GENERAL AGREEMENT ON
TARIFFS AND TRADE

CONSOLIDATED DOCUMENT ON THE EXAMINATION OF
PRACTICES OF CONTRACTING PARTIES IN RELATION TO
BORDER TAX ADJUSTMENTS

In accordance with point 1(b) of its Terms of Reference (document L/3002/Rev.1), the Working Party on Border Tax Adjustments has examined the practices of contracting parties in relation to such adjustments. In order to carry out this examination properly the Working Party established an outline of questions which served as a basis for a country-by-country examination, and which is reproduced in Annex A. This document consolidates the information acquired and the discussion which took place thereon in the Working Party. The various subjects in this document are in each case preceded by the relevant questions of the outline. Clarification on the meaning of certain questions is given in Annex B to this document.
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I. Tax Systems
   1. CASCADE TAXES

Section I A(a) of the Outline deals with cascade taxes. The following are the relevant questions:

1. How general is the tax? Does it cover services as well as goods? To what extent does it provide for exemptions, different techniques of taxation or differential rates of tax for certain classes of goods or services or individual products or for transactions at certain levels in the production process? Do the border adjustments on both exports and imports reflect these differences?

2. Are there products not covered by the domestic tax which are, nevertheless, subject to an import border tax? Are there products, which are not produced domestically, which are nevertheless subject to an import border tax?

3. Are there cases of products for which adjustments are made at the border at a rate different from the rate of domestic tax on comparable products? How is this practice justified?

4. To what extent does the treatment of exports at the border differ from the treatment of imports for similar goods? For example, might an export rebate be granted at a rate different from the corresponding import compensating tax? How are these differences explained?

5. Are goods or services purchased by businesses for their own use subject to tax? Is there a distinction in this respect between raw materials and components on the one hand, and capital equipment, auxiliary materials and services used in connexion with the production or transportation of goods on the other hand? Are border adjustments made on the exports of products produced by firms paying such taxes? Are there comparable import charges?

6. Are purchases by businesses from a related company treated differently from purchases from an unrelated company? How are intra-company transactions handled? Are these differences reflected in the border adjustments?

7. What general rules are used in determining the appropriate levels of border adjustments? If averages are used, how are these averages calculated?

8. Is it possible to identify and measure cases of over- and under-compensation in the system of border adjustments?

9. How are goods valued for border adjustment purposes? Are export rebates calculated on a c.i.f. or f.o.b. basis? Are import compensating taxes imposed on a c.i.f.-duty paid value? What is the rationale for this treatment?

10. Is there a system of minimum exemptions from the adjustment for tourist purchases, small mail shipments, etc., on exports and imports?
Replies by delegations

AUSTRIA

The observer from Austria pointed out that no changes had been made in their tax system since the OECD fact-finding report had been issued.

Question 1. The Austrian turnover tax was a general consumption tax of the "cascade" type. The coverage of the tax included deliveries of goods, services rendered, withdrawals and importations. In view of the fact that the tax was charged in principle at all stages of production and distribution, it was referred to in the OECD report as one of the purest forms of the cascade system.

The law provided for a number of exemptions for certain transactions, the most important of which were:

(a) the import of certain raw materials, semi-manufactured goods, foodstuffs, fodder and medicines. This exemption covered a considerable part of the total imports;

(b) the first delivery of certain raw materials, etc. after importation at the wholesale stage;

(c) the export of goods;

(d) wholesale deliveries of certain raw materials, semi-manufactured goods, foodstuffs and fodder;

(e) transactions which were subject to separate taxation, e.g. tax on transports, insurance tax, tax on the transfer of immovable property.

The tax was levied at the following rates:

<table>
<thead>
<tr>
<th>Description</th>
<th>Rate (%)</th>
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<tbody>
<tr>
<td>Standard rate</td>
<td>5.5</td>
</tr>
<tr>
<td>Non-exempt wholesale deliveries (if the goods were not processed by the taxpayer)</td>
<td>2.0</td>
</tr>
<tr>
<td>Certain foodstuffs and the sale of products of domestic agricultural and forestry enterprises</td>
<td>1.7</td>
</tr>
<tr>
<td>Certain sales of small enterprises (restaurants, inns, food retailers)</td>
<td>3.75</td>
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<tr>
<td>Retail sales (not falling under the 1.7 per cent rate) of large enterprises if in the previous year the retail sales had exceeded S 20 million</td>
<td>6.1</td>
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Internal transactions within an enterprise were not subject to tax except in the case of integrated textile firms where yarns passing from the spinning to the weaving section of the firm were charged at a rate of 5.2 per cent. Retail sales
of products of the spinning or weaving section of a textile firm were subject to an additional tax of 5.2 per cent. This exception applied to man-made as well as cotton textile items.

The adjustments made at the border took into account the different rates and exemptions. Exemptions were not limited to domestically produced goods.

Question 2. No.

Questions 3 and 4. For imports, the adjustment was made by levying an import equalization tax, the rates ranging from 6.25 per cent to 13 per cent (2.5 per cent to 10 per cent in the case of foodstuffs subject to the reduced rate). The equalization tax was designed to compensate for the tax burden on identical or similar home-produced goods delivered to a wholesaler by the manufacturer.

For exports made by the manufacturer of a product, there were two measures to make the destination principle effective (a) the export rebate, with rates ranging from 0.85 per cent to 8.5 per cent, in order to compensate for the tax burden accumulated at earlier stages and (b) the tax exemption of the delivery to the foreign buyer of the product. These two measures together were approximately equivalent to the one measure taken on the import side.

The difference in the equalization tax rates and the export rebate rates were explained by the nature of the system. The intent was that the border adjustments should be identical to the tax burden on the same or like domestic products. The compensatory tax on imports was optically higher than the rebate on exports since on the export side the rebates only reflected the tax burden up to the factory stage while on the import side the tax on one further stage had to be added. If a product was not exported by the manufacturer himself, but by an export merchant, an export merchant's rebate was granted at a rate of 4.83 per cent or 1.564 per cent.

Question 5. All services were subject to taxation. The same was true with respect to the deliveries of goods, with the exceptions noted under question 1. These turnover tax amounts were taken into account when determining the border tax adjustments.

Question 6. If a company was dependent on another company financially, economically and organizationally, all transactions between the two companies were considered to be non-taxable internal transactions. When determining the border adjustments, the whole structure of the economic branch in question was taken into consideration.

Questions 7 and 8. Under a cascade system border adjustments were inevitably made on the basis of averages. These were calculated as exactly as possible. The calculation was made with regard to typical products; the selling price was analyzed with a view to finding out whether and to what extent the various cost elements had borne a turnover tax. Normally, a small estimated amount of taxes
levied instead of the turnover tax (e.g., transport tax, insurance tax) was also taken into account. Excise duties (e.g., on hydrocarbon oil) and other taxes or contributions were not included in the border adjustments of turnover tax. In answer to a question, the Austrian representative agreed that it was not possible to calculate the averages with perfect accuracy and that these were estimates. There was, however, generally no over- or under-compensation. The rates were changed to take into account changes in the classification of goods or in the structure of the industry and the Federal Ministry always scrutinized complaints with great care. Complaints could come from abroad as well as from domestic sources.

**Question 9.** For the purpose of the import equalization tax the goods were valued on the basis of the c.i.f. price plus customs duties and other taxes imposed at importation, excluding the turnover tax itself.

The rates of the export rebate were applied on the selling price including the cost of transport and insurance expenses to the Austrian frontier.

**Question 10.** Export rebates were granted only to entrepreneurs in the sense of the law. Therefore, tourists could not benefit from the export rebate scheme. No import equalization tax was charged on limited tourist purchases and small mail shipments. The treatment followed the corresponding customs duties regulations.

**BELGIUM**

The representative of Belgium, describing the characteristics of the Belgian turnover tax system, said that transfers of goods were subject to the 7 per cent transfer tax. Purchases by businesses from a related company were not treated differently from purchases from unrelated companies, but intra-company transactions were not taxable. This tax was levied at the various stages of production and marketing of products. It was a cascade tax. Besides this transfer tax, there were also:

(a) single-stage taxes, generally at a higher rate;

(b) luxury taxes, always at a higher rate;

(c) an invoice tax on transfer, which was a reduced rate transfer tax;

(d) taxes on services, at a rate of 7 per cent.

There were no overall single-stage taxes in the Belgian turnover tax system. However, in the Belgian legislation there were a considerable number of single-stage taxes at source and at destination. The setting of a single-stage tax at source for a given product led to the following consequences – this tax was collected at the time of sale by the producer or an importation of the product concerned; subsequent transfers of the product were no longer subject to the
transfer tax, but to an invoice tax of 7 per mill. (0.7 per cent); when, in the chain of successive transfers, the product had been processed, the processor could no longer forward it under cover of the transfer tax, but must apply, on the invoice which he sent to his customer, the transfer tax applicable in accordance with the nature of the processed product. The setting of a single-stage tax at destination for a given product implies that this tax is collected only when a product is delivered to a given person, whether the consumer is a business undertaking or an individual; the transfers of the products concerned for the benefit of persons who are not considered by the law as consumers do not fall under the transfer tax, but under the transfer invoice tax, the amount of which is 0.7 per cent.

However, the tax system applicable to these products had no influence on the taxation to which the various elements intervening in the manufacture of the product had been subject. For instance, the manufacturer of a coffee grinder, which was subject to a single-stage tax at source, had had to pay the transfer tax at the full rate for his purchases of the raw materials, accessory materials, power supply, packaging, etc., required for the manufacture of the grinder. Similarly, the manufacturer of central heating boilers, which were subject to a single-stage tax at destination, must, apart from the tax which he would apply on the invoices of sale to his customer, himself pay the transfer tax on the purchases he had had to make to manufacture the boiler.

The luxury tax was levied on the transfer of certain clearly specified products at a rate of 18, 20 or 23 per cent. In theory, it was collected only once during the transfer of the product; either on sale by the producer or at importation (luxury tax at source) or at the time of sale to a private consumer (luxury tax at destination).

The invoice tax on transfers was levied at the reduced rate of 0.7 per cent whenever a transfer of products for a valuable consideration was not subject to the transfer tax or the luxury tax. For instance, the 0.7 per cent tax was collected on transfers of products which by their very nature were exempt from the transfer tax, such as products of prime necessity. It was also collected on the transfer of products for which a single-stage tax has been set, when these transfers do not come under the single-stage transfer taxes mentioned above.

Services carried out in Belgium were as a general rule subject to a tax of 7 per cent. For instance, this tax affected transport contracts, contracts for the hire of movable goods, telephone communications and contracts for work done on building or furniture.

Turning to the treatment of imports, the representative of Belgium said that imports of goods for consumption in Belgium were subject to the same tax régime as internal transactions. However, the importation of a number of goods was subject to a compensatory tax called increase in the import transfer tax. These were compensatory taxes collected on the import of certain finished or semi-finished products. They were levied when it became clear that products
manufactured in Belgium had, in the successive stages of their manufacture, been subject to taxes which were not applicable to the same product when imported. Equality had to be re-established by fixing, for imported products, a supplementary tax intended to compensate the total amount of taxes to which like national products had been subject, whether in the form of raw materials, or in the form of semi-finished goods, accessory materials, energy, packaging, investment material, etc. They were charged on the c.i.f. price plus customs duty if any. These increases were justified not only by the fact that the foreign products had paid the transfer tax only on account of purchase by the importer, but also because, in the exporting country, they generally enjoyed exemption from any internal turnover tax. If there were no increases on importation, these imported products would, from the tax standpoint, be clearly more favoured than like Belgian products. The increases had been established with the aim of restoring equilibrium in tax burdens.

