

Ad valorem tax

An **ad valorem tax** (Latin for *according to value*) is a **tax** based on the value of **real estate** or **personal property**. It is more common than the opposite, a **specific duty**, or a tax based on the quantity of an item regardless of price.

An *ad valorem* tax is typically imposed at the time of a transaction (a **sales tax** or **value-added tax** (VAT)), but it may be imposed on an annual basis (real or personal **property tax**) or in connection with another significant event (**inheritance tax**, surrendering citizenship)

Sales tax

A sales tax is a **consumption tax** charged at the **point of purchase** for certain goods and services. The tax is usually set as a **percentage** by the government charging the tax. There is usually a list of **exemptions**. The tax can be included in the price (**tax-inclusive**) or added at the point of sale (**tax-exclusive**).

Ideally, a sales tax is fair, has a high compliance rate, is difficult to avoid, is charged exactly once on any one item, and is simple to calculate and simple to collect. A conventional or retail sales tax attempts to achieve this by charging the tax only on the final end user, unlike a **gross receipts tax** levied on the intermediate **business** who purchases materials for production or ordinary operating expenses prior to delivering a service or product to the marketplace. This prevents so-called tax "cascading" or "pyramiding," in which an item is taxed more than once as it makes its way from production to final retail sale. There are several types of sales taxes: Seller or Vendor Taxes, Consumer Excise Taxes, Retail Transaction Taxes, or Value-Added Taxes.

Value-added tax

A value-added tax (VAT), or goods and services tax (GST), is **tax** on exchanges. It is levied on the added value that results from each exchange. It differs from a **sales tax** because a sales tax is levied on the total value of the exchange. For this reason, a VAT is neutral with respect to the number of passages that there are between the producer and the final consumer. A VAT is an **indirect tax**, in that the tax is collected from someone other than the person who actually bears the cost of the tax (namely the seller rather than the consumer). To avoid double taxation on final consumption, exports (which by definition are consumed abroad) are usually not subject to VAT and VAT charged under such circumstances is usually refundable.

Property tax

A property tax, millage tax is an *ad valorem* tax that an owner of **real estate** or other **property** pays on the value of the property being taxed. There are three species or types of property: Land, Improvements to Land (immovable man made things), and Personal (movable man made things). Real estate, real property or realty are all terms for the combination of land and improvements. The taxing authority requires and/or performs an **appraisal** of the monetary value of the property, and tax is assessed in proportion to that value. Forms of property tax used vary between countries and jurisdictions.

Application of a sales or property tax

United States of America

Ad valorem duties are important to those importing goods into the [United States of America](#) because the amount of duty owed is often based on the value of the imported commodity. Ad valorem taxes (mainly real property tax and sales taxes) are a major source of revenues for state and municipal governments, especially in jurisdictions that do not employ a [personal income tax](#).

"Ad valorem" is used frequently to refer to property values by county tax assessors. In many states, the central appraisal district sends no values to the county tax assessor, who determines the final tax rate to be imposed on the property. Other states use a state tax commission, which notifies the appropriate taxing authorities of the assessed value of property within their billing jurisdiction.

Ad valorem tax relates to a tax with a rate given as a proportion of the price. An example would be the state of Tennessee having a 6% sales tax on the purchase of food. Virtually all state and local taxes on restaurant meals and clothing are ad valorem.

The common expression county tax assessor is a misnomer. Assessors do not tax nor do they assess a tax; the assessor's job is to value property (real estate, personal property, etc), so that officials described as tax assessors would more accurately be called property assessors. After a property's value is determined by the assessor, a tax rate is determined by the appropriate taxing authority, which in turn calculates the tax due by the property owner. The tax is then collected by the tax collector.

Application of a value-added tax

United Kingdom

The third largest source of government revenues is [value-added tax](#) (VAT), charged at the standard rate of 17.5% on supplies of goods and services. It is therefore a tax on consumer expenditure. Certain goods and services are exempt from VAT, and others are subject to VAT at a lower rate of 5% (the reduced rate) or 0% ("zero-rated").^[3]

Canada

The [Canadian](#) Goods and Services Tax (GST) ([French: Taxe sur les produits et services, TPS](#)) is a multi-level [value-added tax](#) introduced in Canada on January 1, 1991, by [Prime Minister Brian Mulroney](#) and finance minister [Michael Wilson](#). The GST replaced a hidden 13.5% Manufacturers' Sales Tax (MST) because it hurt the manufacturing sector's ability to export. The introduction of the GST was very controversial. As of January 1, 2008, the GST currently stands at 5%.

Australia

The Goods and Services Tax is a [value-added tax](#) of 10% on most goods and services sold in [Australia](#).

