The role and structure of sales tax and excise systems

In most countries, sales taxes and excises are the mainstay of the revenue budget. In view of their revenue potential and because they are relatively easily administered, they are attractive and dependable sources of income for governments faced with seemingly ever-escalating expenditures. The author looks at the structure and revenue importance of sales taxes and excises, and examines their role in economic development.

Sijbren Cnossen

Within taxes on goods and services, a distinction is usually made between general and selective taxes, depending upon the range of goods and services included in the statutory base. Sales, turnover, or value-added taxes are general, as the tax base is typically defined to include all commodities for sale other than those specifically exempted. On the other hand, excises on tobacco, alcoholic beverages, petroleum products, and levies on specified services, or motor vehicle taxes are selective, as the taxable commodities are individually enumerated in the law. General taxes on goods and services are often referred to as sales taxes, while all selective taxes may be considered part of excise systems.

Sales taxes may be levied at virtually all stages of production and distribution, as turnover and value-added taxes, or may be limited to specified stages as in manufacturers', wholesale, and retail taxes; occasionally various hybrid forms are also used. But the repeated application of a sales tax whenever taxable goods change hands means that the tax discriminates between integrated versus non-integrated forms of business and between self-production versus subcontracting methods of doing business, while the resulting cumulative, or "cascade" effects, may lead to price distortions. Various techniques have been designed to mitigate or eliminate these effects. Table 1 lists the different forms of sales taxation found around the world in the order in which each tax discriminates less than its predecessors among forms of economic organization. This also happens to be the order of their approximate historical appearance.

Excise systems, which are much more diverse and have fewer conceptual characteristics, are more difficult to classify than sales taxes. However, as Table 2 shows, a useful distinction can be made, on the basis of the number of goods and services covered, between limited, intermediate, and extended excise systems. Cascading generally poses less of a problem than with sales taxes, as most excise systems comprise mainly single-stage taxes levied on items for direct consumption.

Geographical diversity

On the basis of the classification developed above, the sales tax and excise systems of 124 countries are shown in Table 3 on a regional basis. Sales tax rates, computed as a percentage of the tax-exclusive value of taxable sales, are also given. These are the standard rates; in most countries essential goods are either exempted or taxed at a lower rate, while higher rates apply to luxury items.

The most favored form of sales taxation, particularly in Africa, is that collected at the manufacturing stage—the manufacturers' sales tax. Twenty-five countries, 30 per cent of all those employing sales taxes, use this form. It is probably the easiest variant to administer in developing countries, being collected at a level where the number of taxpayers is smallest and record keeping best; the close relationship with previously imposed production excises and the corresponding

Table 1

Forms of sales taxation

1. **Turnover taxes** collected on sales at all or nearly all production and distribution stages; on account of their cumulative effects these taxes are also referred to as cascade taxes.

2. **Production taxes** collected on sales by producers to wholesalers, retailers, or other producers; transactions prior to the sale by the last producer are often partially exempted or taxed at reduced rates:

   a. **French-type production taxes** exempt domestically produced raw materials and intermediate goods as well as imported goods that have not been further processed;

   b. **other production taxes** exempt producer goods or apply reduced rates, while trading activities per se are excluded from the tax.

3. **Dual-stage taxes** (tandem systems) such as manufacturers'/retail taxes collected on both the sales of finished products of manufacturers to wholesalers or retailers, and on sales from retailers to final consumers.

4. **Manufacturers' taxes** collected on sales of finished products of manufacturers to wholesalers or retailers, including occasional direct sales to consumers. While capital goods are usually exempted outright, various techniques have been designed to counter the cumulative effects of the taxation of raw materials and intermediate goods:

   a. **the suspension method** permits the tax-free purchase of inputs by traders and manufacturers registered for that purpose, tax being levied when products leave the "ring" and are sold to unregistered persons;

   b. **the subtraction technique** allows for a deduction of taxable purchases from taxable sales; this can be done for

      (i) physically incorporated inputs only; or on

      (ii) some other basis such as a deduction for inputs taxed at the same rate as the finished product;

   c. **the tax credit principle** provides for a credit for tax paid on purchases against tax payable on sales.

