

BRIEFING NOTE

TAX REFORM FOR TIMOR-LESTE

A NEW VALUE ADDED TAX?

UN WOMEN TIMOR-LESTE

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Governments raise tax revenues so that they can meet the needs of the people they represent. Fair and equal taxation makes sure that tax laws do not discriminate against people who live traditional lives, subsistence farmers, rural business owners, women, or the poor. How can this be done? This paper demonstrates how careful attention to the impact of taxes and policy evidence can be used by Government officials to carry out a step-by-step examination of the impact of tax laws on all concerned.

The Government of Timor-Leste is taking steps to increase the non-oil revenues of the state budget by through fiscal reform – especially of tax laws. **The Government’s goal is to increase domestic tax revenue to 15% of non-oil GDP.**

Other objectives of the reform are:

- Economic Efficiency: The reforms should not hurt economic efficiency.
- Fairness and Equity: The tax system should be progressive and not burden the poor.
- A Level Playing Field: A company’s tax burden should depend on its profits and revenues and not on tax exemptions it has been awarded.
- Price Stability. The reforms proposed should not lead to sustained increases in prices over the long term.

The Commission for Fiscal Reform is looking at three different taxation laws in order to achieve these goals:

- 1) Introduce a new Value Added Tax (VAT)
- 2) Reform the Customs Law
- 3) Review the Tax and Duties Act

I. What is Value Added Tax (VAT)?

VAT or goods and service taxes (GST) is a consumption tax. It is paid by purchasers every time a good or service is obtained – but it is designed to push the tax down to the final consumer. It does this by letting many businesses get refunds of the VAT they paid along the way.

A country’s standard VAT tax rate can be as low as 3% (where Singapore started) or 6% (Malaysia) or as high as 20% to 27%. The lower the tax rate (%), the lower the income for the Government, especially after deducting all the costs of introducing a new tax system. The higher the tax rate, the higher prices for consumers will be.

Currently Timor-Leste applies a sales tax, which only applies to goods – but not services. That tax rate is 2.5%.

The two biggest differences between sales taxes and VATs are these: First, VATs are charged on both goods and services – not just on goods. Second, part of the final VAT paid by the end consumer (who is a person, not a business) is

refunded to each business in the supply chain. Thus only consumers actually pay the VAT.

The price of the VAT is put onto goods and services whenever they are sold by importers or large VAT-registered businesses. This happens because those businesses collect the VAT in the sales chain on behalf of the Government, and this builds the VAT they paid into the final cost of goods and services paid by the consumer.

The ultimate cost of the VAT is passed to the ‘real’ consumers – ordinary people, who end up paying more for almost all goods and services.

How equitable is VAT?

