax is charged on commodities purchased for consumption, it is therefore a consumption tax.

Countries introduce a VAT because they are disappointed with their existing tax structure. This disappointment falls broadly into one, or possibly all, of four categories: (1) the existing sales taxes are unsatisfactory; (2) a customs union requires discriminatory border taxes to be abolished; (3) a reduction in other taxation is sought; or (4) the evolution of the tax system has not kept pace with the development of the economy. Many developing countries have introduced the VAT to put back turnover tax or some type of single-stage sales tax. The replaced taxes are inherently troublesome in terms of either revenue leakage or economic inefficiency or both. Compared with alternatives in indirect taxation, the VAT has more revenue potential. It is generally more broad-based and entails a trail of invoices that helps improve tax compliance and enforcement. Note also that the VAT may eliminate the cascading problem, which is typical for the turnover tax.

The Baltic countries were among the first BRO countries to introduce a VAT. Unlike other BRO countries, VAT rates in Baltics were initially set at relatively low levels (10-15 percent) although the rates were subsequently raised to 18 percent. Regarding exemptions and preferential rates, all three countries had launched some exemptions mainly on food items, agriculture and energy sectors, but these were gradually decreased. By 2000, the Baltic countries had VAT revenues of around 8 to 10 percent of GDP, one of the highest ratios amongst BRO countries, and relatively few exemptions from the tax.

These countries such as Armenia, Azerbaijan, Georgia, Kazakhstan, Kyrgyz Republic, Moldova, Ukraine and Uzbekistan reached certain progress in tax reforms in the mid-1990s, but later on faced many challenges in terms of maintaining good tax policies, completing transformation of their tax systems into ones similar to that of developed market economies, and recovering previous tax revenue levels.

Above countries introduced VAT in 1992, at rates mostly set at 28 percent (in case of Uzbekistan 30 percent) and with exemptions for basic foodstuffs. During the next two years, the VAT rate was decreased to 20 percent and some countries, including Georgia, Kazakhstan, Moldova and Uzbekistan, introduced lower preferential rates for certain foodstuffs rather than removing exemptions to compensate for loss in revenue. Starting in the mid-1990s, the countries executed substantial changes to their VAT systems by moving them to accrual basis and invoiced-based determination of liabilities. Though by the late 1990s, most of these countries had tried to reduce the number of exemptions (Uzbekistan increased the standard VAT rate back to 20 percent), most still had VAT exemptions and preferential rates for either agriculture sector related activities and/or energy sector.

Russia, Belarus, Tajikistan and Turkmenistan, can be considered late or conservative reformers, with a slower overall transition to a market economy, relatively stable tax revenue levels with the exception of Turkmenistan and main tax reforms and VAT systems initiated only in late 1990s. They were the last ones amongst post-communist countries to move from origin to destination principle for common wealth independent countries trade as well as from gross margin taxation to credit/invoice methods. The three countries have tended to follow Russia's policies regarding tax rates and exemptions. Only in the late 1990s, they did initiate major changes to their tax systems. In particular, Tajikistan and Russia prepared and initiated to apply new tax codes that updated their VAT systems and eliminated some exemptions. Russia implemented relatively few changes to its tax system and only starting in 1999 did the authorities start tax reforms that covered all major revenue sources. These reforms were gradually implemented during the next two years making Russia an advanced tax reformer and stimulating similar reforms in some other BRO countries.

Moreover, the author may suggests following several conclusions for VAT implementations on post-Soviet Union countries. Especially in countries where tax policy reforms have lagged, there have to be a renewed effort to complete the reforms and update the tax system through legislative and other policy changes. Still greater effort should be applied to the area of tax administration. Considerable technical assistance in tax administration has been ineffective because of weak execution and the lack of necessary involvement on the part of senior officials. Maybe most fundamental, government leaders and parliaments must indicate a much greater political will to collect the needed revenues by, among other sites or moves, detaching undesirable exemptions and the use of "noncash methods" of paying taxes.