5. **Wholesale taxes** collected on sales by the last wholesaler or manufacturer to retailers, including occasional direct sales to consumers. Capital goods are usually exempted outright, while the suspension method applies to raw materials and intermediate goods.

6. **Retail/wholesale taxes** (hybrid systems) collected on the sales of retailers to final consumers and of wholesalers or manufacturers to retailers whose operations are considered too small for separate taxation. Producer goods are treated similarly as under wholesale taxes.

7. **Retail taxes** collected on sales by retailers to final consumers, including wholesalers or manufacturers selling occasionally to consumers; producer goods are generally excluded by definition.

8. **Value-added taxes** collected on sales at all or nearly all production and distribution stages, with each stage receiving a credit for tax paid on purchases from the preceding stage:

   a. **the EEC model** extends through the retail stage and provides for a credit for tax paid on all producer goods;

   b. **other types** may not cover the retail stage and sometimes do not give credit for tax paid on certain fixed assets.

duties collectible at the import stage are other administrative advantages. To some extent this is also true of production taxes used in 12 of the countries listed, 7 of which were formerly associated with France. The value-added tax, which is one of the least discriminatory forms of sales taxation and is particularly suitable for joint use in a common market, has rapidly gained ground in recent years. It is now used in 13 industrial countries, 12 of which have adopted the EEC model (defined in Table 1), and in 7 developing countries. Regarding other forms of sales taxation, 5 countries have wholesale taxes, 3 retail taxes, 6 operate hybrid forms of sales taxation of the retail/wholesale type, and 3 have dual-stage sales taxes. Eight countries still have multistage turnover taxes that have the strongest cascading effects.

Surprisingly, one out of every three countries included in the survey does not have a sales tax; these countries are found mainly in the Caribbean, the Middle East, and Africa. In the Middle East, broad-based sales taxes are not needed since alternative sources of revenue are available from oil revenues or oil transit dues. Most Caribbean countries operate extended excise systems instead of a sales tax, and in many African countries the economic base is probably too small to justify the introduction of a sales tax, and import duties together with selective excises still fulfill the revenue function adequately.

The large number of countries levying a wide range of excises on specified goods and services is also surprising. In fact, more than two out of five users extend the coverage beyond the traditional duties on tobacco products, alcoholic beverages, and petroleum products. One out of four countries operates an intermediate system; geographically this form is heavily concentrated in Europe and Africa. Extended systems are predominantly a Caribbean and Asian phenomenon; in the former area one out of every two countries makes extensive use of excise taxation, in Asia one out of every three countries. Products and services often singled out for selective taxation, in addition to the traditional excise goods, include matches, salt, sugar, soft drinks, textiles, cement, cosmetics, insurance, and travel. Seven countries, located mainly in the Middle East, do not levy any excises.

Revenue importance

Table 3 also gives the contribution made by the sales tax and excise system to total tax revenues in each country. Receipts from sales taxes, as is customary, include those from sales taxes levied on imports. To make the excise

Sijbren Cnossen

Edwin G. Huffman for F&D

from the Netherlands, is an Assistant Division Chief in the Fiscal Affairs Department of the Fund. He graduated from the Netherlands Academy of Taxation and Erasmus University, both in Rotterdam, and served as an income tax inspector with the Netherlands Ministry of Finance before joining the staff of the Fund in 1965. Mr. Cnossen is the author of The Indonesian Sales Tax *(Deventer, Netherlands, Kluwer, 1973).*

Table 2

Forms of excise systems

1. **Limited excise systems** comprise at least the traditional excise goods: tobacco products, alcoholic beverages, petroleum products as well as motor vehicles and various forms of entertainment. In addition, some food products such as sugar, salt, soft drinks and, for instance, matches, cement, or insurance may be included. However, all in all, the coverage of limited systems would not exceed 10 to 15 commodity groups with closely related products (various petroleum products, or sugar and saccharine, for instance) being treated as one excisable item.