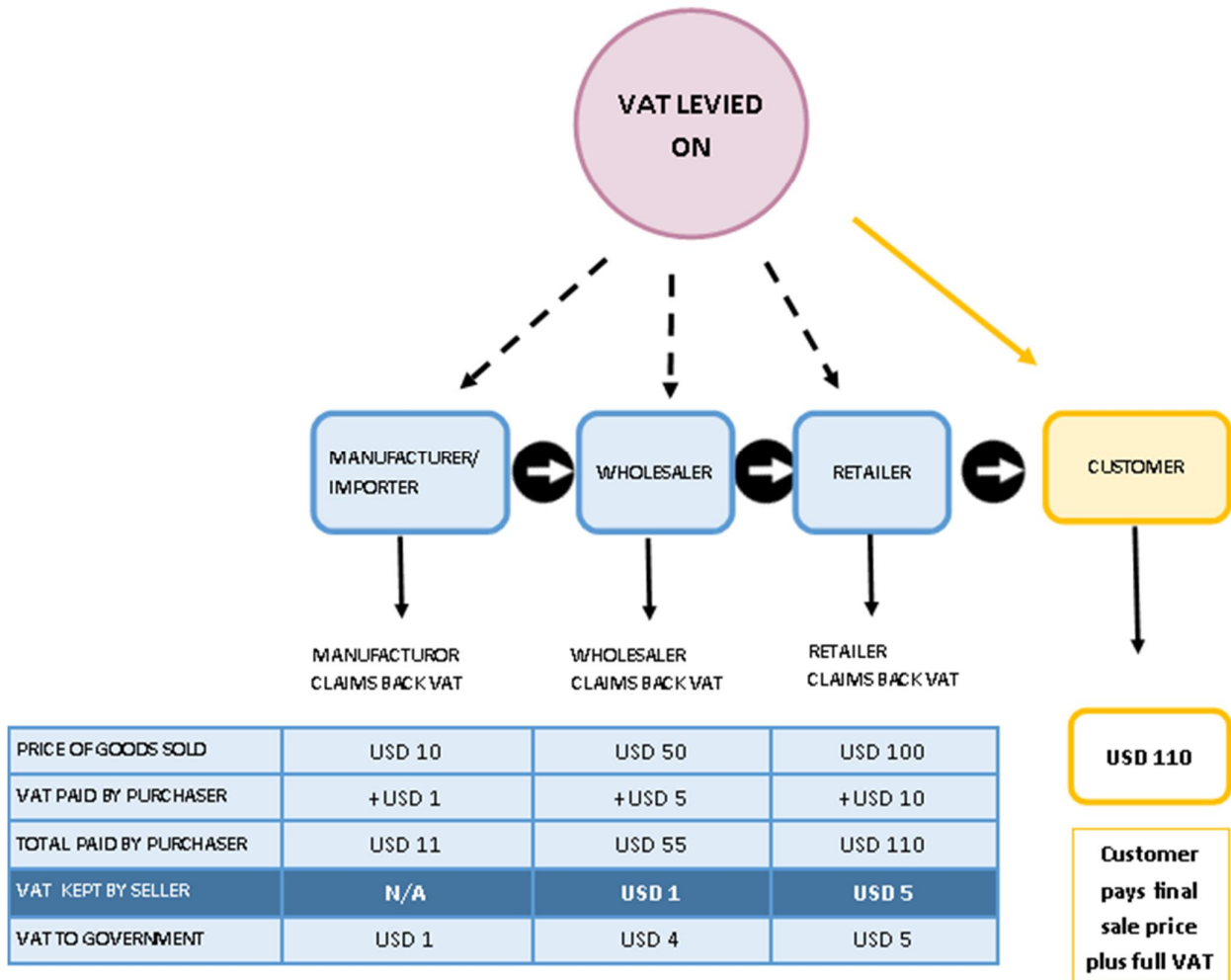
VAT is ultimately pushed through to the final consumer, no matter how low their income or their household situation etc.

This is unfair. Fairness in taxation requires that people should only pay taxes according to their ability to pay. Poverty means that people have less ability to pay taxes. Maintaining their nutrition, physical shelter, health, educations, and social integration is more important than some abstract idea that all people should be taxed ‘the same.’ Taxing a poor person ‘the same’ as a person with a high income puts a heavier burden on the poor person, and that is not ‘the same.’ As one very wise Timorese leader said, ‘businesses do not die from taxes, but people do.’

All countries with VAT have introduced some special measures (exemption for some goods, zero-tax ratings for specific goods and services, geographic exemptions) to protect the most vulnerable and to be fair to everyone.



How does a Value Added Tax work?



In the example above, the manufacturer sells a raw product (tree trunk) for a sale price of USD 10. If the VAT rate is 10%, then the manufacturer also has to collect the 10% VAT on the sale price – USD 1 – and send it to the Government. The manufacturer then has business income of USD 10. The wholesaler who bought the product USD 11 (cost of item plus USD1 VAT) will transform it (into wood planks), add value to it and resell it for USD 50. Again, 10% -- USD 5 -- will be added to the sale price and is owed to the Government, bringing total sales price to USD 55. Because the wholesaler is allowed to repay itself the USD 1 VAT it paid the manufacturer, it only has to send USD 4 to the Government. The retailer will again transform it (into a bed), and add value to it. He wants to sell it for USD 100, and will add 10% VAT, which brings total sales price to USD 110. He sells it to a consumer, who pays the full USD 110 and cannot request any claim for VAT credit. The **USD 10 VAT becomes part of the price of the goods**. The retailer, as he already paid USD 5 in VAT when he bought the wood planks from the wholesaler, will send only USD 5 to the Government.

