Journal entry (economics topic)

Linguistics, English

Value Added Tax in the Economic Crisis Value added tax was introduced by government to address the shortages of revenue that hindered government operations. It has provided huge percentage of revenue to finance government operations more than any other sectors in the economy. For example, the European Union has VAT receipts amounting to 7% of gross domestic product (Ramona, Ionut, & Cristian, 2011). Moreover, when comparing the total receipt of VAT in total tax Bulgaria has the largest ratio with a 35% of VAT receipts, and Italy having a minimum with 13% (Ramona, Ionut, & Cristian, 2011). Therefore, given that in times of economic crisis there is decreased tax revenue it became important to establish measures to resolve decreased revenues as a result of decline in profits, incomes, consumptions or increase in tax evasion (Ramona, Ionut, & Cristian, 2011). VAT has also increased its relevancy to bridge the gap that government have in national debt. VAT is administered effectively and has enabled some country reduce their national debt without raising the direct taxes on capital and labor (Ramona, Ionut, & Cristian, 2011). Therefore, VAT has been a powerful tool that enables economies address the macroeconomic issue such as unemployment and investment without disrupting the operation of a country.

In conclusion, the government may increase or decrease the charge on VAT to address the economic crisis of the day rather than resulting to other measures to increase tax receipt. However, there are macroeconomic consequences with little severity compared to other alternative ways of raising revenue. VAT has become one the largest indirect tax and considered as a tax for the future. It is successful and does not burden one source only as it is shared among producers and users (Ramona, Ionut, & Cristian, 2011).

References

Ramona, M. E., Ionut, C., & Cristian, M. (2011). Value Added Tax in the Economic Crisis Context. Economic Science, 389-395.