2. **Intermediate excise systems** consist of between 15 and 30 commodity groups. In addition to the items covered under limited systems, they include more food products such as various dairy and grain products. Other items of widespread consumption, such as textiles, footwear, and pharmaceuticals, may also be covered, as well as a few luxury items, for instance, cosmetics and perfumes. The producer goods that may be part of intermediate systems are cement, building materials, paints, and varnishes. As a rule, a number of services such as insurance, banking, transportation, and public utilities are taxed.

3. **Extended excise systems** comprise more than 30 commodity groups spanning almost the whole range of production activities in a particular country. In addition to the items taxed under intermediate systems, many luxury and producer goods are excisable. Invariably, high excises are imposed on electrical and gas-operated appliances, radios, television sets, and musical and photographic equipment. Extended systems are the only excise systems that cover a wide range of producer goods: steel and aluminum products, plastics and resins, rubber products, wood products, and sometimes machinery.

data fully comparable, receipts from traditional excise goods include, as far as possible, the taxes on these items collected through the sales tax or in the form of an import duty.

An examination of the data produces some interesting information. First, in a representative sample of 63 countries for which data are most complete, the combined contribution of sales tax and excise systems to tax revenue is on average 37 per cent, which makes taxes on goods and services probably the most important tax category. Of this, sales taxes contribute 12 per cent and excise systems 25 per cent, but there are great variations from one country to another. In India, for example, two thirds of all tax revenues of central and state governments derives from sales taxes and excises, but taken alone the excise system contributes half of all tax revenues. Small countries tend to rely on excises more heavily than large countries, perhaps because the domestic manufacturing base for sales and income taxation is very narrow. This tendency is also more marked in countries with British taxing traditions.

The second point of interest concerns the differences in sales tax and excise patterns between low- and high-income countries. If the countries in the sample are divided along an arbitrary line of $600 per capita, the combined contribution of sales tax and excise systems is about the same in each of the two categories, but there are noticeable shifts in the relative contribution of each group of taxes. In low-income countries excise systems contribute 27 per cent of total tax revenues and sales taxes 11 per cent, but in high-income countries the shares are 23 per cent and 14 per cent respectively. Even in high-income countries the share of the sales tax in total tax revenue rarely exceeds that of the excise system. Table 4 shows that there are also important differences in the pattern of excise taxation. The share of excises on nontraditional goods, for instance, is significantly lower in high-income than in low-income countries, because in the former group most of these goods are included in the sales tax base. On the other hand, the contribution of selective taxes on services and motor vehicles is greater in high-income countries, which is obvious as the tax base is related largely to economic development.

Third, the most widely and heavily excised goods are tobacco, alcoholic beverages, and petroleum products. Together, these items contribute on average more than 70 per cent of all excise receipts, or 18 per cent of total tax revenues. Ireland collects as much as 36 per cent, or 10 per cent of gross national product (GNP), from traditional excise goods, probably the highest ratio in the world. When fuel taxes, motor vehicle duties and other road user charges are considered jointly, the automotive field clearly emerges as the most important source of tax revenue in the majority of countries. Of course, all these considerations concern the relative preference for excises over other forms of taxation. If instead the importance of excises is measured against GNP, resulting excise ratios are higher in high-income countries; this agrees with the general postulate that most things are taxed more heavily in this group.

Role in economic development

The overall greater preference for excise taxation in low-income countries, particularly with respect to goods, is probably not surprising. After all, the first modern industries in these countries are usually either processing plants for local agricultural products such as sugar, tobacco, tea, coffee, meat, cereals; or import-substituting industries for products which have a large domestic market, such as matches, beverages, soap, and cement. In either case, such enterprises provide an obvious and relatively easy tax base because the products concerned are generally homogeneous and uniformly priced, which facilitates the imposition of an excise-type levy. As the economies of low-income countries expand and diversify, it seems likely that governments will be inclined to build on the administratively tested excise systems, to make up for the decline in import duty receipts generally accompanying import substitution, and to meet revenue demands that usually grow faster than the economy.