What about those that are not registered VAT collectors?

Many small businesses, farmers, fishers, woodcutters, clinics, hospitals, schools, universities, Government departments, public service organizations, care workers, social services organizations, churches, and charities may want to become registered VAT collectors, so they would also be able to claim back the VAT they pay on the goods and services they buy.

But not all of these organizations follow through on this. The reasons for this vary: They may not have enough trained workers to do the registration, or to keep track of the VAT filing rules, or to do the accounting involved, so they may decide they cannot afford to become a registered VAT collector. This means they lose the VAT they have to pay. Or, they may not even understand that they are paying a tax that they can get back if they register. Or, they may not want to charge their students or clients or customers a VAT because they might think it could drive away business.

In all those situations, those businesses and organizations cannot get their VAT back. It is **'trapped VAT'** that they can only get back if they become a registered VAT collector. They then have to pay the full VAT out of their budget, or try to pass it on to their customers as if this were the new fair price for the same goods. This then causes their prices to rise – or, if they absorb these new costs, the VAT causes their profits to fall.

Some businesses are too small to afford to register for VAT. This means that they cannot claim VAT refunds unless they do register. Some countries use zero-rating under the VAT rules for certain essential goods and services, such as schools, hospitals, and medicines. Other countries give flat rate refunds to small businesses and low income consumers to compensate them for the VAT they are required to pay.

If schools become registered VAT collectors so they can get refunds of the VAT they paid, will they then have to make their students pay VAT on their school fees and expenses? Or clinics? Or Governments?

Small businesses, farmers, and fishers can decide to become VAT-registered so they can get refunds of VAT they paid, but then their own customers will have to pay VAT.

Costs to Government to introduce VAT:

Introducing VAT will induce costs for the Government that need to be calculated when looking at the expected return the VAT will raise:

- Startup costs
- Operating costs
- Software maintenance costs
- Compliance and audit costs

II. Economic efficiency?

How much revenue does the VAT produce? At what cost?

Currently over 150 countries now collect VAT. The VAT has been highly recommended by international organizations such as the IMF or the World Bank, as well as by regional trade associations. Especially to countries that are in economic crisis, the VAT looks like a valuable 'quick fix' because it can produce large revenues to Governments that may be reluctant to raise income taxes on corporations and high income people.

Some small countries do not have the VAT because they may have a large stable source of other revenue (for example, from offshore tax haven financial services, or large resource extraction revenues). Other countries may not have pursued the VAT because their business sector may not have the capability to collect the VAT for the Government, or because the country has too high a poverty rate, or too many informal non-reporting businesses. All those factors can make the VAT very expensive to implement.

Only certain companies will have to collect VAT from their customers, and all of them will be able to get all the VAT they paid back. In Timor-Leste those will probably be companies with a gross receipts of USD\$100,000 or more. They will have a legal obligation to collect the VAT on all the goods and services they sell. Exporters will be exempted.

But introducing a VAT has cost implications, not only for the consumer who will end up paying more for certain goods, but also for the Government and for companies. The VAT refund process for businesses could make it an attractive model for large businesses, but it requires expertise in accounting and increases costs.

Will the VAT help economic development? By themselves, tax rules do not create economic development. But the effects of some types of taxes can either help or hinder economic development.

One of the arguments for introducing a VAT is to take a step toward mass digitization that will help formalize businesses, increase their efficiency, and reduce tax fraud.

But three things raise concerns about how well a VAT would support Timor-Leste's development. First, VAT laws *always* drive some of those on the margin back into the informal sector to avoid this particular type of tax.

Even in Canada, which had a smaller informal sector than many countries, informality in the construction industry increased significantly as soon as it introduced the VAT.