III. Mongolian New Tax Systems and VAT

Improving the efficiency of tax administration is a long-standing affair in most of the countries in the world. Especially in countries like Mongolia where presumption is a prevailing practice in tax administration, it is urgent and important for the government to build up fair, transparent, and efficient administration practices.

The government of Mongolia reformed tax system almost every year from the early 1990's with the help of technical assistance from IMF and other professionals of developed countries. In addition, in 1991, there were IMF and Japan Ministry of Finance's consulting works for the tax system re-design. In 1993 General Tax Law, Corporate Income Tax Law, Personal Income Tax Law, and Sales Tax Law were passed and there were independent Mongolia Tax Administration institutionalized outside of MOFE. Moreover, in 1997, unified system of MTA was launched. Consequently, Mongolia obtained to the current tax system and administration that are compatible with those of market-oriented economies.

As for the legal environment for the VAT is one of the most "changeable" taxes in Mongolia. Since its effectiveness the VAT have been subject to alterations for 31 times in addition to separate 26 independent laws accepted with regard to exemption from VAT. The first amendment to the VAT law occurred on August 28, 1998 in its 58th days of effectiveness where the rate was raised to 13 percent along with abolishment of many exemptions. These changes were legalized to be effective in three days of their approval. There after the rate was increased again to 15 percent by the law dated on November 17, 2000. Important reforms such as this VAT rates were adjusted to bring closer to those in other post communist countries. But finally it was not suitable to Mongolian VAT reform and then decreased to 10 percent by the revised law of June 29, 2006. The current VAT law became effective from January 1, 2007, which reduced the VAT rate from 15 to 10 percent and removed a number of exemptions, including the exemption for capital goods imports for use in export oriented industries. The mining sector is now treated for VAT purposes on par with other importers. As mining companies in Mongolia export most of their output and exports are zero-rated, they are in a VAT refund situation.

The registration threshold was decreased to 10 million by the law of June 29, 2001. The most of the alterations were associated to exemption. A Zero rate applies for exports. VAT is currently the single most important tax in Mongolia. In recent years, its yield has averaged about 9 percent of GDP or about 30 percent of total taxes. Productivity of VAT is 60 percent, which is quite high. Back to 10 percent VAT rate is intended to create favorable conditions for entrepreneurs, individuals and foreign and domestic investors and are viewed by the authorities as an important step towards supporting economic growth and the future expansion of the tax base.

Revenues from the mining sector increased substantially in parallel with the rise in world copper and gold prices and the going with increase in mining activity. The government should also keep the mining regime under close review to ensure that it is appropriately designed to limit risks to the public sector balance sheet to maintain an internationally competitive fiscal regime. On the revenue side and VAT future purpose, it should be considered that the authorities have taken measures for broadening the non-mineral tax base and cutting tax rates. It should help diversify and enlarge efficiency of the economy through decreasing distortions in the tax system. The reforms are intended to create approving conditions for entrepreneurs, individuals and foreign and domestic investors and are viewed by the authorities as an important step towards supporting economic growth and the future expansion of the tax base. Finally, IMF Directors encouraged the authorities to keep the mining regime under review to ensure an internationally competitive tax regime, and they assisted Fund technical assistance in this area.

Foreign organizations and consultants still emphasized Mongolian reform and mentioned structural fiscal reforms. The authorities intend to pass the social transfer reform law in the fall session of parliament which was in early October 2010. Separately, the authorities were also considering options for more to tax reform:

- Reforming the mineral taxation regime. The windfall profits tax will expire at the end of the year and reform of the mineral tax regime will be necessary to recover some of the lost revenue. The authorities' goal is to establish a more modern and less distortionary mineral tax regime that balances the government's revenue needs with the goal of promoting development of the mineral sector
- Revising the organic budget law. A draft law has been prepared.

- Improving tax administration. Tax administration efforts focus on improving the large taxpayer office (LTO), including creating an extractive industries group within the LTO, increasing LTO staffing, and enhancing training of LTO audit staff and senior management.