As economies grow more complex, however, large excise systems become more cumbersome. At a higher level of economic development, the inherently fragmented nature of excise coverage may not serve revenue needs adequately and may have undesirable economic effects. The free functioning of business and trade might be impeded, for example, because enforcement relies to a great extent on physical controls. With increased sophistication in taxpayers' accounting methods, governments also have to modernize their assessing and collection methods, which implies a shift of audit and enforcement techniques to books of account. For these reasons, a broad-based sales tax is probably the appropriate alternative for high-income countries. It is technically better adjusted to business needs, potentially capable of yielding greater revenues, and

Table 3

Sales tax and excise systems of the world[1]

Country	Structure: Nature of sales tax	Structure: Standard sales tax rate (tax-exclusive)	Structure: Excise coverage	Revenue importance (In per cent of total tax revenues): Sales tax	Excise system: Total	Excise system: Traditional excise goods
Northland West Africa						
Algeria	Manufacturers[2]	25	Limited	...	...	...
Dahomey	Manufacturers[2]	12.4	Limited	4	10	(9)*
Gambia, The	No sales tax	—	Limited	—	...	(...)
Ghana	Manufacturers[3]	11.5	Extended	8	21	(13)
Guinea	Manufacturers[2]	7.5	Limited	...	...	(...)
Ivory Coast	Value-added	17.6	Limited	26	10	(9)*
Liberia	No sales tax	—	Limited	—	7	(5)*
Libyan Arab Rep.	No sales tax	—	Limited	—	...	(...)
Mali	Manufacturers[2]	25	Limited	24	11	(7)*
Mauritania	Manufacturers[2]	9.9	Limited	25	10	(9)*
Morocco	Value-added	17.6	Limited	26	23	(17)
Niger	Manufacturers[2]	22	Limited	28	9	(8)*
Nigeria	No sales tax	—	Extended	—	14	(6)
Senegal	Value-added	9.9	Limited	34	18	(16)*
Sierra Leone	No sales tax	—	Intermediate	—	26	(24)
Togo	Manufacturers[2]	11.1	Limited	...	...	(...)
Tunisia	Manufacturers[2]	16.8	Limited	25	17	(15)
Upper Volta	Manufacturers[2]	14.9	Limited	21	12	(11)*
Central Africa						
Burundi	Turnover	2	Limited	...	...	(...)
Cameroon	Production[4]	8.7	Intermediate[7]	...	...	(...)
Central African Rep.	Production[4]	11.7	Intermediate[7]	...	...	(...)
Chad	Production[4]	14.3	Intermediate[7]	14	18	(9)*
Congo, People's Rep. of	Production[4]	9.9	Intermediate[7]	...	...	(...)
Equatorial Guinea	Turnover	3	No excises	...	—	(—)
Gabon	Production[4]	7	Intermediate[7]	...	...	(...)
Rwanda	No sales tax	—	Limited	—	...	(...)
Zaire	Production	5	Limited	8	6	(5)*
Eastern and Southern Africa						
Botswana	No sales tax	—	Limited	—	...	(...)
Ethiopia	Turnover	5	Intermediate	16	26	(17)
Kenya	Manufacturers[3]	10	Intermediate	—	34	(26)
Lesotho	No sales tax	—	Limited	—	...	(...)
Malagasy Rep.	Value-added	13.6	Limited	20	18	(18)*
Malawi	No sales tax	—	Limited	—	...	(...)
Mauritius	No sales tax	—	Limited	—	37	(31)
Somalia	No sales tax	—	Intermediate[7]	—	31	(13)*
Sudan	No sales tax	—	Extended[7]	—	...	(...)
Swaziland	No sales tax	—	Limited	—	...	(...)
Tanzania	Manufacturers[3]	12	Intermediate	11	31	(22)
Uganda	Manufacturers[3]	10	Intermediate	16	29	(18)
Zambia	No sales tax	—	Limited	—	10	(10)*
Middle East						
Afghanistan	No sales tax	—	Limited	—	...	(...)
Bahrain	No sales tax	—	No excises	—	—	(—)
Egypt	No sales tax	—	Extended[7]	—	...	(...)
Iran	No sales tax	—	Intermediate	—	10	(8)
Iraq	No sales tax	—	Intermediate	—	...	(...)
Israel	Wholesale	15–25	Limited	12	12	(8)*
Jordan	No sales tax	—	Extended[7]	—	...	(...)
Kuwait	No sales tax	—	No excises	—	—	(—)
Lebanon	No sales tax	—	Limited	—	23	(19)
Oman	No sales tax	—	No excises	—	—	(—)
Qatar	No sales tax	—	No excises	—	—	(—)