Second, VAT increases consumer prices and the cost of living – but business profits and personal wages and salaries do not increase. Thus people do not have enough income to buy all the goods and services they may have used in the past. In fact, higher prices means that trade falls, business profits fall when they cannot reclaim VAT paid, and then employment levels can fall. All of this adds up to less money

Costs to businesses to be VAT compliant:

- Training of staff
- Acquire new software
- Extra workhours for processing VAT
- * Losing use of working capital waiting for refunds

In the Bahamas, it was estimated that introducing the VAT would cost businesses **USD\$4,300 per business**. This extra cost is especially difficult to handle for smaller businesses, often owned by women.

in the economy for consumption goods and services. In turn, this leaves people less able to afford the things they need or want on their reduced incomes.

Third, because introducing the VAT when a country is in or near deficit endangers positive economic growth, it is risky to growth potential to adopt a VAT at such a time.

Introducing a new law of any kind calls for very careful investigation of all relevant aspects of the law. The startup and operating costs of the VAT to people, businesses, and the Government could produce bigger deficits in the short term. Increased deficits impose new interest and debt service costs on the Government. Thus if the increase in government revenues does not significantly exceed the costs to everyone of the new VAT, deficits can actually grow more

quickly with a new VAT than without it. This is something Timor-Leste needs to analyze, because the rapid fall of oil prices and the greater use of the Petroleum Fund has placed Timor-Leste at greater risk of growing deficits.

At the same time, the careful gradual introduction of VAT such as was done in Singapore to avoid these problems does not seem feasible to governments in fiscal crisis – they want a lot more revenue, and they it urgently.

III. What is the gender impact of the VAT?

Women are particularly vulnerable to loss of economic security when a VAT is enacted. Women have much less access to money than men, and have more dependents to support on low incomes. The sudden shock of large price increases when VAT hits an economy can then mean the difference between being able to stock up on storable foods for use during the hungry season, and facing protracted malnutrition.

Between 2010 and 2013, women's shares of money incomes fell from 32% to 20%, wage gaps grew to 17%, and the employment gap stood at 50% (LFS 2013). More than 70% of women are in vulnerable employment, birth rates are rising, dependency levels are rising, and more women than men are forced into tenuous self-employment to get along.

Thus women will bear the largest burden of any price increases, falling business profit margins, job loss, and falling purchasing power caused by introducing the VAT. And, women who are self-employed will face large amounts of 'trapped VAT' that they will not likely be able to reclaim due to their business circumstances.

Unless these basic gender facts are kept at the forefront of all VAT implementation planning, women, their children, and their families will face great financial risks that can only be avoided with the most careful planning.

IV. What are the alternatives?

Part of the problem with new VAT laws is that governments often implement them without enough preparation, and do not leave plenty of time for open discussions about what a country really needs, or what the realistic effects of a new law like a VAT will be.

The reality is that it is not the people of a country who bring pressure on governments to introduce VAT laws – they are usually introduced to meet the needs of inter-

national financial institutions, trade partners, large corporate interests, and aid donors.

VAT laws increase income inequality among the rich and poor in a country. In Timor-Leste, the poorest 10% receive only 2% of all individual incomes, while the richest 20% have 40% of all incomes. And the largest numbers of women are at the bottom ends of that income scale.

There are many alternatives:

- Increase personal and corporate income tax rates – this can produce just as much new revenue as a VAT, but would tax people fairly based on their income levels; corporate tax rates are usually 20% to 30% in the region, for example
- Review and improve existing sales and excise taxes and trade tariffs – these will not be new taxes, so they will be cheaper to administer, will be familiar to most businesses, and can also raise much more tax revenue; most sales taxes in the region are at least 10%
- Take positive steps to encourage formalization of the internal economy instead of using a VAT to force small businesses and producers to do it to as the only way they

can recoup some of their ‘trapped VAT.’

