

# Optimal VAT Threshold(s)\*

Duccio Gamannossi degl'Innocenti<sup>†</sup>    Christos Kotsogiannis<sup>‡</sup>    Konstantinos Serfes<sup>§</sup>

October 17, 2019

## Abstract

A popular element of a Value-Added Tax (VAT) tax system is the existence of threshold, the requirement, that is, of firms to register for VAT after their economic activity (turnover) exceeds a given level. This paper revisits the issue of VAT threshold, and seeks answers to a) what is the actual optimal level of the threshold? and b) is the optimal VAT threshold across the chain of production uniform or not and so different sectors should be treated differently along the production chain? It is shown that capturing production interdependencies along the production chain gives rise to different policy prescription regarding the size of the threshold, than the one that is popular amongst tax authorities.

**Keywords:** VAT notches; VAT thresholds.

---

\*We thank Ben Lockwood for many comments and suggestions on earlier draft of the paper and Mick Keen for early discussions on the topic. We also thank seminar participants at the Universities of Exeter, Pireaus and conference participants at the 7th Tax Administration Research Centre Annual Conference, Exeter, UK. This work was supported by the Economic and Social Research Council [ES/S00713X/1, Kotsogiannis]

<sup>†</sup>Catholic University of the Sacred Heart, Italy. E-mail: [D.Gamannossi@exeter.ac.uk](mailto:D.Gamannossi@exeter.ac.uk)

<sup>‡</sup>Department of Economics, TARC, University of Exeter Business School, Exeter, UK. E-mail: [c.kotsogiannis@exeter.ac.uk](mailto:c.kotsogiannis@exeter.ac.uk); and CESifo, Munich, Germany

<sup>§</sup>School of Economics, LeBow College of Business, Drexel University, Philadelphia PA 19104, USA. E-mail: [ks346@drexel.edu](mailto:ks346@drexel.edu)