Saudi Arabia	No sales tax	—	No excises	—	—	(—)
Syrian Arab Rep.	No sales tax	—	Intermediate	—	18	(10)
Yemen Arab Rep.	No sales tax	—	Limited	—	...	(...)
Yemen, P.D.R.	No sales tax	—	Limited	—	...	(...)
South Asia, Far East						
Bangladesh	Manufacturers[3]	20	Extended	...	...	(...)
Burma	Production	10	Limited	...	...	(...)
China, Rep. of	Turnover	2	Extended[7]	6	42	(21)
India	Turnover Manufacturers[3]	0.5–3 5–7	Extended	15	51	(24)
Japan	No sales tax	—	Extended[7]	—	26	(17)
Korea	Turnover	0.5–2	Extended[7]	7	37	(18)
Nepal	Retail/wholesale	7	Extended	15	16	(11)*
Pakistan	Manufacturers[5]	20	Extended	6	38	(24)
Sri Lanka	Production	Var.	Limited	11	27	(24)
Southeast Asia						
Indonesia	Production	10	Limited	12	19	(17)
Khmer Rep.	Production[4]	5.3	Limited	...	...	(...)
Laos	Production[4]	7.2	Limited	...	...	(...)
Malaysia	Manufacturers[3]	5	Intermediate	—	35	(22)
Philippines	Manufacturers[2]	7	Limited	21	16	(14)
Singapore	No sales tax	—	Limited	—	40	(24)
Thailand	Production	Var.	Limited	21	28	(22)
Viet-Nam	Value-added	10	Limited	...	...	(...)
Caribbean, Central America						
Bahamas	No sales tax	—	Limited	—	...	(...)
Barbados	No sales tax	—	Extended[7]	—	19	(14)
Costa Rica	Retail/wholesale	5	Extended[7]	15	23	(17)
Dominican Rep.	No sales tax	—	Limited	—	29	(20)*
El Salvador	No sales tax	—	Intermediate	—	28	(21)
Guatemala	No sales tax	—	Limited	—	28	(23)
Haiti	No sales tax	—	Extended	...	...	(...)
Honduras	Retail/wholesale	4	Intermediate[7]	7	28	(23)
Jamaica	No sales tax	—	Extended[7]	—	28	(19)
Nicaragua	Retail/wholesale	5	Extended[7]	8	41	(27)
Panama	No sales tax	—	Limited	—	28	(16)
Trinidad and Tobago	No sales tax	—	Extended[7]	—	22	(9)*
South America						
Argentina	Manufacturers[5]	11.1	Intermediate	17	32	(25)
Bolivia	Retail/wholesale	5	Limited	6	13	(11)*
Brazil	Manufacturers[5] Value-added	8 18.3–19.7	Limited	50	17	(15)
Chile	Manufacturers/retail	17.5/4	Limited	32	9	(8)*
Colombia	Manufacturers[5]	4	Limited	8	15	(14)
Ecuador	Value-added	4	Limited	10	16	(11)
Guyana	No sales tax	—	Extended[7]	—	...	(...)
Paraguay	Retail/wholesale	3	Limited	5	20	(17)
Peru	Manufacturers/wholesale	15/1	Limited	—	15	(10)*
Uruguay	Value-added	14	Intermediate	19	27	(17)
Venezuela	No sales tax	—	Limited	—	8	(7)
North America, Australasia						
Australia	Wholesale	15	Limited	7	19	(13)
Canada	Manufacturers[3] Retail	12 5–8	Limited	16	12	(7)
Fiji	No sales tax	—	Limited	—	...	(...)
Mexico	Turnover	4	Intermediate	11	17	(7)*
New Zealand	Wholesale	20	Limited	8	14	(13)
South Africa	Manufacturers[5]	10	Limited	7	19	(16)
United States	Retail	2.5–7	Limited	6	15	(8)
Western Samoa	No sales tax	—	No excises	—	—	(—)
European Economic Community						
Belgium	Value-added	18	Limited	31	15	(12)
Denmark	Value-added	15	Intermediate	18	25	(16)
France	Value-added	20	Intermediate	38	21	(16)
Germany, Fed. Rep. of	Value-added	11	Intermediate	22	21	(16)
Ireland	Value-added	16.4	Limited	11	41	(36)
Italy	Value-added	12	Extended	22	36	(25)
Luxembourg	Value-added	10	Limited	...	...	(...)
Netherlands	Value-added	16	Limited	22	15	(11)
United Kingdom	Value-added	10	Limited	8	25	(21)
Europe (non-EEC)						
Austria	Value-added[6]	16	Intermediate	25	19	(13)
Cyprus	No sales tax	—	Limited	—	37	(24)
Finland	Manufacturers/retail	12.4	Intermediate	20	25	(18)
Greece	Manufacturers[2]	7	Extended	12	31	(23)
Iceland	Retail	7.5	Intermediate	...	...	(...)
Malta	No sales tax	—	Limited	—	...	(...)
Norway	Value-added[6]	20	Intermediate	31	21	(12)
Portugal	Wholesale	7	Intermediate	12	29	(13)
Spain	Turnover	2	Intermediate	...	...	(...)
Sweden	Value-added[6]	17.6	Intermediate	13	21	(14)
Switzerland	Wholesale	4	Limited	9	20	(13)
Turkey	Manufacturers[2]	Var.	Intermediate	20	30	(19)

