

ABSTRACT

THE DISTRIBUTIONAL IMPACT OF VALUE ADDED TAX IN
CREDITOR-SUPPORTED ADJUSTMENT PROGRAMMES:
THE CASE OF TRINIDAD AND TOBAGO.

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This study attempts to evaluate the distributional impact of the 1989/90 tax reform in Trinidad and Tobago involving the introduction of value added tax in the context of Fund/Bank-supported structural adjustment programme, as a case study of the large number of similar reforms carried out in Asia, Africa, Latin America and the Caribbean over the past decade.

By way of defining the policy environment in which the reform for VAT was adopted, the study explores the link between the stylised creditor-backed structural adjustment programme and the reform for value added tax. It also reviews the principal features of Trinidad and Tobago's variant of VAT in relation to other options with attention to distributional implications.

The empirical evaluation of the distributional impact of the reform is undertaken in a partial equilibrium framework involving intertemporal comparison of tax burden

distribution profile of income-classified households before and after the introduction of VAT. It shows that the switch to VAT-dominated commodity tax system has not detracted from the equity status of the indirect tax system in Trinidad and Tobago.

A counterfactual analysis reveals that the marginal reduction in regressivity of the commodity tax system confirmed by all summary indices employed, is the combined result of the changes in effective tax rate structure and adjustments in consumption.

An investigation of the changes in household consumption patterns which occurred in the wake of the reform but are not captured in the measurement of tax equity, reveals that lower income households made more drastic adjustments in consumption than households in the higher income ranges following the introduction of VAT in Trinidad and Tobago.