- Formalization in ways that are tailored to fit each region can include training programs, agricultural supports, and business development subsidies to help women farmers, women and low income workers, and others bring more cash into households and communities
- Using government information on the structure of the internal economy can pinpoint just what programs can produce the biggest improvements in people’s lives
- Many governments might cut spending instead of improving their overall revenue and spending programs, but this would be a short-sighted solution
- Introduce a small VAT slowly, at low rates and plenty of direct offsets to cushion cost increases, and give the people a chance to learn to live with it in the many ways it will affect their lives and standards of living
- If a VAT is introduced, also introduce a Financial Transactions Tax – an FTT – to make sure that the wealthy also pay the same kind of tax as a VAT when they save and invest their money instead of having to spend it all on day to day survival

Will the VAT law increase domestic revenues?

Introducing a new law of any kind calls for very careful investigation of all relevant aspects of the law. The startup and operating costs of the VAT to people, businesses, and the Government could produce bigger deficits in the short term. Increased deficits impose new interest and debt service costs on the Government. Thus if the increase in Government revenues does not exceed the costs to every one of the new VAT, deficits can actually grow more quickly with a new VAT than without it. This is something Timor-Leste needs to analyze, because the rapid fall in oil prices, the fall in value of the assets in the Petroleum Fund, and larger withdrawals from the Fund has increased the risk of growing deficits.

According to our calculations even a 10% VAT might not produce much more revenue than somewhat higher sales taxes (see annex 1).

With a VAT law, there are many specific questions that need to be answered to the best of the Government’s ability before it is safe to enact it. These are the general questions that need to be answered:

- What net new revenue will be received from the vat?
- What cost does the Government incur to set up the new system?
- What will be the net operating costs of the vat system year after year?
- What net start-up costs will businesses have to incur? What annual operating costs will businesses have from the new system?
- What will be the impact of the system on the costs of goods and services, business profits, employment levels, economic production, and changes in Government revenues?
- Will all members of society be affected equally by any of these changes, or will some be affected more or less favorably?

Each of these general questions in turn depends on the amount of accurate and up to date data Governments have to use to analyze these questions. In annex you will find further guidelines on how to calculate the above mentioned questions.

Annex 1: Net Government Revenues from VAT Law, Standard Rate of 5% and 10%, Timor-Leste, 2016

5%

		Average Base	Broad Base	Nutrition Exemption	Ref.	Note
Total GDP (expenditure based)		\$1,600,000,000	\$1,600,000,000	\$1,600,000,000	A	
Tax base (as % of GDP)		42%	50%	50%	B	
VAT rate		5%	5%	5%	C	
Total potential tax collectible		\$33,600,000	\$40,000,000	\$40,000,000	D	A x B x C
Less: Noncompliance	20%	\$6,720,000	\$8,000,000	\$8,000,000	E	
Less: Rebate and refund fraud	5%	-	-	-	F	
Gross VAT assessed		\$26,880,000	\$32,000,000	\$32,000,000	G	D + E + F
Less: Uncollectible accounts	7%	\$1,881,600	\$2,240,000	\$2,240,000	H	7% x G
Less: Refunds and rebates	40%	\$10,752,000	\$12,800,000	\$12,800,000	I	40% x G
Less: VAT paid by	0.33%	\$1,547,330	\$1,547,330	\$1,547,330	J	

government						
Net government VAT revenues		\$12,699,070	\$15,412,670	\$15,412,670	K	G + H + I + J
Less: Taxes replaced by VAT		\$7,900,000	\$7,900,000	\$7,900,000	AA	
Less: Nutrition exemption		-	-	\$2,273,350		
Net new government revenues from tax reform		\$4,799,070	\$7,512,670	\$5,239,220		K + AA

10%

		Average Base	Broad Base	Narrow Base	Ref.	Note
Total GDP (expenditure based)		\$1,600,000,000	\$1,600,000,000	\$1,600,000,000	A	
Tax base (as % of GDP)		42%	50%	50%	B	
VAT rate		10%	10%	10%	C	
Total potential tax collectible		\$67,200,000	\$80,000,000	\$80,000,000	D	A x B x C
Less: Noncompliance	20%	\$13,440,000	\$16,000,000	\$16,000,000	E	
Less: Rebate and refund fraud	0%	\$3,360,000	\$4,000,000	\$4,000,000	F	
Gross VAT assessed		\$50,400,000	\$60,000,000	\$60,000,000	G	D + E + F

