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## Talk Of Value-Added Tax In U.S. Cause For Concern

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Even though it may never come to the United States, [recent talks](#) about a possible appearance of the value-added tax (VAT) in the country are worth watching. With IRS revenues down sharply and the country in a deep deficit, policy makers are considering a variety of ways to fill the gaps and the VAT is one of them. As is the case in other countries, a VAT in the U.S. would increase the price of music products such as CDs, LPs and digital downloads. If the variety of rates in other countries are any indication, other media products – such as books – could be taxed at lower rates or exempted altogether.

A VAT is often called a national sales tax, although it is quite different from the sales taxes applied to many U.S. goods. A VAT is a consumption tax that is embedded into the price of the final good. It is based on the value added at each stage of the production of a good or service. For example, a company would pay a 10% tax on a purchase of \$100 in components less the taxes previously paid by the supplier. In this way, the government levies a tax on a company's gross margins.

The VAT for recorded music is 15% in the UK, 21% in Ireland, 19.6% in France, 16% in Spain, 16% in Germany and 25% in Sweden. Iceland charges only a 7% tax on recorded music – it was reduced from 24.5% in November 2006.

If the VAT does appear, sound recordings and live concerts may be taxed at a higher rate than other media products and cultural events. Books, magazines and printed music, for example, are exempt from the VAT in the UK. In Sweden, concerts are taxed at 6% (versus 25% for sound recordings) and some cultural events are exempt.

The VAT has been widely opposed by content creators in Europe for years. In 2003, the IFPI issued a report titled "[Give Music A Break](#)" (.pdf) that called for lower VAT rates for recorded music throughout Europe.

Some critics of the VAT point to deadweight loss from decreased production, the VAT's regressive nature that disproportionately affects low-income consumers, and the cost of the accounting burden it places on companies. [Writing in the Wall Street Journal](#), the Cato Institute's Daniel J. Mitchell argues against the implementation of a VAT and points out that if enacted in the U.S., the VAT would be added to – not replace – the current tax system. Currently, sales taxes vary by state. A VAT would be applied at the national level and in addition to existing state sales taxes.

### Links referenced within this article

recent talks


<http://www.washingtonpost.com/wp-dyn/content/article/2009/05/26/AR2009052602909.html>

"Give Music A Break" (.pdf)

<http://www.ifpi.com/content/library/vat-brochure-gb.pdf>  
Writing in the Wall Street Journal  
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