Paying attention to LTO very high is due to Mongolian own large taxpayer characteristics. Tax revenue in Mongolia is highly concentrated some 400 large enterprises account for about 50-60 percent of total domestic revenue. Among these large enterprises, about 100 large mining companies account for 40 percent of tax revenue, reflecting the importance of the mining sector. Many of these large businesses are also the country's largest investors. The IMF and the government identified several areas for development in the large taxpayer offices (LTO) organizational structure and staffing, legal framework, key tax administration processes and information technology systems.

In tax collection, a notification system was executed on a trial basis as a means of dealing with arrears. Expecting that this attitude will be expanded to enhance tax collection rates. At the time, information on taxpayers was held by individual tax inspectors, making tax auditing less efficient. To upgrade this situation, a third-party information system was developed. The third party information system was further clarified. The processing of VAT invoices, which was a long-standing problem for the Mongolian tax regime, was made more systematic with the introduction of electronic systems for presentation of VAT statements. Gathering of information from other government organizations was expanded. Therefore, in addition there are still potential rooms to yield additional tax revenue, reduce tax burden and recover tax revenue loss expected due to actions aimed to increasing effective registration through using third party organizations, reducing tax burden through improvement of auditing, and services supplied by the tax authority.

5.2 Future Recommendations

Even though the research reached its aim, there may be some possible limitations in this study. First, the writer did not use primary data that obtained from respondents and interviews directly to the object involved. Second, the lack of knowledge that writer had. Value added tax is one the of many tax system. Tax understanding and tax theory is very big and related to many fields such as economy, society and politics. Therefore, the author will be limited. Finally, Limit of time that writer had. Value Added Tax reform is long and complex process. Therefore, author's aims more pay attention to fundamental and solid base of Mongolian tax system and VAT reform. Moreover, tried to make conclusion of accomplishment compared to BRO countries. It will limit historic time research and set between 1990 and first decade of 21st century. In order to define more clear conclusion about post-Soviet Union countries tax system and VAT reform, future researchers will be needed more broad time range but also should more pay attention to post Soviet Union countries one by one. Because even in the beginning of the reform, almost all were in same condition, but after several years, every country politics and economy conditions changed and reform result was varied.

Tax policy reforms have begun in almost all CIS countries, but results was different. When discussing about revenue, there is some correlation between the pattern of general economic transition and the path of revenue decline, with slow reform in some instances delaying the decline of revenue from pre transition levels. So researchers can study more above conditions and try to assess importance of solid and quick tax system reform. Reviewing again tax policy and administration, ideally, institutional change should progress on all fronts simultaneously, resource constraints demand that the authorities establish priorities and adopt the proper sequencing of reforms. However, in reality, progress in tax administration reform has been slow and uneven. Until now there do exist many the reform lags in those countries. So future researchers can pay attention following area such as cause of the multiple and frequent changes in the tax codes and related laws, the complex nature of tax administration reform and weak and inconsistent political commitment to serious reform due to the government officials. Future researchers should study narrow by each field.

Even Mongolia started together with post-Soviet Union countries for tax reform, finally Mongolian tax reform is getting more successful than some other countries. So future tax reform issues and problems are different. In addition, to bring more efficiency to the taxation system of Mongolia through sustained observance of the law upon enhancement of VAT system by making necessary amendments there to, because the significance of VAT tends to growing year to year. The researchers can study about the more changes of tax system and VAT reform. In case of VAT legislation, they can by narrowing VAT pay, registration threshold for VAT, VAT imposition and exemption, collection, overpayment and refund of VAT etc. Moreover, in case of VAT administration, there are following topic such as enhancement auditing, controlling system of tax administration, simplification of taxation and payment operations.

REFERENCE

ADB. (2018, September). *Proposed loan: Strengthening Information and Communication Technology Systems for Efficient and Transparent Public Investment and Tax Administration*. Retrieved from https://www.adb.org/projects/documents/mon-51084-001-pp.

Alan A.Tait. (1988). *Value added tax: International practices and problems.* Washington, D.C.: Banana Republics.

Anderson, J. E. (2005). *Fiscal Reform and its Firm-Level Effects in Eastern Europe and Central Asia.* William Davidson Institute at the University of Michigan, William Davidson Institute Working Papers Series.