Less: Uncollectible accounts	7%	\$3,528,000	\$4,200,000	\$4,200,000	H	7% x G
Less: Refunds and rebates	40%	\$20,160,000	\$24,000,000	\$24,000,000	I	40% x G
Less: VAT paid by government	0.67%	\$3,141,550	\$3,141,550	\$3,141,550	J	
Net government VAT revenues		\$23,570,450	\$28,658,450	\$28,658,450	K	G + H + I + J
Less: Taxes replaced by VAT		\$7,900,000	\$7,900,000	\$7,900,000	AA	
Less: Nutrition Exemption		-	-	\$4,546,700		
Net new government revenues from tax reform		\$15,670,450	\$20,758,450	\$16,211,750		K + AA

Format: Based on David Godsell, *The Economic Consequences of the Value-Added Tax for the Bahamas* (Nassau: Nassau Institute, 2013), 18. Net Government VAT expenditure based on estimates in Budget 2016, Book 1, pg. 5. Omitted from this analysis: Government administrative and VAT registrant compliance costs; will be incorporated when estimates become available.

ANNEX 2: Questions on how to analyze revenues and fairness of a new VAT law

1. What information is needed to estimate net revenues from a new VAT law?

These are the questions that need to be answered in estimating how much net new revenue can be expected to be received from a new VAT law:

- If the VAT is replacing other old taxes, how much old revenue will be lost?
- What amount of new revenue does the government expect to get from the VAT?
- How will the estimated compliance rate affect estimated new VAT revenues?
- How much rebate/refund fraud can be expected by those avoiding the tax?
- How many VAT tax bills are likely to become uncollectible?
- How much annual VAT refund/rebate is expected to be claimed by registered VAT collectors?
- How much will government departmental operating budgets have to be increased so they can pay the VAT they will be charged on their goods and services expenditures?
- Taking all of the above items into consideration, what net new revenue will the VAT then be expected to produce?

2. What is involved in estimating the net startup costs of VAT to the government?

Establishing a new revenue system involves many startup costs that will be incurred as the government goes through the process of investigating, drafting, implementing, staffing, equipping, and funding the operation of a new permanent revenue program. These are some of the costs that need to be identified at the outset in determining whether on a cost-benefit analysis, the project will be worth the result:

- Costs of hiring experts to research, design, and draft the new law;
- Costs of hiring new staff to run the department, including management, department heads, and line workers with the necessary technical skills
- Costs of training all new staff, often involving missions to other countries for study and examination of organizational options;
- Costs of new computer, security, and backup systems along with the personnel to provide onsite expertise in maintaining it;
- Costs of developing and evaluating compliance systems suitable to the new revenue program.

3. How can the government estimate net VAT administrative operating costs?

This component of the cost-benefit analysis depends on the design of both the reporting and audit functions:

- How many businesses will be required to register as VAT collectors?
- How often will they be required to file?
- What level of auditing is planned?
- What audit methods are planned, and by what level of personnel?
- How many levels of appeal are provided, and do the appellate units exist?
- How much is allocated to taxpayer information and support?

4. What start-up costs to businesses are involved in a new VAT law?

The startup costs to businesses will parallel those incurred by governments. Capital equipment and training will be essential, so that businesses truly understand their financial positions at all times.

- What equipment will be required to function in the new compliance environment?
- Will specialized training for staff be involved, and at what costs?
- What are estimated compliance times in terms of hours/year, audit cycles, and filing Timeframes?
- What penalties will be built into the new law to encourage compliance, and what does that imply in terms of startup staffing?

5. What annual operating costs of VAT should be estimated?

These costs will reflect the administrative and reporting functions established in the law:

- Will specialized equipment need frequent service or update?
- What is the expected frequency of legal or administrative changes to revenue system?
- How much employee or professional time will be expected in order to maintain effective compliance with the law?
- Are there estimates of how often auditing can be expected, and numbers of person or professional hours to be involved?