Furthermore, since 26 April 1965, quite a large number of exported products enjoyed a single-stage export tax rebate. These rebates tended to relieve exported products from all stamp taxes affecting raw materials, accessory materials, packaging, energy, investment materials and the various working enterprises involved in the manufacture of the exported products. When a rebate was established for specific products, it was applicable whether the products were of home or foreign origin; it was thus necessary to set up increases at importation or to adapt the rate of an existing increase to the rebate rate, so as to put all the products on an equal footing, whatever their origin might be, and especially to forestall easy tax frauds. Consequently, the introduction of an increase in the transfer tax for certain products was a corollary of the establishment of a rebate on export of these same products. As could be seen, the increases in the import transfer tax were not in any way protectionist.

To fix the applicable rates of increases in the import tax and export rebates, consideration had been given to the burden on domestic goods throughout their economic circuit, before their end manufacture, and which resulted from the taxes applicable to raw materials, semi-finished products, accessory materials, packaging, and also taxes on services connected with goods and the equipment used to manufacture them. The only taxation taken into account was that resulting from the application of the transfer tax and associated taxes (invoice tax, luxury tax, tax on working enterprises, transport tax), to the exclusion, in particular, of customs duties, excise duties and similar taxes. The rate finally adopted for the establishment of the increase or the rebate was the result of numerous calculations the elements of which have been provided by the national producers who were the most representative of the sector or sectors concerned.

It should also be noted that the importance of the raw materials, accessory materials, packaging, energy, transport and investments, which came into play in the formation of the price of any goods, varied essentially from one product to another. The tax burden on each of the price elements was thus in the end different according to the nature of the product. For the calculation of the
tax burden on each of the components of the price of a product, account was taken of the taxes which were collected or these components throughout the manufacture and marketing process. In so far as possible, the establishment of an increase in the import tax for products not manufactured in Belgium had always been avoided. It was obvious that if such goods were used in domestic manufactures, no account was taken in the calculation of the tax incidence on products obtained in Belgium of a tax at a previous stage for imported products; this was true in particular for ores. As the rate of the increase or rebate was fixed at a single stage by product or by group of products, it remained invariable whatever might actually be the length of the circuit actually covered by the goods and the degree of integration of the Belgian producers. It should also be noted that whenever a product was manufactured both for integrated industries and for non-integrated industries, the rate adopted was a weighted mean of the tax burden calculated in each sector, in the light of their importance in the production of the product concerned.

Turning to the treatment of exports, the representative of Belgium said that the general principle was that goods intended for export were not taxed at the final stage; once it had been established that goods were intended for export no taxes were charged on sales thereof and they could also go through intermediaries without being taxed. In order to prevent export goods from being subject to the cascade taxes charged at earlier stages, tax exemption measures were provided with respect to exports. These measures were of two types, (a) tax exemption at the stage preceding export and (b) export rebates. The two types of measure were not cumulative, however. No partial exemption at the penultimate stage could be claimed in respect of products eligible for a single-stage rebate on exports. These two systems were briefly described below.

At the penultimate stage, goods known to be intended for export were exempt from the invoice tax on transfers, transfer tax and luxury tax and tax on contracts for work done. Producers of export goods could also acquire raw materials or merchandise with a view to processing them for export without having to pay any tax, except in some cases an increase of the tax mentioned above where the materials purchased are imported.

Single-stage rebates on exports were made as follows. Upon export, the turnover taxes charged at all stages of manufacture of the export product were reimbursed in the form of a certain percentage of the price of the product. The percentage had been established taking into account the various structures of export industries, and was therefore set at an average rate applicable to all exports. The export rebates were calculated on a f.o.b. basis. It should be noted that the rates of rebate did not represent a further abatement on the fixed rates. Before the rebates had been introduced, export industries had already been exempt from the transfer tax on invoices on any raw materials, packaging and custom work required for the manufacture of export products. The benefit which the rebate system represents for Belgian industry was therefore equal only to the difference between the rate of the rebate and the tax exemptions granted to industry previously.
The method used for determining the rebate percentage was the same as that used for calculating any increase in the transfer tax on imports. Consequently, the rate of the increase and the rate of the rebate must be the same. This was not always so, however. In certain cases, there was a difference between the increase rate and the rebate rate, due to the tax system applicable to the products concerned.

In particular, so far as certain textile products were concerned, the single-stage tax at destination to which these products were subject made it necessary to set the increase rate at a level higher than that of the corresponding rebate rate. The reasons for this were as follows. Any transfer of goods was subject either to luxury tax, or to transfer tax or to the invoice tax on transfers. These taxes were not aggregated on the occasion of any individual transfer. Accordingly, if the luxury tax was applied, the transfer tax and invoice tax were not payable and likewise if the transfer tax was charged then the invoice tax, currently at the rate of 0.7 per cent, was not payable. Under Article I of the Royal Decree of 11 March 1953, the increase in the import charge was incorporated in the transfer tax or luxury tax, where the imported product was subject to transfer tax or luxury tax, as the case might be, so that upon import a product was not subject to two different taxes but to one single tax (either the transfer tax or the luxury tax) which was calculated by adding the rate of the compensatory tax to the rate of either the transfer tax or the luxury tax. When upon import a product was only subject to the invoice tax on transfers, there was no provision similar to that described in the preceding paragraph. Accordingly, since the tax burden on the imported product must be equivalent to that affecting the similar domestic product, the compensatory tax had to include the invoice tax on transfers, as might be seen from the following example:

Wool, washed, carbonized (heading No. 53.01 C of the Import Tariff)

(A) Tax burden on the Belgian producer: 1.036 per cent

(B) Tax burden on the Belgian purchaser of the domestic product:

(a) tax burden on the producer 1.036 per cent

(b) invoice tax of 0.7 per cent payable by the purchaser on delivery of the product in Belgium 0.700 per cent

Total 1.736 per cent
(C) **Tax burden on the Belgian purchaser of the imported product:**

For compensation at the frontier to be equal to the internal taxes and charges, the importer had to pay a tax at a rate equivalent to the total taxes that he would have paid if the product had been purchased in Belgium. The rate was therefore determined by adding together the tax burden on the Belgian purchaser and the invoice tax:

<table>
<thead>
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<th>Total</th>
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<tbody>
<tr>
<td>1.036 per cent</td>
</tr>
<tr>
<td>0.700 per cent</td>
</tr>
<tr>
<td><strong>1.736 per cent</strong></td>
</tr>
</tbody>
</table>

Under the rounding-off rule, the rate of compensatory tax was reduced from 1.736 per cent to 1.50 per cent. As might be seen, therefore, the increase rate was sometimes 0.50 per cent higher than the rate of export rebate applicable to the same product.

**ITALY**

**Question 1.** The general consumption tax was a cascade tax which had existed in Italy since 1940. It applied to almost all products. All sectors of economic activity were affected by the tax which thus covered services as well as goods. The normal rate was at present 4 per cent but there were also increased rates and reduced rates ranging from 0.8 per cent to 14.4 per cent. For certain products, the tax was levied in accordance with a condensed rate (called *una tanta* in Italy) which was a fixed amount applicable to one single transfer of the goods, the preceding transfer and the subsequent transfer being exempted. This rate was determined on the basis of the average number of transfers that could be assumed to be taxable for a given article. As present, there was a series of products which were subject to this tax régime with rates varying from 1 per cent up to 36 per cent. The Italian system was a mixed system. As a general rule there was a cascade tax applicable at each stage of production and distribution but for certain products, these taxes had been condensed into a single rate which was applied at a given stage. A number of products were exempt from tax. These were chiefly staple consumption products such as bread, milk, macaroni and spaghetti. When fixing the rates for export rebates and import compensatory taxes, account was taken of various tax systems which might be involved, the production circuit and, if necessary, the basis of distribution.

**Question 2.** No.

**Question 3.** As a general rule, with perhaps only one exception, there was no difference between the tax applied to domestic products and comparable imported products.
Question 4. As a general rule, all the rates of export rebate corresponded to the rates of compensatory tax. There were four or five exceptions concerning certain raw materials.

Question 5. The Italian tax was cumulative, applicable at all stages and to all enterprises. There was no tax relief for enterprises which belonged to a specified group; accordingly, exchanges of goods or services between different enterprises in such a group were subject to taxation.

Question 6. Purchases by enterprises in related companies were not treated differently. There was no cession of property within a company and if the product was transferred to another part of the same enterprise, the tax was not applied. But, on the other hand, there was a provision in the Italian Law for the application of the tax to the transfer of goods from the producer to his own sales stores. This might be regarded as a cession of property and was taxed. Answering a question, the representative of Italy said that, to his knowledge, it was not possible for sub-contractors of a firm to be treated as a part of that firm for tax purposes.

Question 7. The representative of Belgium had already explained in detail how a State which applied a system of cascade taxation could proceed to establish its average compensatory rate applicable at the frontier. In the Common Market, there was a directive which established a system for fixing average rates for cascade taxes. This showed that the Community was strongly concerned in following and controlling the ways in which the States members of the Community itself established these rebates and compensation taxes. A common method had been established for the calculation of average rates for cascade taxes. This common method had led to the abandonment of a part of tax incidence which came into the category of taxe occulte. There was no doubt that the tax, in a cascade system, had been exactly paid; it was the system itself which entailed difficulties in establishing the amount of the tax which had been paid before exportation of the product, but the tax had really been paid by the enterprises.

Question 8. In Italy, criteria had been fixed for the determination of an average rate; like any average of course, it could be more favourable to some enterprises than to others. It was an average, not an absolute value. But the method of fixing the average rate was based on the weighted average which made it possible to take account of integrated enterprises and non-integrated enterprises.

Question 9. The taxable base for imported goods was the c.i.f. value; in certain cases, the excise taxes applicable to the product were added. For the export rebate, the case was the ex-factory value.

Question 10. In practice it was not possible for tourists (except in the duty-free shops at airports) to buy any kinds of goods and to ask for a refund of taxes.
Other

In answer to questions, the representative of Italy said that border tax adjustments made in respect of the general turnover tax were the same for trade with other member States of the European Economic Commission as for trade with other countries. Asked about changes which had been made in the level of border tax adjustments, the representative of Italy said that, although the turnover tax had been introduced in 1940, adjustments at the border had not been made until 1954. The rates of adjustment then introduced had been very low and there had been a large degree of under-compensation. It was only in 1960 that the Treasury had agreed to revise the compensatory tax and the rebate. Asked whether Belgium and Italy used the same method for the calculation of average rates of compensation, the representative of Italy said that the existence of the Community directive ensured that the methods were fundamentally the same. In Italy one product and one typical producer were chosen to represent the group of products in question.

NETHERLANDS

The Working Party noted that while the Netherlands operated a cascade tax, this would very soon be replaced by an added-value tax and it agreed that it would therefore not be necessary to examine the cascade tax in detail.

SPAIN

Question 1. The representative of Spain said that the general consumption tax had been introduced in his country in 1964. The tax was general and applied to services as well as goods. There were, however, some exemptions from the tax and reductions of the rate for different types of goods and services. The adjustments made at the border reflected all those differences. In making these adjustments the general turnover tax, excise taxes and specific consumer taxes were taken into account.

Question 2. There were no products not covered by the domestic tax which were nevertheless subject to an import border tax. In answer to questions, the representative of Spain said that the GATT rules did not prohibit the taxation at the border of goods not produced in Spain. Imports of these products competed with substitutable products and the principle of fiscal neutrality made such adjustments necessary. Some representatives said that if adjustments were not made at the border for goods not domestically produced countries which produced a limited range of goods, including developing countries, would be penalized and that taxes on individual products introduced distortions of competitive conditions. Other delegations said that developing countries could hardly be penalized by importing goods, which they did not produce, as cheaply as possible and that consideration of countries which produced a narrow range of products involved other questions such as the equilibrium rate of exchange. Other representatives emphasized that border tax adjustments were not an instrument of trade policy but a fiscal technique.
Question 3. As regards cascade taxation, the border adjustment taxes should be at rates higher than the standard rate of the general turnover tax, since the cumulative nature of the latter makes it necessary to take into account the tax levied on the product itself or its components, at all stages.