Babbie, E. (2014). *The Basics of Social Research (6th ed.).* . Belmont: Wadsworth Cengage.

Berg, B. L., & Lune, H. (2012). *Qualitative Research Methods for the Social Sciences (8th ed.).* Boston: Pearson Education Limited.

Bird, R. a. (1990). *Taxation in Developing Countries, 4th ed.,* . Baltimore: Johns Hopkins University Press.

Bird, R. M. (2003, May). *Administrative Dimensions Of Tax Reform*. Retrieved from https://www.researchgate.net/publication/24137632_Administrative_Dimensions_of_Tax_Reform.

Bird, R. M. (2005, April). *Value added taxes in developing and transitional countries: Lessons and questions*. Retrieved from https://www.researchgate.net/publication/

Cheasty, A. (1996). *The Revenue Decline in the Countries of the Former Soviet Union*. Retrieved from https://pdfs.semanticscholar.org/c168/0d3a5a095d36dd119f31b7f7343771845ad8.pdf

Emil M. Sunley, J. G. (2010). *The Fiscal Regime For Mining - A Way Forward.*

Escolano, P. S. (1993). The State of Tax Policy in the Central Asian and Transcaucasian Newly Independent States.

Feldstein, M. (1976). Journal of Public Economics 6 (1976) 77-104. On The Theory Of Tax Reform.

Gillis, M. (1989). Tax reform in developing countries.

Grigg, J. (2011). *About keeping VAT implementation continously in Mongolia.*

Hamed Erfani, S. R. (2013). The Study on the Factors that influence on the performance of Value Added Tax system in Iran.

Ilona Skačkauskienė1, Ž. T. (2012). *The Evaluation Of The Lithuanian Tax System Reform* .

IMF. (1997). *Press Information Notice: IMF Concludes Article IV consultation with Mongolia*. Retrieved from https://www.imf.org.

IMF. (2002). *Manual on Fiscal Transparency.*

IMF. (2002). *Public Information Notice: IMF Concludes 2002 Article IV Consultation with Mongolia*. Retrieved from https://www.imf.org.

IMF. (2005). *Mongolia: Selected Issues and Statistical Appendix.* Washington, D.C.: Publication Services 700 19th Street, N.W. .

IMF. (2005). *Mongolia: Ex Post Assessment of Longer-Term Program Engagement.* Washington, D.C. : Publication Services 700 19th Street, N.W.

IMF. (2007). *Mongolia: 2006 Article IV Consultation—Staff Report.* Washington, D.C. : Publication Services 700 19th Street, N.W. .

IMF. (2007). *Public Information Notice: IMF Executive Board Concludes 2006 Article IV Consultation with Mongolia*. Retrieved from https://www.imf.org/en/News/Articles/2015/09/28/04/53/pn0711.

IMF. (2008). *Mongolia: Selected Issues and Statistical Appendix.* Washington, D.C. : Publication Services 700 19th Street, N.W. .

IMF. (2010). *Fifth and Sixth Reviews under the Stand-By Arrangement and Rephasing of Purchases.* Washington, D.C. : Publication Services 700 19th Street, N.W. .

IMF. (2010). Improving Tax Collection in Mongolia.

IMF, C. R. (2005). *Mongolia: Selected Issues and Statistical Appendix.*

James, S. a. (2008). Successful tax reform: the experience of value added tax in the United Kingdom and goods and services tax in New Zealand.

Jeremy Carter, Y. L. (2005). *Mongolia: Ex Post Assessment of Longer-Term Program Engagement.*

JICA. (2006). *The Enhancement of Tax Administration Project*. Retrieved from https://www.jica.go.jp/mongolia/english/activities/pdf/tax_admin.pdf.

JICA. (2008). *In step with a developing Mongolia*. Retrieved from https://www.jica.go.jp/mongolia/english/activities/pdf/tax_admin.pdf.

JICA. (2016). *The project for the enhancing tax collection operation and international tax issues of Mongolian tax administration*. Retrieved from https://www.jica.go.jp/mongolia/english/activities/pdf/tax_admin.pdf.