6. How will a VAT affect prices, profits, jobs, the economy, and government balances?

The introduction of a VAT has well-known economic and fiscal effects. To assess the risk of these effects being set in motion, detailed financial, economic, taxpayer, and distributional impact analysis should be carried out before the government makes the final decision on whether to go ahead with a VAT, and before the final law is actually written. This can involve analysis of sample taxpayer and government scenarios, or more advanced forms of analysis using statistical microsimulation or shock modelling and analysis. These are the impacts that would need to be measured as well as possible to guide policymakers:

- Prices of goods and services will increase in response to the introduction of a VAT, because it adds to the costs of everything it affects;

- The extent of trapped VAT payments by producers and service providers will reduce netbusiness profits and service outputs as time, material, and consumer pressure for reduced prices increase in response to increased consumption prices;
- Employment levels will fall in response to reduced business profit margins, particularly in sectors that have to absorb VAT payments that cannot be refunded or rebated;
- Economic productivity falls as more time and gross receipts are allocated to tax payment, compliance, auditing, and penalty functions;
- Downward pressures on prices, profits, employment, and productivity will reduce government balances;
- Experience suggests that small or fragile state economies are vulnerable to increase deficits if a new VAT is introduced to try to offset existing deficits;
- The cumulative effect of all these economic responses can make it difficult to move out of a growing deficit position.

7. Will all members of society be affected equally by VAT?

The effects of a VAT will depend on a wide variety of factors. For example, the government should be able to determine what, if any, special measures will be used to protect the population, the internal economy, the fiscal balance, businesses, and the credit rating of the government when it is being introduced. These are some of the questions that need to be asked at this stage of the analysis:

- In what ways will businesses, households, individuals by gender, education, children, dependency responsibilities, and elders be affected?
- What impact will the changes have on those living at or only slightly above known poverty levels in various regions?
- Will the VAT have an effect on the costs of education, medicines, and health care?
- Will there be a measurable effect on women's economic status compared with men's?
- How will rates of saving and capital investment in businesses be affected?
- Will the VAT increase or reduce the costs of imported goods?
- How much can the VAT benefit exports?

ANNEX 3: What can countries do to ensure VAT will not hurt small businesses or the poorest?

1. Different VAT rates

Many countries that have VAT laws make use of one or more of the following methods to make sure that businesses that cannot afford the costs of being VAT collectors can be compensated by the government for having trapped VAT that they cannot get refunded:

- legal exemptions or lower VAT rates for specific goods or services that are essential or very important to the wellbeing of the population or country; this can create incentives for organizations to provide those things without placing the VAT price on top of their actual market price.
- lower VAT rates or legal exemptions for those types of businesses (examples: agriculture, health, schools, care)
- different VAT rates for different industries, including 'zero-rated' goods and services that make the organization 'pay' a rate of 0% so that they are then entitled to claim refunds of all the VAT they paid to VAT-registered collectors;
- different VAT rates for different parts of the country (for example Dili and Municipalities);
- flat 'refunds' for specific businesses like farmers, fishers, woodcutters, care services, and for schools, clinics, hospitals, government offices, charities, churches, or other similar organizations, so they can recover their 'trapped' VAT payments without a lot of complex paperwork;
- deemed 'credits' that can then be 'refunded' based on the size of the overall budgets of the businesses or organizations, or direct allowances to compensate for 'trapped VAT' they paid

2. Compensate people living on low or fixed incomes for the higher prices

Many countries have special measures to compensate people living on low or fixed incomes for the higher prices VAT means they pay for essential consumption goods and services. VAT is like a super sales tax – VAT applies to both goods and services, and not just to goods. And VAT rates are almost always higher than sales tax rates.