Sources: Sijbren Cnossen, "Sales Tax and Excise Systems of the World," **Finanzarchiv**, Band 33, Heft 2 (1975), pp. 177–237; and "Revenue Aspects of Excise Systems," unpublished paper, July 1974.

[1] Information on structural aspects relates to the situation at the beginning of 1974; however, some source material is of older date and often incomplete. Revenue data are averages covering fiscal years 1969–71.
[2] Cumulative effects mitigated through subtraction technique.
[3] Cumulative effects mitigated through suspension method.
[4] French-type production tax.
[5] Cumulative effects mitigated through tax credit principle.
[6] Value-added tax based on EEC model.
[7] Excise system includes wide range of selective taxes known as **"taxe unique"** (francophone Africa), consumption tax (Caribbean, Central America, Egypt, Somalia, Sudan), additional tax (Jordan), or commodity tax (Far East).

a dash (—) indicates that revenue is nil;
dots (...) mean that data are not avaiblale;
an asterisk (*) means that data are incomplete.

Table 4

Revenue importance of excise systems

Nature of excise systems	Number of countries	Traditional goods (1)	Nontraditional goods (2)	Total goods (3=1+2)	Services, motor vehicles, other (4)	Total excise systems (5=3+4)
		(In per cent of total tax revenue)				
Low-income countries	**33**	**19.3**	**3.7**	**23.0**	**3.8**	**26.8**
Limited	15	19.0	0.8	19.8	2.6	22.4
Intermediate	11	19.0	3.9	22.9	3.9	26.8
Extended	7	20.6	9.4	30.0	6.3	36.3
High-income countries	**30**	**16.1**	**0.9**	**17.0**	**5.8**	**22.8**
Limited	16	15.0	0.3	15.3	5.3	20.6
Intermediate	10	16.0	1.3	17.3	6.0	23.3
Extended	4	20.8	2.4	23.2	7.0	30.2
All countries	**63**	**17.8**	**2.3**	**20.1**	**4.8**	**24.9**
Limited	31	16.9	0.6	17.5	4.0	21.5
Intermediate	21	17.6	2.6	20.2	4.9	25.1
Extended	11	20.7	6.8	27.5	6.6	34.1
		(In per cent of GNP)				
Low-income countries	**33**	**2.72**	**0.51**	**3.23**	**0.55**	**3.78**
Limited	15	2.77	0.12	2.89	0.38	3.27
Intermediate	11	2.64	0.53	3.17	0.60	3.77
Extended	7	2.74	1.32	4.06	0.85	4.91
High-income countries	**30**	**3.52**	**0.19**	**3.71**	**1.23**	**4.94**
Limited	16	3.32	0.05	3.37	1.05	4.42
Intermediate	10	3.68	0.32	4.00	1.48	5.48
Extended	4	3.90	0.46	4.36	1.34	5.70
All countries	**63**	**3.10**	**0.36**	**3.46**	**0.87**	**4.33**
Limited	31	3.05	0.09	3.14	0.72	3.86
Intermediate	21	3.14	0.43	3.57	1.01	4.58
Extended	11	3.16	1.01	4.17	1.03	5.20