Jongseok An, M. L. (2002). *Tax System and Intergovernmental Fiscal Relationship in Mongolia: Assessments and Suggestions.*

Lamensch, M. (2015). *European Value Added Tax in the Digital Era.*

Le, T. M. (2003). *Value Added Taxation: Mechanism, Design, and Policy Issues.* Washington D.C.

Liam Ebrill, M. K.-P. (2001). *The Modern VAT.* Washington, D.C.: International Monetary Fund, Publication Services.

Liam Ebrill, O. H. (1999). *Tax reform in the Baltics, Russia and other countries of the Former Soviet Union", IMF Occasional paper #182,.* Washington, D.C.: International Monetary Fund, Publication Services.

Meade, J. (1978). *The Structure and Reform of Direct Taxation, Institute for Fiscal Studies, London.* London: Allen and Unwin.

Michael Alexeev, R. C. (2009, January). *Assessment of Tax Reform Results in Russia: Comparative Analysis*. Retrieved from https://www.researchgate.net/: https://www.researchgate.net/publication/

Michael J. Boskinand Charles E. McLure, J. (1990). *World Tax Reform: Case Studies of Developed and Developing Countries.* San Francisco: ICS Press.

O. Havrylyshyn, L. E. (1999). Tax reform in the Baltics, Russia and other countries of the Former Soviet Union", IMF Occasional paper #182, .

Oakland, W. H. (1964). Theory of the Value Added Tax. *National Tax Journal*.

OECD. (2016). *Tax Policy Reforms in the OECD.* Paris: OECD Publishing.

Oldman, R. M. (1990). *Taxation in developing countries.* Baltimore, Md. ; London: Johns Hopkins University Press.

Oordt*, M. v. (2016, October). *Value Added Tax Effort and the Influence of Governance*. Retrieved from https://www.up.ac.za/media/shared/58/ZP_Files/2016/VAT%20Symposium/Papers/m-van-oordt.zp103854.pdf

Porta, D. d. (2014). *Methodological Practices in Social Movement Research.* London: Oxford University Press.

Prest, A. R. (1985). *Public Finance in Theory and Practice, 7th ed., .* London.: Weidenfeld and Nicolson, .

Qamruz Zaman, O. M. (2012). *Value Added Tax-Theoretical Aspects and Empirical Evidence for Pakistan*. Retrieved from http://www.qurtuba.edu.pk/jms/default_files/JMS/6_1/JMS_January_June2012_43-52.pdf

Ragin, C. C. (1987). *The Comparative Method: Moving Beyond Qualitative and Quantitative Strategies.* University of California Press. Retrieved from www.jstor.org/stable/10.1525/j.ctt1pnx57.

Sambuu U, C. Z. (2010). Modernization of tax information system for improved e-government services. *Proceedings of the 4th International Conference on Theory and Practice of Electronic Governance* .

Shome, P. (1995). *Tax policy handbook.* Washington, D.C.: Tax Policy Division, Fiscal Affairs Dept., International Monetary Fund.

Stepanyan, V. (2003). *Reforming Tax Systems: Experience of the Baltics, Russia, and Other Countries of the Former Soviet Union*. Retrieved from https://www.imf.org/external/pubs/ft/wp/2003/wp03173.pdf

Tsogt.O. (2011). *Objective of VAT and its implementation*. Retrieved from http://www.test.monicpa.mn/index.php?viewThisHomePage=49&contentid=862

Vito Tanzi, H. H. (2000). *Tax policy and emerging markets: Developing countries*. Retrieved from https://www.imf.org/external/pubs/ft/wp/2000/wp0035.pdf

Wallschutzsky, I. (1989). Achieving Compliance in Developing Countries. *Bulletin for International Fiscal Documentation*.