Examples of the situations that cause countries to use many different special measures are numerous. People living on small pensions or other incomes that do not keep pace with inflation will not be able to absorb the cost the VAT adds to the goods and services they need, so they often receive special treatment. Similarly, for people living below or near the poverty line, VAT payments on their food, clothing, schooling, medicine, water, electricity, and transportation can 'tax them into poverty' or can actually result in not having enough money for food and other essentials.

- A flat allowance from the government equal to the amount of VAT such people will usually pay – adjusted to the needs of children, adults, ill persons, elders, and depth of poverty
- Exemptions of certain goods and services such as wood for cooking or water, storable food, children's

clothing and formula, medicines, transportation, school fees and school supplies families have to buy, and other essentials;

- Special VAT rates for certain geographic areas;
- Special VAT rates for certain classes of individuals;
- Special emergency funds that can be used to compensate people for the VAT when unusual costs for extreme conditions cause people to spend money to meet those circumstances.

3. What are new VAT revenues usually used for?

Many governments enact a VAT without a clear plan of what they will do with the revenues. Or, more typically, there will be lack of political agreement about what it should be used for. Some may want the revenue to be earmarked for one thing, such as building a new railroad, or a port, or airports, or roads. Others may want it to go to setting up expanded educational services ranging from primary and secondary schools to advanced training and university education. Or some may want it to be used to pay off the deficit, or to give pensions or social assistance to those in need, or to finance the development of the agricultural or manufacturing sector ‘from the ground up.’

There are also external pressures surrounding enactment of new tax laws. International donors, the IMF, the World Bank, and regional associations all want to see more ‘own source’ revenues coming from a country and may place pressure on the government to hurry the process just to increase the country’s tax ratio (total tax revenues as a percentage of GDP). This can take the emphasis off of what the tax is really for, and put it on the sense of urgency in putting it in place.

4. If a VAT is implemented, can it be adapted to promote gender equality?

Designing VAT laws to make sure that they do not disadvantage women any more than present laws and economic arrangements already do is an essential first step, using these examples:

- Make sure that special rates and exemptions are put into place to remove the many high costs of being female from women – so no VAT on goods and services for children, for women’s reproductive care, and, of course, for those living in or near poverty
- Women-owned businesses will be at a disadvantage in being able to afford VAT registration or ‘trapped VAT’ as compared with men’s businesses, so additional resources need to be allocated to addressing the unique needs of such businesses

The second thing is to ensure that VAT revenues benefit women equally in terms of gender specific social infrastructure and services needed to help women advance socially, politically, and economically. This was not done with oil fund revenues; it must be done with VAT revenues. Women’s equality increases economic durability, diversity, and stability for all. As the Revenue Minister of Norway recently announced to the world, ‘Norway’s real wealth is its women, more than its oil.’ This is because women’s paid work and businesses in Norway now produce more of its GDP each year than its oil fund produces. And women’s equality is a renewable resource. Examples include:

- Develop public resources to support women’s political and business engagement, including financial literacy training, special financing assistance, and something more than microfinance
- Institute government programs to eliminate discrimination in hiring, wages, promotion, retention, benefits, and the care services needed to make that possible for women

5. What types of spending measures would promote gender equality?

Every stage of the supply chain opens up opportunities to promote gender equality and to combat poverty. These are some examples:

- If VAT revenues are used to support infrastructure development, then policies that ensure that equal numbers of women and women-owned businesses participate on equal terms with men in these developments will promote improvement of women's legal and financial status and their capabilities
- Using land law reconciliation procedures to secure land ownership rights for women can ensure that they have equal access to credit and collateral to develop their knowledge and their ability to participate in projects
- Ensuring that women have equal rights to all business, agricultural, and educational subsidies or benefits will increase their capabilities to participate in development opportunities
- Low income adjustments will protect women and dependent persons from the negative effects of the VAT as women seek to enter into the formal economy
- Equal political and management representation will ensure that it is women themselves who can speak to what will work best for them
- Supporting women's ability to move into the formal economy will enhance family and community ability to function in the formal economy as well – a crucial consideration in most of Timor-Leste due to the high level of subsistence activities in many regions.



United Nations Entity for Gender Equality
and the Empowerment of Women