This being so, in Spain, the border tax adjustment for any foreign product is never higher than the rate of domestic taxation for similar products. There even exist cases in which these adjustments are lower than the domestic tax. It was pointed out by other delegations that an average could not be entirely precise and that this made it difficult to give a categorical answer to this question.

Question 4. Normally, the rates of export tax rebates were identical with those of the compensation tax. In some exceptional cases the rebate rates were less.

Question 5. All goods or services bought by the enterprises were subject to the tax. Spanish legislation provides for the possibility of taxation up to the end consumer. There was no distinction between raw materials and components, and capital goods, materials and auxiliary services used for the production or transport of merchandise. All these are subject to the tax.

Accordingly, both export and import border adjustments took account of these taxes, although some concepts, such as the domestic tax on overheads, were not included in the adjustment calculations.

Question 6. There was no difference in the treatment applied to related and unrelated companies.

Question 7. The method of determining the average rates of border tax adjustment were similar to those of other countries with a cascade tax. In the process of averaging the products were grouped under the headings of the customs nomenclature. Replying to a question concerning the reasons for changes in rates of border tax adjustments, he said that these had become necessary, partly because of the need to revise the averages which had been fixed when the tax system had been introduced in 1964, and partly because new taxes and changes in tax rates had been taken into account.

Question 8. Yes; the degree of accuracy of these averages could be determined from an adequate knowledge of the tax system and the Spanish economic structure.

Question 9. The compensatory tax on imports was charged on the c.i.f. price plus customs duty. The export rebates were calculated on a f.o.b. basis plus customs duty with the limitation that that value could never exceed the domestic price. In reply to a question he said that in the case of imports of final consumers the basis of valuation was also the c.i.f. price plus customs duty.
Question 10. On the export side, there were no exemptions whatever for articles bought by tourists, sent by post, etc.

On the import side, however, an overall reduced rate of 6 per cent was applied as a border adjustment when the import was less than Ptas 4,200 and came under the tourist or postal despatch régime.

Early in 1969, a system of duty-free shops was established in Spanish airports.

UNITED STATES

It was noted that the OECD Fact-Finding Report (Part III, page 61) referred to two States in the United States which imposed multi-stage taxes. The representative of the United States said that Mississippi had a wholesale tax of 1/8th of 1 per cent in addition to a retail tax of 3.5 per cent and that Hawaii had a manufacturing and wholesale tax of 1/2 of 1 per cent in addition to a retail tax of 4 per cent. As far as was known, no border tax adjustments were made vis-à-vis the rest of the world as opposed to the other States of the Union. It was suggested that the economic effects of these taxes were, in principle, the same as the effects of a cascade tax. The representative of the United States said that this raised a fundamental question which should be dealt with only after the present examination of border tax practices had been concluded.
2. **SINGLE-STAGE TAXES**

Section IA(b) of the Outline deals with single-stage taxes. The Working Party agreed to deal with taxes imposed at the manufacturing, wholesale and retail levels separately.

(a) **At the Manufacturing and at the Wholesale Level**

Questions:

1. For imports, if adjustments are not made at the border but subsequently, what is then the valuation basis? For exports, in what circumstances are goods relieved from tax and in what circumstances is tax repaid?

2. When adjustments are not made at the border but subsequent to importation through a system of registered dealers, how is the list of registered dealers drawn up and changed? What are the qualifications for registration?

3. How does your system handle the tax on the raw materials and components forming part of specific goods and how does it handle the tax on the goods used in connexion with the production or transport of other goods, both with regard to home-produced goods sold on the home market and with regard to exports and imports?

4. Is it always possible to limit your single-stage tax to one particular stage? How are retail transactions by wholesalers or manufacturers handled? How are capital goods and services treated?

5. Are there products not covered by the domestic tax which are, nevertheless, subject to an import border tax? Are there products, which are not produced domestically, which are nevertheless subject to an import border tax?

6. To what extent do the rates of border adjustments on imports and exports differ from each other or from the rates on domestic transactions? If capital goods and services are taxed, are the taxes subject to border adjustments and how are any adjustments operated?

7. Where regional differences exist in such taxation, is special compensation afforded in respect of them at the inter-regional borders? What mechanisms are provided for this purpose? In this respect, is there any difference in the tax treatment of foreign products, on the one hand, and domestic products, on the other hand? If there is no inter-regional border compensation, how is equal treatment ensured for domestic and foreign products?

8. Is there a system of minimum exemptions from the adjustment for tourist purchases, small mail shipments, etc., on exports and imports?
Replies by delegations

ARGENTINA

Question 1. Imports were subject to the tax, regardless whether they were intended for personal use or consumption or to form an integral part of exempt goods. The tax was payable by the importer at the time when the goods were cleared through customs. Goods exported might be exempted from the sales tax by the Executive when the latter considered this desirable in order to facilitate disposal. In general, goods not subject to export duties were exempt from the tax. There was a system of refund for certain products; a repayment being made to exporters in respect of taxes charged in the internal market.

Question 2. Not applicable; the adjustments were made at the border.

Question 3. Under the existing system there was no separate taxation of raw materials or of components forming part of specific goods. No differentiation was made in the law in respect of goods used for the production or transport of other goods. Nevertheless, the Executive was empowered, in order to promote or orientate economic activity, to grant complete or partial exemption from the tax, or to raise the rate of the tax in respect of certain specified goods.

Question 4. The tax was applied at only one stage of marketing for each product. Retail transactions by manufacturers were subject to the tax but in this case a deduction was allowed for direct sales costs. Services in general were exempt from the tax except in certain cases specifically mentioned in the law. Capital goods were not specifically included among the exceptions, but those eligible for customs duties exemption under the special import régime were exempt from the tax.

Question 5. No; the law expressly provided for the same tax treatment of domestic and imported goods, with respect to both the taxes and exceptions.

Question 6. As already stated, there was no difference between the rates of border adjustments on imports and the rates on domestic transactions. With respect to exports, in principle there was no difference. However, if in practice some difference of relative significance existed, this was due to the practical requirements of applying the existing system of refund on exports in respect of taxes paid in the domestic market, which operated on the basis of a single conventional rate. As regards the treatment of imports of capital goods, the reply was given under question 4. Exports of such goods were not subject to the tax.

Question 7. No.

Question 8. The tax was not applied where customs duties were not applicable.
AUSTRALIA

Question 1. Adjustments were made at the border where tax was payable at the time of importation of goods, and that was when goods were imported by persons for their own use, or for initial retail sale. It was calculated on a value arrived at by increasing by 20 per cent the sum of the value for duty and for duty payable.

Goods for immediate export and not for use in Australia were exempt from sales tax, provided such goods were not brought back into Australia.

Provision was made for refund of sales tax previously paid on goods subsequently exported where it was not known at the taxing point that the goods would be exported.

Question 2. Qualifications for registration:

Every manufacturer and wholesale merchant in Australia, if he sold taxable goods, had to register with the Commissioner of Taxation and lodge monthly returns.

Goods, new or second-hand, imported by persons for retail sale or for their own use were subject to sales tax on importation at the customs (see calculation in answer to question 1).

If the goods were imported for wholesale sale, the importer had to quote his certificate number, i.e. endorse the import entry "I hereby certify that I am the holder of Sales Tax Certificate No. _____".

The registered person was then responsible for sales tax when the goods were sold to persons not quoting a Sales Tax Certificate number.

Question 3. Manufacturers could obtain raw materials and "aids to manufacture" free of tax on the principle that where tax was payable on the finished goods, it was necessary to avoid double taxation and where the finished goods were exempt, it was necessary to give full effect to the exemption. The use of sales tax certificates and the quoting of those was essential in those cases.

No similar exemption applied to goods used in the transport or distribution of goods whether home-produced or imported.

Question 4. Yes; at the point of final sale to the consumer or the person not registered for sales tax purposes.

Where goods were sold wholesale, the sale value upon which tax was payable was the amount for which the goods were sold, i.e. the full amount, excluding sales tax, charged to the customer in respect of the sale.

The sale value of goods sold by retail by a manufacturer or wholesaler who, in either case, sold similar goods by wholesale, was the amount for which he would sell those goods if sold by wholesale.

Capital goods (other than motor vehicles) and services normally were not subject to sales tax.
Question 5. No. There were no specific border taxes as such in Australia. The only adjustments made at the border were, in the case of imports, sales tax and customs duty; and in the case of exports, sales tax, customs duty where applicable, and excise duty where applicable.

Questions 6 and 7. Did not apply in Australia.

Question 8. Sales tax is not applied to mail shipments of small value. Incoming passengers are allowed exemptions from sales tax for a range of goods imported as their personal effects and, within specified value limits, for certain other classes of goods imported as passengers' baggage.

Other. The reason Australia had two schedules to its Sales Tax Act, both having the same rate of tax (25 per cent), was that goods were put into the various schedules depending on their particular classification. The rates of tax applying to any schedule could be varied at budget time. It just so happened that at the moment the rate of tax on Schedule 2 goods was the same as the rate on Schedule 5 goods. This would not necessarily hold in the future.

As for the reason Australia added 20 per cent to the sum of the value for duty and duty paid in order to arrive at a base value for the imposition of sales tax on imported goods, this method of calculation only applied when the goods were imported for personal use or by a retailer. The addition of 20 per cent was to place imports by such persons on a comparable basis with imports which pass through a wholesaler in Australia. The 20 per cent represented a notional mark-up by the wholesaler when selling to a retailer. Sales tax was normally paid on the wholesale sale price.

Canada

Question 1. The basis of valuation of imports for the manufacturers tax was the duty-paid value, whether the tax was collected at the time of importation or later. Customs duty was levied on an f.o.b. basis. The tax was, therefore, not levied on the cost, insurance and freight. The tax was not applied to goods exported by a manufacturer or by a licensed wholesaler. If goods were exported on which the tax had been paid, this would be refunded.

Question 2. Certain conditions had to be met. No application for a licence would be considered unless the applicant had been in business for at least three months, at least 50 per cent of the applicant's sales in the preceding three months prior to the application were made under exempt conditions and the applicant gave a security. Manufacturers were licensed as well as wholesalers because they would otherwise pay the tax on goods they purchased. In such a tax system, licensing was necessary in order to keep a degree of control. Importers were not disadvantaged by the licensing arrangements.
Question 3. Machinery used for the production of goods, raw materials, component parts and materials consumed or expended directly in the process of manufacture of taxable goods were exempt from tax. However, the materials that went, e.g. into the construction of a factory, were taxable when they were sold to a manufacturer, and no adjustment was made for such taxe occulte.

Question 4. Yes. The normal basis for levying the tax was the actual price displayed in a market transaction. However, a value had to be constructed when a manufacturer sold directly to a retailer. In that case a constructed value was determined by reference to the price at which he would sell to a wholesaler. In the case of a product which in Canada was only sold directly by producers to retailers, the tax was on the manufacturer's price even though he was in fact performing a wholesale function. This was one of the elements in the system which was biased in favour of imports. Explaining this in answer to questions, the representative of Canada took the example of imported cars. The distributor of imported cars acted as a wholesaler and provided various services like advertising. The cost of these functions was not contained in the tax base, since that was the duty-paid value. For domestically produced cars those were all functions of the manufacturer and increased the price on which the tax was levied. A Royal Commission had recommended a change in the system but no change had yet been made.

