

Economic Study on Publications on all Physical Means of Support and Electronic Publications in the context of VAT

ABSTRACT

The present study is motivated by the Commission's assessment of the current VAT rates structure and by the need to understand: the extent to which publications delivered on physical means of support and in electronic format should be considered as substitutable products; the impact their current VAT rate differentiation has on the market; and the potential impact of any changes in VAT in order to reduce such rate differentials.

The similarity (or dissimilarity) of products is investigated by assessing whether the products delivered through different means (print or digital) are regarded by consumers as substitutable. The underlying approach to substitutability is based on the concept of cross-price elasticity and tries to establish whether there are critical price differences that make consumers switch significantly from one product to another. An economic model populated with parameters estimated from survey data is used to simulate how potential tax changes would impact on different market outcomes (turnover and tax revenues).

In relation to the potential substitutability of print and digital publications we have concluded that: (a) print and digital publications are not part of the same relevant market; (b) consumers value print and digital products differently and this is linked to the different attributes and features of the different supports; (c) consumers are not likely to significantly substitute one product for another as a result of an impact in prices (although some migration from print to digital can be observed when the price of digital decreases, but the magnitude of such migration has been estimated as small).

In relation to the potential impacts of VAT changes we have concluded that: (a) a large decline in the sales for publications in print will result as a consequence of the equalising rates up; and a large increase in the tax revenue (in the order of between 100 and 300% for large geographical locations); (b) a moderate decline in sales for publications in print will result as a consequence of the equalising rates down; and a small loss (in absolute terms) in tax revenue (although simulations also show that some large Member State, like the UK, may have a reduction of 100% due to the complete drop in tax).