It was introduced by the [Howard Government](#) on 1 July 2000, replacing the previous federal wholesale [sales tax](#) system and designed to phase out the various state and territory taxes such as banking taxes,

[stamp duty](#) and [land value tax](#). While this was the stated intent at the time, the States still charge duty on a various transactions, including but not limited to vehicle transfers and land transfers, insurance contracts and agreements for the sale of land. Many States, such as Western Australia, have made recent amendments to duties laws to phase out particular duties and clarify existing ones. The *Duties Act 2008* (WA) is available online at the [Western Australian State Law Publisher](#)

Europe

A common VAT system is compulsory for [member states](#) of the [European Union](#). The EU VAT system is imposed by a series of [European Union directives](#), the most important of which is the Sixth VAT Directive (Directive 77/388/EC). Nevertheless, some member states have negotiated variable rates ([Madeira in Portugal](#)) or VAT exemption for regions or territories. The regions below fall out of the scope of EU VAT:^[4]

- [Åland Islands](#) ([Finland](#))
- [Heligoland](#) island, [Büdingen](#) territory ([Germany](#))
- [Guadeloupe](#), [Martinique](#), [French Guiana](#), [Réunion](#) ([France](#))
- [Mount Athos](#) ([Greece](#))
- [Ceuta](#), [Melilla](#), [The Canary Islands](#) ([Spain](#))
- [Livigno](#), [Campione d'Italia](#), [Lake Lugano](#) ([Italy](#))
- [Gibraltar](#), [The Channel Islands](#) ([United Kingdom](#))

Under the EU system of VAT, where a person carrying on an economic activity supplies goods and services to another person, and the value of the supplies passes financial limits, the supplier is required to register with the local taxation authorities and charge its customers, and account to the local taxation authority for VAT (although the price may be *inclusive* of VAT, so VAT is included as part of the agreed price, or *exclusive* of VAT, so VAT is payable in addition to the agreed price).

VAT that is charged by a business and paid by its customers is known as *output* VAT (that is, VAT on its output supplies). VAT that is paid by a business to other businesses on the supplies that it receives is known as *input* VAT (that is, VAT on its input supplies). A business is generally able to recover input VAT to the extent that the input VAT is attributable to (that is, used to make) its taxable outputs. Input VAT is recovered by setting it against the output VAT for which the business is required to account to the government, or, if there is an excess, by claiming a repayment from the government.

Different rates of VAT apply in different EU member states. The minimum standard rate of VAT throughout the EU is 15%, although reduced rates of VAT, as low as 5%, are applied in various states on various sorts of supply (for example, domestic fuel and power in the UK). The maximum rate in the EU is 25%.

The Sixth VAT Directive requires certain goods and services to be exempt from VAT (for example, postal services, medical care, lending, insurance, betting), and certain other goods and services to be exempt from VAT but subject to the ability of an EU member state to opt to charge VAT on those supplies (such as land and certain financial services). Input VAT that is attributable to exempt supplies is not recoverable, although a business can increase its prices so the customer effectively bears the cost of the 'sticking' VAT (the effective rate will be lower than the headline rate and depend on the balance between previously taxed input and labour at the exempt stage).

Finally, some goods and services are "zero-rated". The zero-rate is a positive rate of tax calculated at 0%. Supplies subject to the zero-rate are still "taxable supplies", i.e. they have VAT charged on them. In the UK, examples include most food, books, drugs, and certain kinds of transport. The zero-rate is not featured in the EU Sixth Directive as it was intended that the minimum VAT rate throughout Europe would be 5%. However, zero-rating remains in some Member States, most notably the UK, as a legacy of pre-EU legislation. These Member States have been granted a derogation to continue existing zero-rating but cannot add new goods or services. The UK also exempts or lowers the rate on some products depending on situation; for example milk products are exempt from VAT, but if you go into a restaurant and drink a milk drink it is VAT-able. Some products such as feminine hygiene products and baby products (nappies etc) are charged at 5% VAT along with domestic fuel.

When goods are [imported](#) into the EU from other states, VAT is generally charged at the [border](#), at the same time as [customs duty](#). "Acquisition" VAT is payable when goods are acquired in one EU member state from another EU member state (this is done not at the border but through an accounting mechanism). EU businesses are often required to charge themselves VAT under the *reverse charge* mechanism where services are received from another member state or from outside of the EU.

Businesses can be required to register for VAT in EU member states, other than the one in which they are based, if they supply goods via mail order to those states, over a certain threshold. Businesses that are established in one member state but which receive supplies in another member state may be able to reclaim VAT charged in the second state under the provisions of the Eighth VAT Directive (Directive 79/1072/EC). To do so, businesses have a [value-added tax identification number](#). A similar directive, the Thirteenth VAT Directive (Directive 86/560/EC), also allows businesses established outside the EU to recover VAT in certain circumstances.

Following changes introduced on July 1, 2003, (under Directive 2002/38/EC), non-EU businesses providing digital [electronic commerce](#) and entertainment products and services to EU countries are also required to register with the tax authorities in the relevant EU member state, and to collect VAT on their sales at the appropriate rate, according to the location of the purchaser. Alternatively, under a special scheme, non-EU businesses may register and account for VAT on only one EU member state. This produces distortions as the rate of VAT is that of the member state of registration, not where the customer is located, and an alternative approach is therefore under negotiation, whereby VAT is charged at the rate of the member state where the purchaser is located.

The differences between different rates of VAT was often originally justified by certain products being "luxuries" and thus bearing high rates of VAT, whereas other items were deemed to be "essentials" and thus bearing lower rates of VAT. However, often high rates persisted long after the argument was no longer valid. For instance, [France](#) taxed cars as a luxury product (33%) up into the 1980s, when most of the French households owned one or more cars. Similarly, in the UK, clothing for children is "zero rated" whereas clothing for adults is subject to VAT at the standard rate of 17.5%.