Services were not taxed. As far as capital goods were concerned, production machinery was exempt, not by category but by use. Asked about the coverage of the tax, the representative of Canada said that this was summarized in Part III of the OECD Fact-Finding Report.

Question 5. Generally no.

Question 6. The rates of border adjustments on imports and exports were the same; where there was a difference, this was in the calculation of the tax base. There were only two rates: 12 per cent on most products and 11 per cent on building materials.

Question 7. No.

Question 8. There was a system of minimum exemptions for sales tax on casual gifts and there was of course the system of exemption for tourist purchases by returning residents of Canada, which included exemptions from the sales tax as well as from the customs duty. There was no exemption for small mail shipments.

Other

In answer to questions, the representative of Canada confirmed that a part of the receipts from the tax was allocated to the Old Age Security Fund. Other delegations were of the opinion that the wording of the indicative list of export subsidies would normally exclude the possibility of adjusting at the border for social security taxes and that this point raised fundamental issues. The representative of Canada pointed out, however, that this was a different issue,
it would make no difference if the money were taken from another source, the Consolidated Revenue Fund for example. Some delegations pointed out that there was, in fact, no sharp distinction between direct taxes and indirect taxes but that the GATT made such a distinction and treated the two categories in different ways. A problem did therefore exist if a social security tax could be made rebateable by a change of name. Other delegations did not agree that only a change of name was involved.

FINLAND

General remarks

The Finnish turnover taxation has been accomplished by means of a combined wholesale and retail business tax system, according to which the sale by a manufacturer of goods and the sale from the wholesale level to the retail level and directly to consumption are liable to tax on the whole value of price while sales from the retail level are liable to tax on the profit or "the margin" only. Transactions carried out between manufacture and wholesale levels, as well as the import of goods to these, are exempt from tax. The retail level always pays a tax on purchases and on the difference between the sales price and the purchase price of all sales. One liable to tax on wholesale is entitled to deduct all taxed purchases of goods obtained from the retail level. The sale of goods to foreign countries is exempt from tax.

Manufacturing, wholesale

Question 1. In connexion with the importation by a manufacturer or a wholesaler of goods for sale, the adjustments are not made at the border, but when the goods are sold to one liable to tax on retail sales or to consumers. The rate of tax is 11 per cent of the sales price, tax included, equalling 12.4 per cent on the net price. Export sales are relieved from tax but if turnover tax has been paid on products entered in the production, or otherwise, this is not reimbursed in connexion with the exportation. Tax on retail purchases is deducted according to a deduction system, or, if the sale is exempt from tax, according to a system of tax return in lieu of the deduction method.

Question 2. One liable to tax on wholesale shall be entered in the special register of wholesale tax liabilities. In principle, all others are liable to tax on retail sales. In the register shall be entered those engaged in manufacture of goods or resale to distributors (e.g. factories and wholesale business). Amendments to the register are mainly made on the basis of information provided by those liable to tax.

Question 3. The sale of raw materials and semi-manufactured goods between wholesale tax liabilities are exempt from tax. If the manufacturer has to obtain the above-mentioned goods from a retailer, and thus pays a price which includes the tax, he is entitled to deduct the purchase price of the goods, in order to avoid accumulation in taxation.
Tax shall be paid on production or transport equipment and machines (capital goods) when bought by a manufacturer. The manufacturer is not entitled to deduction of taxes paid in this connexion. The tax included in the purchase price of capital goods thus constitutes a hidden burden on the sales price of export goods and goods sold on the domestic market.

**Question 4.** In Finland there is a combined wholesale and retail turnover tax system. No tax shall be paid on transactions between manufacturers and wholesalers subject to wholesale tax if the goods are bought for the purpose of vend as such or as components of other goods or are intended for sale or letting in transacting business, direct consumption in first use in the manufacture of goods for sale or for letting or in connexion with taxable labour input. Capital goods are not regarded as goods for sale. Their purchase price is liable to tax and is not deductible from the turnover taxation.

**Question 5.** No difference in taxation is made between imported and domestic goods. Nevertheless there are products, e.g. cars, which are not produced domestically, but which are subject to turnover taxation at the frontier.

**Question 6.** The rate of border tax on imports is 12.4 per cent of the normal value of the goods increased with the customs duty, import charge and excise tax. The normal price includes freight charges, insurance and packing charges. Tax on domestic transactions amounts to 11 per cent (= 12.4 per cent of the price without tax). No tax return is admitted on capital goods.

**Question 7.** There are no regional differences on the Finnish internal turnover taxation.

**Question 8.** There are a few exemptions from the tax adjustment on imports. Those are coupled to the customs legislation: if imports of goods are exempt from tax on the basis of a law other than tariff law, the goods in question are not liable to turnover tax. Sale of goods to foreign countries is always exempt from tax. Purchases by tourists leaving the country are also exempt from tax. In this case the dealer shall deliver the goods across the customs border (e.g. to a customs warehouse) in which case the sale will be regarded as exports.

**IRELAND**

Wholesale tax charged at a general rate of 10 per cent with a higher rate of 15 per cent on specified goods, mainly motor-cars, motorcycles and caravans, passenger and pleasure vessels, radios, television sets and record players, and gramophone records.

**Question 1.** Registered wholesalers and manufacturers are exempt from tax on imports and are liable at the rate of 10 and 15 per cent respectively on tax inclusive prices on sales within the State. In the case of imports by unregistered traders or by private individuals tax is payable at the point of import at the rate of 10 and 15 per cent respectively on the value of the goods for customs purposes increased by any customs duty payable.
Registered persons are not liable on sales involving the delivery of goods outside the State. They do not receive any repayments of tax.

**Question 2.** Manufacturers of taxable goods whose sales exceed £150 per month and wholesalers whose sales of taxable goods exceed £500 per month are obliged to register.

Manufacturers of exempt goods who use taxable manufacturing plant and raw materials are enabled to register to obtain such plant and materials tax free.

**Question 3.** Manufacturers are enabled through registration to obtain their manufacturing raw materials and components tax free. They are also enabled to get tax free their manufacturing plant and any goods used directly in the manufacturing process and which do not become part of the finished products.

Commercial goods vehicles and cargo boats are exempt from tax.

Airline companies and shipping companies, whether incorporated within the State or not, are enabled to purchase tax-free equipment and other goods for use in their business.

**Question 4.** Tax is payable on sales of goods by registered to unregistered persons. In the case of retail sales a reduction (normally 20 per cent) is allowed from the taxable turnover. Registered persons obtain tax free their stocks of goods for resale and, in the case of manufacturers, their manufacturing plant and materials. Capital goods other than manufacturing plant may not be obtained tax free.

Services are exempt.

**Question 5.** There are no products which are exempt from the domestic tax and liable to import tax. There are products not produced domestically which are subject to border tax adjustments.

**Question 6.** Imports by registered persons are not subject to tax and registered persons are not liable to tax on export sales. Tax is charged at the rate of 10 per cent and 15 per cent respectively on imports by unregistered persons. Sales within the State by registered persons are liable at 10 per cent and 15 per cent respectively on tax inclusive prices. Purchases by registered persons of capital goods other than manufacturing plant are liable to tax but no border tax adjustment is made for exports in respect of these.

**Question 7.** No regional differences exist.

**Question 8.** The exemptions from selective excise taxes referred to in the reply to Question 9 of Section 3 apply also to the wholesale tax. In addition, parcel post importations not exceeding £5 in value are exempt.
NEW ZEALAND

Question 1. For imports, see paragraphs A.1 and 4 on pages 157/158 of Spec(68)88. For exports, see paragraph B.2 on page 161 of Spec(68)88.

Question 2. All persons and firms selling taxable goods by wholesale are licensed under the Sales Tax Act 1932-33. Businesses selling at both wholesale and retail levels are licensed usually only if the turnover is predominantly wholesale.

Question 3. Most raw materials and components do not incur tax. Where taxable goods are used in connexion with the production of other goods the tax is remitted or refunded to the manufacturer of the other goods. There is no provision for remission or refund in respect of taxable goods used in the transport of other goods. Ordinary trade containers do not bear tax. The situation is unaffected by whether the goods are home produced goods, exports or imports.

Question 4. See paragraphs A.1 to 4 on pages 157/158 and paragraph B.2, last sentence on page 161 of Spec(68)88. In the case of retail transactions by wholesalers, the value for tax is the normal wholesale price. There is no special provision for capital goods as such but most capital goods fall within exemptions for specific goods (e.g. industrial machinery). Services are not taxed.

Question 5. The answer to the first question is no. In reply to the second question (originally in Spec(68)98/Add.1) there are products subject to the sales tax which are not made in New Zealand, e.g. watches and typewriters. This situation arises because the sales tax does not make any distinction in respect of the origins of taxable goods.

Question 6. There is no difference in rates.

Question 7. No regional differences.

Question 8. Imports: there are exemptions in respect of certain goods imported by passengers for their own use, and for gifts of a personal nature not exceeding $NZ 20 in value. Exports: purchases by tourists at duty-free shops are tax free. Tax is remitted or refunded in full except that in respect of any one shipment, claims of less than $NZ 1 are not accepted.

SWITZERLAND

Turnover tax was charged on most goods, but for social reasons some essential goods such as foodstuffs, soaps and medicines were exempt. In Switzerland all manufacturers or wholesalers whose annual turnover exceeded Sw F 35,000 were subject to the tax. In order to avoid double taxation, they were entitled to purchase tax free the raw materials, semi-manufactures and goods intended for resale. In addition they had to pay turnover tax on equipment, plant, machinery and tools. Retail deliveries by the manufacturer or wholesaler were taxed at the rate of 3.6 per cent. On wholesale deliveries, the rate was 5.4 per cent, in other words the retail price of the goods was assumed to be 50 per cent above the wholesale price.
Question 1. Exports were free of tax, i.e. manufacturers and wholesalers who exported did not have to pay the tax. On the other hand the goods were not completely tax free because investments had been taxed; there was no repayment of these hidden taxes.

Question 2. Not applicable.

Question 3. Taxpayers were entitled to purchase raw materials, components and goods free of tax, and no differentiation was made between goods sold in the country and those exported. On the other hand, all investments were taxable.

Question 4. The tax was payable sometimes by the manufacturer, sometimes by the wholesaler, and sometimes even by the retailer. If the retailer himself manufactured goods to a value of more than Sw F 35,000 yearly, he was taxed as a manufacturer. Capital goods were taxed, but services were not.

Question 5. No.

Question 6. Like goods were treated in the same way. Tax was paid at the frontier at the rate of 5.4 per cent at the time of importation, on the assumption that the value of the import corresponded to that of wholesale delivery to the domestic market. If the incidence of the 5.4 per cent charge on the import price was greater than that of a 3.6 per cent rate on retail delivery in Switzerland, the importer was entitled to claim reimbursement. There was no repayment of the hidden tax, and imported goods did not carry any hidden tax as did goods manufactured in Switzerland.

Question 7. Not applicable.

Question 8. Normally the same procedure was followed as for customs duties. Any person bringing gifts back into Switzerland was not required to pay customs duties on such gifts subject to a maximum value of Sw F 200 nor was he required to pay turnover tax thereon. Upon export, any tax paid in Switzerland was not reimbursed, with one exception: if the value of the export exceeded Sw F 500, the wholesaler could present an export declaration and was then not required to pay the tax.