Yagan, N. G. (2009). Optimal Taxation in Theory and Practice. *Journal of Economic Perspectives, American Economic Association, vol. 23(4),.*

APPENDIX

I. Summary of VAT Implementations in BRO Countries

	Country	VAT
1.	Armenia	1992: introduced at 28%, with exemptions for basic food items 1993: rate reduced to 20%, exemptions added 1994-95: some exemptions removed, switch to accrual basis 1997: new law, according to which VAT is levied at the point of import and all trade taxed on destination principle 2001- some exemptions abolished tax threshold increased substantially
2.	Azerbaijan	1992: introduced at 28%, with numerous exemptions for food items 1993: rate reduced to 20% 1995: several exemptions eliminated 1996: most of the exemptions on foodstuff removed 1998: rate reduced to 18%
	Estonia	1991: 10% 1992: raised to 18% 1994: number of exemptions reduced
	Georgia	1992: introduced at 28%, reduced to 14% later in the year 1995: rate increased to 20%, 10% rate on bread and flour introduced, agriculture produce by individuals exempted 1996: number of exemptions reduced 1997: agriculture exempted 1998: several exemptions removed 1999: exemption for primary agriculture removed
	Kazakhstan	1992: tax introduced at 28%, with lower rates and deductions for food 1993: rate reduced to 20% 1995: new tax code, single rate of 20% 1997: gradual move to destination principle 1998: new exemptions for education and medical services and reduced rate of 10% for agro-products and food introduced
	Kyrgyz republic	1992: tax simplified, rate reduced from 45% to 35%, alternative rates for specific activities 1994: rate reduced to 30% 1995: new law, specific rate for agriculture raised to 25%, fewer exemptions and deductions 1996: new tax code, presumptive taxes on small retailers introduced;, rate unified at 30% 1997: rates on dividends and interest income reduced to 5% 1999: rate on dividends reduced to 0% 2001: rate reduced to 20%
	Latvia	1991: 3 rates, 15%, 25% and 35% 1993: 25% general rate, will higher rates for stale enterprises, trade and financial sector 1995: new law introduced with a standard rate of 25% 2001: rate cut to 22%
	Lithuania	1991: 29% general rate 1994: 10% rate on retained earnings and reductions and holidays introduced for foreign investments and small businesses 1997: rate on retained earnings reduced to 0%, agriculture taxed at 10% 2000: general rate reduced to 24%
	Moldovia	1992: numerous rates ranging from 1.5% to 55%^ most part taxed at 32% general rate, exemptions and tax holidays for agriculture related activities and joint ventures 1997: new EPT code unified rates at 32% and eliminated many special tax exemptions,

		benefits agricultural enterprises and joint venture remained 1998: rate reduced lo 28% 2002: rate reduced to 25%
	Russia	1992: introduced at 28%, but with lower rate and exemptions for food items 1993: standard rate reduced to 20%. lower rate reduced lo 10% 1994: special turnover tax of 3% introduced 2001: tax applied to entrepreneurs, some exemptions eliminated, destination principle adopted for non-energy trade with CIS
	Tajikistan	1992: tax introduced at 28%, relatively few exemptions 1993: rate reduced to 20%, state and collective farms exempted 1994: 3% surcharge introduced on top of 20% rate 1995: agriculture exempted 1997: 3% surcharge eliminated / 998: exemptions for food eliminated 1999: new tax code modernized VAT system, input tax credit granted mid excess credits refunded
	Ukraine	1992: VAT introduced at 22% and 28% for goods and services with liberalized and administered prices respectively 1994: VAT coverage extended to non-CIS imports 1995: rate reduced to 20%, list of exemptions extended 1997: new VAT taw modernized the tax by moving to an accrual basis and eliminating many exemptions 1997: new exemptions introduced and introduction of accrual method postponed till 1999 1998: certain tax exemptions removed, but agriculture exempted from the tax for five years
	Uzbekistan	1992: tax introduced at 30%, did not cover retail trade and services 1993: coverage extended to wholesale and retail sales, rate reduced to 25%, deduction of 6% allowed for pay 1994: rule reduced to 20%, deduction of 6% abolished 1995: rate reduced to 18% 1996: rate reduced to 17% 1997: rate raised to 18%, preferential rate at 10% introduced for food items 1998: new tax code, standard rate raised to 20% 1999: preferential rate raised to 15%