Sources: See Table 3.

conceptually superior in design. Although excises would not necessarily be abolished in these countries, their coverage could be expected to be confined to traditional excise goods, motor vehicles, and entertainment services, commodities that are usually subject to much higher rates of tax than prevail under a general sales tax.

Although the data appear to confirm the hypothesis that the taxation pattern of goods and services changes with the stage of economic development, some amplification and modification are required. First, the introduction of a large number of regulatory and protective excises in some high-income countries means that their excise systems remain of the intermediate or extended type. Second, particularly in low-income countries, the preference for excise taxation is partly a function of the availability of other readily accessible tax bases. Countries with exportable mineral resources, for example, may find it more convenient to meet revenue requirements from export taxes and related levies. Third, historic biases obscure the issue of excises versus sales taxes. Countries following the French tradition, for instance, clearly favor sales taxes over excises, and the opposite holds for those following the British. Although, therefore, differences may in fact be minimal, in form the systems may appear to diverge quite widely

Tax policy implications

Finally, theory and data point to some important structural issues relating to the choice between sales taxes and excises in the development context. An examination of the data of individual countries reveals not only that in most cases the revenue collected through excise systems is larger than that derived from sales taxes, but also that in many low-income countries the sales tax in fact amounts to little more than a supplementary import duty. This is either because there is no local production of the taxed items, because such production is exempted, or because sales tax rates levied on imports are higher than comparable rates on domestic goods. For instance, in Bangladesh, Burma, and Nepal, 90 per cent of sales tax collections relates to imports. A similar situation exists in francophone African countries, where between two thirds and three fourths of the sales tax is collected in the customs house.

It is also of interest to compare excise yields with sales tax collections relating to the domestic tax base only. Particularly in low-income countries the revenue from that part of the sales tax levied directly on domestic production is often not nearly as great as receipts from a single traditional excise commodity. For instance, in Uganda the amount of excise collections on either tobacco products or alcoholic beverages is as great as domestic sales tax collections, while petroleum products yield twice as much revenue. The smallness of the domestic sales tax base is further demonstrated by the fact that in most low-income countries, sales tax collections derive mainly from items that are typical excise goods: sugar, soft drinks, or cement. In Indonesia, for example, where domestic sales tax collections are in any case only slightly more than half the excise yield of tobacco products, 40 per cent of the tax is collected from sugar (on which an excise is also imposed) and rubber and 25 per cent from building construction (which is often taxed through an excise on cement).

It follows that countries with an extremely narrow domestic manufacturing and trading sector would probably have done better to postpone the introduction of a sales tax that is broad-based in name only. The demonstration effect of the "success" of broad-based sales taxes in industrial countries has probably recommended their application in developing countries, even though the economy in developing countries is not broad based. The evolution of the French sales tax in the postwar period, for example, can be readily traced in the systems presently existing in francophone Africa. A broad-based sales tax is unwarranted, however, if the manufacturing sector consists of mainly a few industries, such as traditional excise goods, sugar, soft drinks, soap, cement, and perhaps textiles. In such a situation excise-type levies would be more relevant. The greater ease of administering excises—with quantitative checks rather than accounting controls—is crucial, given the usual context of rudimentary bookkeeping methods and scarce administrative skills in developing countries. The best here may well be the enemy of the good. The psychological effect of administering a few excises well is likely to contribute to success in other development areas, whereas the premature introduction of advanced tax technology in the form of a broad-based sales tax would surely not have that effect.