UNITED KINGDOM

The representative of the United Kingdom, describing the general characteristics of the British purchase tax, said that this was designed to tax consumers' expenditure on goods. (It did not cover services.) It was not a comprehensive tax, but it was a fairly widespread one. It was suggested that the way in which products subject to tax were selected affected in certain cases the economy of under-developed regions. The representative of the United Kingdom said that his Government would be prepared to consider specific representations in this regard. The tax was levied at four rates of 12.5 per cent (e.g. clothing, furniture and domestic hardware), 20 per cent (confectionery, soft drinks and
ice-cream), 33 1/3 per cent (for a wide range of products bought for the home and motor-cars) and 50 per cent (for goods such as jewellery, furs, gold watches, etc.). Purchase tax was a single-stage tax levied at the wholesale stage. Only sales by a registered trader to an unregistered person were subject to tax. Nearly all manufacturers and wholesalers of taxable goods with very few exceptions (e.g. those with a small turnover in such goods) were registered.¹

Turning to the specific questions in the Outline, he said:

**Question 1.** Much the greater part of all imports subject to purchase tax were imported by registered traders. Such imports taken into registered traders' untaxed stocks were placed in the same position as home-produced goods and were taxed, at the same rate, when sold to unregistered persons on the basis of the price (exclusive of purchase tax but including any customs duty payable on importation) which the goods would fetch on sale on the open market by a wholesaler to a retail trader who buys in quantities taken by the average retailer and has no special buying advantage. The bulk of goods chargeable with purchase tax were exported tax free by registered traders without ever having paid tax. Where export goods have borne purchase tax, e.g. goods bought by an unregistered trader, repayment of the tax can generally be obtained provided that evidence of payment of purchase tax and of export is produced.

**Question 2.** All manufacturers and wholesalers of taxable goods whose annual sales of such goods exceed £500 have to apply for registration, but for administrative reasons not all such traders are registered. Manufacturers of non-taxable goods who use substantial quantities of taxable materials in their work may also apply for registration, so that they can buy taxable materials free of tax. The list of registered traders is maintained and kept up to date at Customs and Excise Headquarters. There are at present about 65,000 registered traders.

**Question 3.** Purchase tax was predominantly a tax on final consumption so that this question was of great importance. All registered traders were allowed to buy, without paying tax, any raw materials or components which might happen to be taxable for incorporation in their own product. Certain types of goods were, however, purchased by businesses as well as by consumers. Businesses had to pay the purchase tax on auxiliary goods such as stationery, furniture, clothing and cars in the same way as a private person. There was no difference if the firm produced for sale on home market or on export market. At one time an export rebate scheme had existed in the United Kingdom which had included an element of rebate for purchase tax paid on certain auxiliary materials but this scheme ended in March 1968.

**Question 4.** A wholesaler could also be a manufacturer and a retailer have a wholesale function. It was not, therefore, always possible to confine the tax to one particular stage, but the tax was always assessed on the wholesale value, which might need to be specially determined, e.g. if a manufacturer applied goods direct to retail trading. Replying to a question, the representative of the United Kingdom emphasized in this connexion that related firms did not have any

¹The tax rates mentioned in this introductory paragraph have been changed in 1969 and are superseded by those shown on page 146.
benefit in the field of purchase tax since if a registered wholesaler sold, e.g. to a related firm at an artificially low price, an assessment of the normal wholesale value would be made. The basis of valuation was intended to be the arms length price. There was no tax on capital goods or services.

Question 5. No.

Question 6. Domestic goods and imported goods paid the same tax. On the export side no tax was paid whether the goods were exports or re-exports.

Question 7. There are no regional differences in the purchase tax system.

Question 8. There were some minimum exemptions. Visitors coming to the United Kingdom for a short time did not have to pay purchase tax on their personal possessions. There was further a scheme for visitors from abroad under which they could buy certain goods free of purchase tax for export if these were delivered to the plane or ship. British residents who returned from abroad could bring articles for personal use up to £5 tax free.
(b) Single-Stage Taxes, at the Retail Stage

Questions

1. Does the system of retail sales taxes completely avoid physical adjustments at the border? How are purchases across the border by final consumer handled?

2. What differentiation in sales tax liability exists between foreign and domestic goods once the foreign goods have entered the economy?

3. What is the evaluation basis for the imposition of a retail tax?

4. Does the government maintain an effective control on what constitutes a retail sales transaction?

5. Are goods or services purchased by businesses for their own use subject to retail taxation? Is there a distinction in this respect between raw materials and components on the one hand, and capital equipment, auxiliary materials and services used in connexion with the production or transportation of goods on the other hand? Are border adjustments made on the exports of products produced by firms paying such taxes? Are there comparable import charges?

6. Are there products not covered by the domestic tax which are, nevertheless, subject to an import border tax? Are there products, which are not produced domestically, which are nevertheless subject to an import border tax?

7. Where regional differences exist in such taxation, is special compensation afforded in respect of them at the inter-regional borders? What mechanisms are provided for this purpose? In this respect, is there any difference in the tax treatment of foreign products, on the one hand, and domestic products, on the other hand? If there is no inter-regional border compensation, how is equal treatment ensured for domestic and foreign products.

8. Is there a system of minimum exemptions from the adjustment for tourist purchases, small mail shipments, etc., on exports and imports?

Replies by delegations

CANADA

Provincial sales taxes at retail stage existed in nine out of ten provinces at rates from about 5 per cent to 8 per cent. They were levied on most retail sales to consumers but there were varying exemptions in the different provinces — mainly foodstuffs, prescription drugs, school textbooks, machinery and equipment used by farmers and fishermen, and goods which became part of other goods. In several provinces some services, such as long-distance telephone calls, hotel accommodation and meals in restaurants, were taxed.
Question 1. Goods which were sold and delivered to a consumer in another province were exempt from tax in the province where the sale took place. They were, however, taxable in the province to which delivery was made but this was difficult to administer on shipments to individuals. The large mail order houses usually acted as the collecting agents for the provinces.

Question 2. There was no difference between the treatment of foreign goods and domestic goods.

Question 3. The tax base was the retail price. If the purchase price was less than the fair market value, the fair market value was taken as the tax base.

Question 4. Control was generally exercised through a registration procedure. Only registered traders were able to purchase goods free of tax, these traders had to supply details of their purchases for resale or production and of tax-free transactions to the authorities.

Question 5. Purchases of taxable goods by businesses for their own use were generally not exempt from tax. No attempt was made to evaluate the proportion of taxe occulte. However, five provinces exempted industrial machinery and equipment used in the production of goods for sale. Some provinces exempted fuels and power. Border adjustments were not made by most provinces. In Quebec, however, purchases by manufacturers were not exempted from tax, but the tax payable by producers was reduced by an amount which depended on the relation of sales made to other provinces to total sales.

Question 6. No.

Question 7. In answer to questions the representative of Canada said that differences in the rates tax in the different provinces were small and had not given rise to problems.

Question 8. No.

FINLAND

Question 1. Retailers pay turnover tax on imported goods in connexion with the customs clearance. The taxes are counted on the normal value of goods (see I.A.(b) paragraph 6, Manufacturing, wholesale).

Question 2. In the internal trade there is no differentiation in turnover tax liability between foreign and domestic goods.
Question 2. In principle retailers pay tax on the additional value only. This means in practice that the purchase price, tax included, is deducted from the retail sales price. Thus no accumulation of taxes takes place, or in other words, the purchase price paid by the consumer always includes 11 per cent of turnover tax.

Question 4. The general supervision of turnover taxation comes under the General Turnover Tax Office subordinated to the Ministry of Finance. There are seven local turnover tax offices for assessment of tax and control of payment of tax. The supervision of taxation connected with imports, however, comes under the Board of Customs, and the customs offices subordinated to it are operating as tax authorities. The turnover tax offices carry out their supervision through inspections of book-keepings of tax liabilities fulfilled by inspectors (there are 142 inspectors in the whole country).

Question 5. Goods purchased by a retailer for his business or his own use are subject to turnover tax.

If a retailer liable to turnover tax sells goods to foreign countries the tax included in the purchase price of these goods is refunded on the basis of the deduction right, or, if all sales of goods constitute tax-free exports, the tax will be deducted according to the tax return system. As to taxation of capital goods and services, see corresponding paragraph under "Manufacturing, wholesale".

Question 6. See paragraph 5 under "Manufacturing, wholesale".

Question 7. See paragraph 7 under "Manufacturing, wholesale".

Question 8. See paragraph 8 under "Manufacturing, wholesale".
IRELAND

Two and a half per cent turnover tax

Question 1. Border tax adjustments apply only in the case of imports of taxable goods by unregistered persons, i.e. by private individuals, by businesses too small to be registered and by persons engaged in exempt activities. Imports by final consumers and other unregistered persons are liable at the rate of 2½ per cent on the value of the imported goods for customs purposes increased by any customs duty payable. Registered persons are exempt from tax in respect of export sales.

Question 2. None.

Question 3. The retail tax is a broadly based tax on personal consumption. It is applied to traders' receipts from the sale of goods and the provision of services within the State and is levied on tax inclusive prices. It applies also (on values exclusive of the tax itself) on importations of goods by persons not accountable in respect of transactions within the State.

Question 4. The tax applies to all sales by registered to unregistered persons. This has the effect of including retail sales in general but other sales are also included and the requirement of defining a retail sale does not arise.

Question 5. All goods or services purchased by businesses for their own use are exempt from tax with a few exceptions, mainly road passenger vehicles and hydrocarbon oils for passenger and goods vehicles. No adjustments are made for the element of these taxes included in the value of goods exported and there are no comparable import charges.

Question 6. There are no products which are exempt from the domestic tax and liable to import tax. There are products not produced domestically which are subject to border tax adjustment.

Question 7. No regional differences exist.

Question 8. The exemptions from selective excise taxes referred to in the reply to Question 9 of Section B apply also to the retail turnover tax. In addition, parcel-post importations not exceeding £20 in value are exempt.
The Norwegian tax was a single-stage tax levied at the retail stage and applied to most movable goods.

Question 1. Imports were taxed at the time of importation only if the goods were imported for direct consumption. Goods not imported for immediate consumption were not charged at import provided the importer was duly registered by the competent authorities. In this case the tax was levied as for domestic goods at the time the goods were sold for consumption. For capital equipment the tax was levied at import if the importer was not distributor of the goods in question.

Question 2. The tax covered imported and domestic goods without differentiation.

Question 3. The rate of tax was 12 per cent of the price paid including the amount of the tax. In the case of imports the tax (at a rate of 13.6 per cent) was imposed on the basis of the rules for evaluation of goods for customs duty purposes.

Question 4. Yes.

Question 5. Business firms paid tax on goods purchased for their own use. Capital equipment was subject to the same taxation as goods intended for immediate consumption. (See paragraph 1.) No border adjustments were made on import or export of products on the basis of the tax firms paid when purchasing capital equipment.

Question 6. See paragraph 2 above.

Question 7. The tax was general and without regional differentiation.

Question 8. Tourists could bring articles for personal use up to Nkr 350 - duty and tax free. Furthermore there were some minimum exemptions for small mail gift parcels from abroad.

SWEDEN

The Working Party noted that the Swedish retail tax would soon be replaced by an added-value tax and agreed that it would not be necessary to examine the details of the retail tax.

UNITED STATES

Question 1. General retail stage taxes were only levied by States and local governments. The local sales taxes were all levied at the retail level with rates which seldom exceeded 1 per cent. Single-stage retail taxes were levied in forty-four States and the district of Columbia. Generally these applied to all sales at the retail stage. Materials which became part of a final product were, however, generally exempted. Some States exempted fuels and machinery, but others

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1Norway has changed over to a system of tax on value added on 1 January 1970. See also Annex G "A short description of the Norwegian tax reform", page 225.
taxed capital goods. Goods which are subject to specific State excise taxes (e.g. motor fuel) were exempt from sales taxation in many States. Food and clothing were also often exempted. Services were sometimes taxed, sometimes not. The rate of tax varied from 2 per cent to 6 per cent; the commonest rate was 3 per cent. Other delegations pointed out that, while the rates of taxation were low, a tax at a given rate at the retail level had a much greater effect than the same rate applied at the wholesale or manufacturing level. Some delegations added that because the tax was levied on the full price of goods at the retail stage the United States in effect applied the same principles as countries with an added-value tax. The representative of the United States said that his delegation did not agree with this interpretation.

Exports normally took place at a stage prior to the stage at which the tax was levied. Imports from other States were taxed at the same rate as internal sales. Goods from another country were usually imported at a stage prior to the retail stage and taxed at the retail stage in the same way as goods produced within the State. Taxable goods which were purchased outside and brought into the State were often subject to a use tax in addition to the retail tax which may have been paid in the other State. The use tax was generally levied on the same basis, at the same rate and on the same range of goods as the general retail tax. It was normally difficult to administer this tax. Administration was not a problem for automobiles and trucks (which had to be registered) nor for inter-State retail sales by large mail order houses and department stores which acted as the collecting agent for the State to which the goods were delivered. Actual enforcement of use taxes was generally limited to these cases. Many States allowed sales tax paid to another State as a credit against the use tax if this were higher than the tax already paid, but there was no general rule. Delegations also observed that, in practice, the principle of country or region of destination appeared to be applied. The representative of the United States said that practices varied and that it was not possible to generalize.

Question 2. State retail sales taxes were applied to all sales of taxable goods and services at the retail stage. Goods imported from out of the State or from abroad at a stage prior to the retail stage were treated in the same way as domestic goods.

Question 3. The tax basis was generally the purchase price. In some States the tax was imposed on the seller. In such cases the tax basis was generally the gross receipt of the seller at the retail stage less cash discounts and returns.

Question 4. There was no general rule.

Question 5. The general sales tax was intended to be levied only once on an article. Sales of goods for resale were therefore not generally taxed. Sales of raw materials or components which would be physically incorporated in another product were also normally exempt. Other purchases by businesses of goods and services, which might be used or consumed in further production but were not
physically incorporated in another product, were generally subject to tax. No
border adjustments were made for those taxes paid by producers.

Question 6. The answer to the first part of the question was no. Asked whether
there were products not produced domestically which were nevertheless subject to
tax, the representative of the United States said that there were few products
which were not produced somewhere in the United States but that individual
States of the Union might impose taxes on goods which they did not produce.

Question 7. Inter-State and foreign transactions were treated in the same way.

Question 8. Small tourist purchases in other States were in practice exempt
from use tax because the States did not have the machinery to pick up those cases.
Small mail shipments were taxed if the shipper was a large retailer or mail order
house (see Question 1).

YUGOSLAVIA

Introduction

The representative of Yugoslavia said that they had only one form of
indirect taxation, namely the turnover tax which was levied at a single stage,
generally the retail stage and at the wholesale stage in the case of sales to
"major consumers" (for example, public establishments), on products as well as
certain services and transactions. Sales to registered traders were tax free.

Products intended for the manufacture of other goods (raw materials,
equipment, energy, components) were purchased tax-free subject to a written
declaration by the purchaser. The following were certain exceptions to these
tax principles: sales of petroleum products (fuels and lubricants) were subject
to the tax regardless of subsequent use, the only exception was the petro-
chemicals industry; purchases which entered into the "overheads" in the accounts
of undertakings (furniture, office machines, passenger vehicles but not lorries)
were subject to the tax. In these cases no distinction was made as to whether
these goods were purchased by the consumer or the producer.

The tax might be charged at the Federal, republican or communal level.
These taxes were based on the same general principle, i.e. a single-stage tax,
charged at the moment when the goods concerned were transferred from the trade to
the consumer (or to a party required to pay the tax on certain purchases, even
though it might not be a consumer in the economic sense of the term). The tax
base was fixed by Federal legislation but the politico-territorial units (other
than the Federation) were free to fix the rates of the tax within their
jurisdiction. The Federation had the authority to set ceiling tax limits at the
level of the republic and the commune if the national economic situation made it
necessary. The taxes introduced by the republic and communal authorities were
only chargeable on retail sales. In order to ensure that the budgetary burden
was not passed on fron one region to another, the republics and communes had no
authority to tax sales by producers and wholesalers. The Yugoslav system provided for certain tax exemptions which were listed in full in document Spec(68)88/Add.2. The exemptions covered products which were subject to the tax in principle but had been exempted by law. According to the overall definition set forth in the Federal law, the turnover tax could be charged in principle only at the final consumption stage (subject to the exceptions mentioned above), and in addition on the following services and transactions:

(1) Gross income from exchange transactions in goods and services with other countries; (2) gross income of wholesale trade within the country; (3) gross income by banks from credit and other banking services. The republics and communes were authorized to impose turnover tax on craftsmen (with exemption for services which they rendered to the enterprises), lotteries, the various forms of pari-mutual betting, admission tickets for cinemas, sports events, etc.

The tax base was the selling price of products; the tax was added to the price and not included in it. In certain cases, however, the tax was calculated according to the quantity and quality of the product (packets of twenty cigarettes of a certain specified quality, petroleum products, according to the type of product and octane strength).

In principle, in the Yugoslav turnover tax system there was no need for adjustments at the border as the tax was charged only at the consumer stage (either at the retail or wholesale stage). With a few exceptions, manufacturing undertakings were exempted at all stages of production. Exports were not subject to the tax nor imported products that would not have been taxable if they had been manufactured in the country. Most imports of taxable goods were carried out by registered traders who could establish tax-free stocks. The tax was charged upon transfer from the trader to the consumer. Imported products were then normally charged with the tax as if they were domestic products.

Question 1. In theory, the system of levying the turnover tax avoided physical adjustments. As an exception to this principle, imports of products by individual persons for their own account and by enterprises which directly imported, for their own requirements, were taxed in the same way as if these products were bought in the domestic market.

Question 2. When the customs duties had been paid, there was no differentiation in sales tax liability between foreign goods and domestic goods.

Question 3. The evaluation basis for the tax was the sale price, except in cases where the imposition of the tax was based on quantity (kilogramme, unit, hectolitre, etc.). The tax was not included in the sale price, but added thereto.

Question 4. Control was carried out by a special organization called the Social Accountancy Service (SDK). This organization offered a specialized service which undertook all payments and other movements of funds for the enterprises and the banks (cash payments and transfers from one account to
another. Within this organization a specialized service was authorized to check the activity of the enterprises only from the legal standpoint, not from the economic standpoint.

Question 5. Raw materials, components, capital goods and all other products which were used for the production and transport of other products were not subject to the tax. In these circumstances, no border adjustments were made. Imports of the products mentioned above were subject to the same treatment as domestic products.

Question 6. No.

Question 7. Regional taxes were collected entirely at the retail trade stage. Accordingly, they theoretically applied to local consumption and were not transmitted by the price mechanism from one region to another. There were no inter-regional differences in the tax system but the rates differed. However, the range of these differences was very small. There was no inter-regional border compensation. This was valid both for domestic and foreign products. Where differences in rates existed, these applied to groups of products and not to a particular product. Consequently, equal treatment was ensured for domestic and foreign products.

Question 8. Deliveries from abroad were exempted from the tax whenever the customs regulations provided that certain imports should not be subject to the payment of customs duties. Exemption from customs duties automatically implied tax exemption; apart from these cases, the general rules were applied. Foreign tourists could buy industrial products with a rebate of 10 per cent on the retail price. These purchases could be made only in shops which are under special control.

Other

It was noted that in July 1968, 3 per cent tax was introduced in Yugoslavia on all imports requiring border adjustment for certain special contributions (a contribution for eliminating the consequences of natural catastrophies; a contribution for the development of power supplies; the interest on the value of the fixed capital intended for the development of the less-developed areas; a contribution for the exploitation of water power). The burden borne by the Yugoslav economy on account of these contributions was on the whole equal to this value of 3 per cent. It was obvious that differences might exist from one year to another due to the fact that the contributions in question were calculated on a fixed basis. Accordingly the burden might vary in accordance with the degree of progress of production.
3. **TAX ON VALUE ADDED**

Section I A(c) of the Outline deals with value-added taxes. The following are the relevant questions:

1. How general is the tax? Is it charged on all deliveries of goods and on all services? If not, which transactions are not subject to the tax? Are there other specific taxes on these transactions, and, are they deductible in the TVA system? If there are any sectors of the economy or classes of goods on which the TVA is not charged in the normal way, are these differences reflected in the border adjustments?

2. Are there any important exemptions from the right to deduction within the TVA system resulting in an accumulation of taxes? If so, is such accumulation compensated at the border?

3. What is the basis for valuation? F.o.b., c.i.f.-duty paid?

4. Is there a system of minimum exemptions from the adjustment for tourist purchases, small mail shipments, etc., on exports and imports?

5. What are the consequences of the technical application of a tax on value added? Which is the relevant feature in the context of border tax adjustments?

6. In view of the fact that unpaid taxes at one stage are collected at subsequent stages, what need exists for a border adjustment on imports other than for sales across the border to final consumers?

7. Are there products, which are not produced domestically, which are nevertheless subject to an import border tax?

** Replies by delegations:**

**GENERAL**

At the request of the Working Party, the representative of France agreed to outline the basic characteristics of a tax on the value added. Historically, the tax on value added seemed to be the culmination of an evolution designed to overcome the disadvantages of cascade and single-stage turnover taxes. From the economic point of view, the value added system made it possible to determine precisely what amount of tax was charged on a product or a service at the end stage of delivery to the consumer or the user, so that this charge could be uniform, whatever the conditions of production and the methods of distribution.

The tax on value added was an indirect tax on consumer expenditures. Its principal aim was to secure revenue. It was thus a consumption tax and, although it was paid by the traders, it was never a final burden on the undertaking. Because of its character - an indirect tax on consumer expenditure - it was a
taxation method especially suitable for countries in which it was difficult to impose heavy income tax and in which tax rates had to be adapted to the nature of expenditure, in particular so as to lighten the tax charge on current consumer goods. This effect could not be obtained with a tax which could not be reflected in the prices and would fall even partially on the profits of the enterprise.

The tax on value added was a single ad valorem tax payable, at the consumption stage, on the prices of products and services at a uniform percentage rate. To obtain such a result, the end charge had to be the same regardless of the origin, domestic or foreign, of the products; the manufacturing process (integrated or not) and the length of the distribution channel; or the number and amount of the taxes charged on intermediate transactions.

From the technical angle of tax administration, this result was obtained by the procedure of "fragmented payments" of the tax on value added and the tax-from-tax deduction. In accordance with this procedure, the tax on value added was paid by the seller at each stage of production and distribution; he invoiced the amount and the purchaser was entitled to deduct it from the tax on value added to which he was liable in respect of his own sales.

The tax was thus settled by fragmented payments - which made settlement easier - and on a price which progressively incorporated the value added at each stage. At the end stage, the tax was levied on the price paid by the end-consumer, at the rate selected for the product or service concerned. In principle, the same result could be obtained by a single-stage tax system which would be applied only at end sale to the consumer and, in previous stages, would comprise a system of tax suspension.

Such a system would carry serious disadvantages, however, from the aspect of tax technique. On the other hand, the system of fragmented payment made it possible; by fragmenting the payment, to lighten the tax bill of the taxpayers; to secure greater regularity in tax collection; to facilitate tax supervision and to prevent tax evasion; and, because the tax was invoiced at each stage, to enable the precise and normal incidence of the tax to be carried through the prices up to the consumption stage. The means available to the tax administration for obtaining payment of the tax made it possible to keep tax evasion to a minimum.

The essential point which emerged from this analysis was that the tax on value added was an element in the price of products and services only at the end stage - delivery for consumption.

At the intermediate stages of production and distribution, the tax on the constituent elements of the price (equipment, means of production, raw materials, packaging, overhead, sales and transport costs, etc.) was cancelled by deduction of tax, the amount being shown separately on the invoices. The result was that, at these intermediate stages, only the "tax-free" prices were taken into consideration in determining the trade policy of the buyers and sellers.
As regards border tax adjustments, one might also conclude that the tax on value added did not admit of any such element. By definition, the adjustment was a tax measure, based on the principle of destination, enabling exports to be exempted from the tax levied by the exporting country and imports sold to the consumer to bear the tax levied on domestic products in the importing country.

It ultimately amounted to cancellation (at export) and restoration (at import) of the tax burden which the domestic product had borne or would have borne at stages prior to those of import or export. In the tax on value added system, the process of deductions cancelled any residue at export and the application of the tax on value added to the value of imported products eliminated any need to "restore" taxes that the like products of domestic origin would already have paid, since it exactly offset their amount. This system avoided any arbitrary single-stage calculation. There was no danger of under-compensation or over-compensation. Just as inside their countries, importers and exporters bought and sold as on the basis of "tax-free" prices.

FRANCE

The representative of France then supplemented the general outline of the tax on value added, by describing the particular features of the French system.

Question 1. In France, the tax on value added was levied on the major part of deliveries of goods and the whole of services bearing on business activities. In principle, other activities (liberal, agricultural, for instance) were not bound to pay the tax; but transactions in connexion with such activities might be subject to the tax at the option of the parties concerned.

However, there were exemptions which are based on:

- social, general utility or public considerations (work not for pecuniary gain, memorials, products under monopoly, transactions by State organisms on public communities, press, real estate transactions of general interest);

- the application of a special taxation which excludes the application of the tax on value added (financial activities, insurances, trade exchange transactions, shows, business concerned with antiques and collectors' pieces);

- the fact that the products are generally valueless (used operational goods) or have been recuperated for manufacture (e.g. new industrial waste).

Specific taxes (excises) applied to certain products (spirits, wines, petroleum products, for example). These taxes could not be deducted from the tax on value added and at later stages in the distribution chain tax on value added was calculated on the whole price, including excise tax. Coffee and tea had not been subject to a specific single tax since 1 January 1968.
Smaller enterprises enjoyed a diminished taxation régime, defined on the basis of the amount of tax that they would pay under the régime of common law. The tax on value added was not collected if its annual amount did not exceed F 800. When this amount was more than F 800 and less than F 4,000 (or F 10,400, in the case of craftsmen entered in the Trade Register), the tax was reduced by the application of a tax relief factor ("décote") which graduated the taxation normally levyable from 0 per cent (F 800) to 100 per cent (F 4,000 or F 10,400). This special system of tax calculation was established on the basis of the fixed sum which determined the tax theoretically payable, particularly in the light of applicable deductions. It benefited only the very small enterprises and - if it could not be taken into account at the frontier - could not have an appreciable effect on foreign trade.

With effect from 1 December 1963, the ceiling for exemption and the scale for applying the tax relief factor have been raised respectively from F 800 to F 930 and from F 4,000 (or F 10,400) to F 4,650 (or F 12,100).

It had also been necessary to make special arrangements for applying the tax on value added to agriculturists, whose taxation required transitional provisions. Normally exempt from tax on value added (as their activity was not commercial), agricultural workers might enjoy a system which simplified their tax obligations for filling in their tax returns, paying the tax and deductions.

Asked how the difference between this system and the normal tax on value added system was handled at the border, or whether it was assumed that the two systems had the same effect, the representative of France emphasized that any differences in treatment were equalized when the goods left the agricultural sector, i.e. at the processing stage, when the normal tax on value added system was applied. This meant that there was hardly any effect on imports and exports.

Other delegations welcomed the offer of the French delegation to attempt to collect figures assessing the economic importance of the two special régimes applying to small enterprises and agriculture.

In reply to this question the French delegation explained that the turnover of enterprises eligible for the standard-amount régime (small enterprises) was of the order of 9.70 per cent of overall turnover, and that agricultural production accounted for approximately 8 per cent of gross internal product.

Question 2. Normally, the deduction at each stage of the tax invoiced by the suppliers of goods and services should avoid any accumulation of taxes within the framework of the tax on value added. There were, however, certain exceptions. The most important concerned the tax on value added levied on certain petroleum products which could not be deducted by users from the tax due under the heading of their taxable transactions. This was a historical survival retained for budgetary reasons. The resulting accumulated taxes penalized French businessmen and carriers and were a burden on the costs of exports. No import compensation was applied at the frontier.
In addition, the normal operation of the deduction might be hampered when - for a tax period - the amount of the tax that could be deducted was higher than that of the tax due under the heading of taxable transactions. The credit surplus was then carried forward to be debited to the tax due for the following months. In this case, which might arise, for example, from the acquisition of a sizable investment or an increase in stocks, there was no tax accumulation but a delay in these deductions which took the form of an additional financial effort. For an exporter in such a situation, the refund of the tax levied on his purchases was limited to an amount calculated from the volume of his exports in the month under consideration. In principle, his financial situation was thus aligned with that of a producer effecting the same volume of domestic trade.

Questions were asked by some delegations regarding special problems connected with purchases of capital goods; these arose from the fact that while, for sales on the domestic market, where tax paid on purchases was greater than the tax liability arising on sales, excess credits were required to be carried forward to the next period and were not refunded in cash. However, in the case of such excess credits generated by an exporter, the producer might be paid the credit in cash. This would constitute a clear incentive to export and was a question to which the Working Party might wish to return. The representative of France said that no complaints of this sort had been received from traders; his delegation would be prepared to answer any further questions on this point. He merely wished to recall that, as just explained, such an arrangement could not be an incentive to export, since the exporters' situation was aligned with that of the vendor in the internal market.

**Question 3.** The basis utilized at the border was, for exports, the f.o.b. value and, for imports, the c.i.f., duty paid value. Asked why the c.i.f. value was preferred to the f.o.b. value in the basis for the tax on the import side, the representative of France said that it was logical to find in the valuation basis the whole of the cost elements of the products at the time of importation. It was also pointed out that the way in which a tax on value added operated made the precise basis of valuation of very little importance (see question 6).

**Question 4.** There was no border adjustment for articles purchased by foreign tourists or for small parcels; exemption is automatic, subject to justification of export. On the import side, for small parcels introduced by French tourists, the tax on value added was collected at the same time as the customs duty as a single sum. Exemption was tolerated for articles of very little value.

**Question 5.** It was explained in the general outline of the tax on value added that its technical application was of no effect as regards border tax adjustments, since it was possible by means of this technique to withhold "tax-free" elements both at importation and exportation.

**Question 6.** The effective application of the tax on value added on imports - in spite of the possibility of "catching up" at subsequent stages of marketing - was imperative for the following reasons. Fragmented payment was the general rule and
Importation was a lawful tax-triggering operation. It was convenient to combine collection of the tax with collection of the customs duty and this facilitated subsequent supervision of the tax. It was indispensable to apply their own appropriate rate to imported goods. If the tax were not first levied at importation but at a later stage, the importer would be favoured at the expense of the producer or the tradesman who, at home, had bought similar products on which the tax had been levied. The delay would have harmful effects on the internal economy. This question had been discussed in the European Economic Community. The decision was to apply the tax on value added at importation - except as regards goods in transit or in by-law for exports.

**Question 7.** The tax on value added was an indirect tax levied on domestic consumption of products, whatever their origin. Thus, goods not produced at home were normally taxed on importation under the same conditions as similar goods produced domestically. It was not a "tax adjustment".

**Other**

Only "business done in France" was subject to the tax. French tax legislation - and that of other countries - granted tax on value added exemption on transactions dealing with exported goods. The law treated goods and services not used in France in the same way as exports. The delivery, repair and transformation of sea-going vessels, and aircraft intended for French airline companies, the international traffic of which amounted to 80 per cent, were therefore exempted. The following services were considered to be utilized outside France: transactions carried out for the requirements of the ships and aircraft and transfers to foreign countries. This was an application of the general principle of tax territoriality.

Tax on value added was levied at four rates. This was partly a carry-over from the previous system and it might be possible in the future to reduce the number of rates. In an answer to a question, the representative of France said that newspapers, rather than newsprint as such, were exempt from tax.

**FEDERAL REPUBLIC OF GERMANY**

With regard to the general effects of the tax on value added introduced in the Federal Republic of Germany as from 1 January 1968, reference was made to the explanations by the French and the Danish delegations and to the documentation already available to the Working Party - Federal Republic's description of the Turnover Tax Law of 29 May 1962 contained in their memorandum in the OECD - (OECD document TC(68)6 of 29 May 1966), to the Report on tax adjustments applied to exports and imports in OECD member countries, and to GATT document Spec(68)88/Add.2, pages 4 and 20-22.

The main reasons for introducing the new system were economic, legal and political.
From the economic point of view, the old cascade tax system led to distortions in competition for both home-produced goods and imported goods. The tax burden on home-produced goods depended on the number of production and distribution stages subject to the turnover tax. The tax burden was therefore higher if a product passed through many stages of independent enterprises than if a product had been produced by highly integrated firms. This system favoured highly integrated firms and was disadvantageous for non-integrated firms, i.e. most medium or smaller enterprises. At the border only an average taxation was possible. It could be that the compensation level was insufficient; it could be, on the other hand, that there was over-compensation which placed imports at a disadvantage. The degree of compensation could vary from product to product and from enterprise to enterprise. These distortions gave rise to many discussions, particularly in the EEC where a remedy for the existing weaknesses of the turnover tax system became an urgent need.

From the legal point of view, the inequality of tax treatment as between highly integrated firms and small- and medium-sized firms, gave rise to trials before the Federal Constitutional Court by reason of violation of the principle of equal tax treatment. The Court decided that in the long run the existing cascade systems had to be brought into line with this principle.

From the political point of view, in order to prepare the removal of tax frontiers within the EEC, a tax harmonization was necessary. This tax harmonization could not lead to a turnover taxation with all the weaknesses of the cascade system. The Council of the Communities had therefore decided to pass to the tax on value added system, which was neutral to competition and avoided the distortions existing under the old system. The adoption of an international system of turnover taxation neutral to competition was an indispensable measure if artificial distortions of international competition were to be avoided and international trade was to be developed on an equal basis. This system was not only legally but also economically in line with the principles of GATT and OECD.

**Question 1.** The tax extended to all business transactions, i.e. it was imposed on:

(a) deliveries and other operations carried out by an entrepreneur for gain within the scope of his enterprise;

(b) private use, i.e. withdrawal or use of articles from an enterprise for purposes outside this enterprise;

(c) the importation of goods into the customs territory.

The law provided the following categories of exemptions:

(a) exports and transportation of goods across frontiers;
(b) turnovers in the fields of inland navigation, of financial transactions, of transactions subject to certain transfer taxes (i.e. sale of real estate), of letting and leasing of real property and similar transactions;

(c) medical services and a number of operations in the social and cultural fields, insurance services, turnovers from the activities of building and most operations involved in capital movements.

In cases (b) and (c), the exemptions were not combined with deduction of prior-stage tax, but in cases under (b) the entrepreneur might choose taxation under the normal procedure. In connexion with these transactions there might be other specific taxes which were not deductible in the tax on value added system.

There were some average rates for certain groups of entrepreneurs which should not lead to a tax liability basically different from that which arose under the normal system. There were, furthermore, average rates for agricultural and forestry enterprises. If the goods produced by such enterprises were sold to final consumers, the general tax rates, i.e. those which apply both to home-produced goods and to imports, were applicable. Therefore, the differences between the normal system and the system of average rates was not reflected in the border adjustments.

Other delegations said that a bias in favour of domestic producers might exist for certain products, e.g. animal feed, which are the subject of transactions within the agricultural sector, but which are consumed in the sector and which never enter normal commercial channels.

**Question 2.** Pre-tax deductions were not allowed in the following cases:

(a) an entrepreneur carrying out inland transactions that were exempt from tax;

(b) for small firms with a total turnover of not more than DM 60,000 per annum, a special taxation procedure was applied.

In these cases, which were not of great importance, a certain accumulation of taxes could arise. This accumulation was not compensated at the border. Furthermore, no prior stage tax could be deducted if goods were imported directly by private consumers. Accumulation of taxes might occur in the case of inventories on hand on 1 January 1968 where the law allowed merely the deduction of part of the old cascade tax and in the case of capital goods where the old cascade tax, which on 31 December 1967 still burdened fixed assets, could not be deducted. As from 1 January 1968, a degressive investment tax ("Steuer auf den Selbstverbrauch") was levied on new capital goods for a transitional period. That meant that German trade and industry would shoulder tax costs which would deteriorate their position in international and national markets.
Question 3. The basis for valuation was the agreed consideration with the recipient of the transaction. The turnover tax did not form part of the assessment base.

Question 4. There were certain exemptions for tourists and small shipments in line with the exemptions from customs duties granted in these cases (e.g. personal effects, clothing, goods with a value not over DM 100 - food not over DM 20 - gifts with a value not over DM 100 under certain conditions, etc.).

Question 5. The delegation of the Federal Republic supplied a written statement on this particularly important question. This is reproduced in Annex B to this note. It should be emphasized that at all stages, the incidence of tax formally corresponded to the nominal tax rate. Goods subject to the same tax rate bore the same burden of tax, irrespective of whether they were home-produced or imported and irrespective of the number of stages which each of them might have passed.

The device used to assure uniformity was the "deduction of prior-stage tax". This concept was the main feature of turnover tax legislation. It implied that any entrepreneur was allowed to deduct from his own tax liability the tax invoiced to him, including tax paid on imports. The operation of this system resulted in the fact that, all along the line of entrepreneurs, turnover tax did not become an element of cost and therefore did not need to be taken into consideration by an entrepreneur for cost accounting purposes. It was only on turnovers to private consumers that the tax became a genuine financial burden, since the latter were not entitled to deduct prior-stage tax.

Question 6. From a purely economic point of view, there was no need for border tax adjustments on imports. But this adjustment was in line with the system of fractional payments of the tax and it was necessary for sales to final consumers or entrepreneurs not subject to value added taxes. Furthermore, it facilitated the necessary tax controls. The economic effect of the value added tax was very close to that of a retail tax. All sales prior to the sale to the final consumer were practically tax-free, owing to prior-stage tax deduction. It was only for technical reasons that the tax liability had been divided into several stages, one of these being the import stage. The economic effect would be the same if the whole tax, including the tax on imports, were collected at the final stage, i.e. when sold to the consumer. Other delegations noted that the representative of the Federal Republic had said that the economic effect of tax on value added was "very close to" that of a retail tax, that this question had been examined in detail in other fora, that the views of different delegations were not identical on the question but that it might be necessary for the Working Party to return to it when it examines the trade effects of border tax adjustments.

In answer to questions, the representative of the Federal Republic said that cars used for business purposes were subject to the same rules as apply to capital goods. Tax on value added on petroleum and diesel fuel, but not excise duties on these products, was deductible.
It was noted that newspaper pay a reduced rate of tax on value added (5.5 per cent) while newsprint pays the normal tax rate of 11 per cent. The representative of the Federal Republic pointed out that this did not act to the disadvantage of suppliers of newsprint since consequently producers of newspaper could claim the deduction of the higher tax paid by the supplier of the newsprint.

Other

The excise taxes on tea and coffee had not been changed in connexion with the introduction of the added value tax. The rate of added value tax on coffee and tea was 5.5 per cent. If this rate was compared with the former taxes levied on all stages, the whole tax charge had not been increased.

NETHERLANDS

Question 1. The Netherlands would introduce a tax on value added on 1 January 1969. The shift over to the tax on value added system was based upon a decision of the EEC taken in April 1967. This decision had been taken with a view to achieving two objectives: to take the first step towards complete harmonization and to abolish the well-known disadvantages of the cascade system - the distortion of competitive relations between integrated and non-integrated firms and the necessity to average the tax burden to be compensated for at importation and exportation. The Netherlands delegate further stressed that this decision of the EEC was welcomed by the Dutch Government. A lack of Government revenue could - at least in the Netherlands - hardly be covered by raising direct taxes. Indirect taxes could - politically speaking - be raised more easily. A turnover tax levied according to a cascade system could not, practically speaking, be levied at a rate much above 6 per cent because the disadvantages of the system grew worse when the general rate exceeded this level. A tax on value added system offered more possibilities in this respect.

The tax would be levied on all entrepreneurs carrying on a business or profession independently. All deliveries of all kinds of goods, all services, and all imports would be subject to the tax.

The tax was paid quarterly, the tax involved to the entrepreneur being credited against the tax due. If the amount to be credited exceeded the amount to be paid, the difference was reimbursed to the entrepreneur upon request. The general rate of the tax was 12 per cent on a tax-exclusive basis. There was a 4 per cent rate for listed goods, which were mainly essentials like foodstuffs.

There would also be nil rates and exemptions. The difference was that if a nil rate was applicable, the entrepreneur remained entitled to pre-tax deduction, whereas if an exemption was applicable, the entrepreneur lost his right to pre-tax deductions. A nil rate applied to all goods destined to be exported or to be stored in a bonded warehouse, to ships and airplanes used in international traffic and to international transport. The list of exemptions included some deliveries of immovables and further services of a social or cultural nature.
Farmers were not subject to the tax in so far as they made deliveries of goods listed in the 4 per cent rate list and in so far as deliveries of other goods did not go beyond an amount of f. 10,000 a year. Entrepreneurs who bought from those farmers were entitled to a fixed pre-tax deduction of 3 or 4 per cent. As in other countries, farmers could, however, choose to be subjected to tax in the normal way.

There was also a provision in the law for small businessmen who would not have to pay tax if the tax due by them was less than f. 1,200 a year. The tax was levied on imports in the same way and at the same rates as for domestically produced goods. As in all other countries, the Netherlands had excise taxes which were levied on the producer and which were included in the producer's selling prices and the selling prices of subsequent dealers. The tax on value added was levied on the selling price, excise tax included, so that there was, in this respect, cumulation of indirect taxes.

Question 2. The Netherlands delegation recalled the exemptions of tax for which pre-tax deduction was excluded. It had further been decided that, as a transitional measure, with respect to investment goods, the pre-tax deduction was reduced for investments in 1969 to 30 per cent, for investments in 1970 to 60 per cent, and for investments in 1971 to 90 per cent. Only in 1972 would a 100 per cent deduction be achieved. This meant that in those three years there would be a difference in the tax burden between the imported product and the home-produced item in favour of the imported product.

Question 3. On importation the tax was charged on the import value (the value for customs purposes included transportation costs) plus all Netherlands taxes and customs duties with the exception of the tax on value added itself.

Question 4. Tourists were allowed to import tax-free goods up to a value of $25. Tourists were not allowed to buy tax free in shops, except for the tax-free shop at the airport of Amsterdam.

Questions 5 and 6. The Netherlands delegate referred to what had been said by his French and German colleagues.

Question 7. The Netherlands delegate answered that, as the tax on value added was a tax on internal consumption, the tax was also levied on imported goods which were not produced domestically.

Other

In reply to a question, the Netherlands delegate said that practically all farm products would be subject to the 4 per cent rate.
In reply to questions he said that tax charged on private cars bought by firms for business purposes was deductible. These were treated in the same way as trucks as investment goods. The tax charged on petrol and diesel vehicles when used for business purposes was also deductible as was the tax charged on fuel oils used industrially.

EUROPEAN COMMUNITIES

In answer to questions, the representative of the Commission outlined the action taken by the Community in this area. A decision to adopt a common system, the tax on value added, had been taken on 11 April 1967. Further objectives were the adoption of a common rate of tax and the elimination of tax frontiers between member States. In answer to further questions the representative of the Commission said that a directive had been drafted proposing that the collection of the tax at the frontier should be suspended for intra-Community trade in agricultural products to allow more fluidity of trade in these products. He stressed that such a suspension was possible only when certain prerequisites had been fulfilled. The problem was different for intra-Community trade and for trade with third countries since, in the case of the latter, customs control was necessary in any event, and the valuation for customs purposes was also used in the calculation of tax on value added. He stressed however that, on the other hand, the importance of the questions raised should not be exaggerated, given the recuperation effects of the added-value system.

Some delegations said that it might be useful to the Working Party if at some stage the Community could lay out in some detail, the rationale for the necessity of adjustments at the frontier at all. Given the importance which was attached to this question it was inadequate to defend the making of such adjustments on the grounds of convenience. The economic advantage that would accrue to imports if the collection of the tax were postponed to the next step in the distribution channel would be very small, and, after examination these delegations had satisfied themselves that it would be technically feasible to do away with adjustments at the border.

The representative of the Commission explained that the collection technique was largely determined by the concern to ensure that the tax was collected accurately and in full. For imports, the most appropriate moment for collecting the tax was, as at all other stages, the moment when the transaction took place, i.e. customs clearance. Even if it were technically feasible to depart from the general rule and eliminate collection at the frontier, such a procedure would considerably aggravate the risks of evasion. If the import transaction was not recorded in the accounts of the importer, the latter could resell the imported product, charge it to the TVA and keep its receipt. This very serious risk did not seem justifiable simply in order to eliminate the apparently purely optical disadvantage of collecting the tax at the time of customs clearance. See also in this connexion the replies by France - page 41 question 6 - and by Germany - Annex B on imports.
DENMARK

The Danish tax on value added had been put into force in July 1967. It had replaced a single-stage wholesale tax with a narrower coverage. The wholesale tax had created distortions in the economy affecting prices, production and trade and arbitrary decisions had had to be made when imports were made at the retail stage and in cases where firms were both wholesalers and retailers.

A single rate, of 12 1/2 per cent of the tax-exclusion commercial turnover, was used. It was pointed out that other countries with tax on value added systems usually had more than one rate. It was not clear that one rate was necessarily easier to administer than more than one and a single rate system might be regressive since the same rate would apply to basic foodstuffs as to other goods. The representative of Denmark said that the use of a single rate made control at the retail stage much easier and that this was an important consideration. He also said that his authorities continued to rely on selective excise taxes on non-essential goods, which provided a progressive element in the tax structure.

Question 1. All new and used goods (except ships, planes and newspapers) and a wide range of services were covered. Exceptions were made for banking and insurance services, rental of rooms, health services, education, postage of letters and transportation of passengers.

Goods exported were tax free. Most of the traditional specific taxes remained. Tax on value added was levied on top of these taxes which were not deductible in the tax on value added system. The tax on value added was charged in the normal way on all sectors of the economy but if the taxable turnover was below a very small amount (DKr 5,000 a year) no tax was charged. Delegations noted with interest that although the small farmer did not normally come under the tax on value added system in France, farmers did pay tax on value added in Denmark. The representative of Denmark confirmed that there were no special regulations governing agriculture except for certain practical adjustments with regard to the tax period to take into account the seasonal cycle which dominated the farmer's economy. It was the extensive use of co-operatives, which kept adequate accounts, which made this possible. In answer to questions on certain provisions of the tax on value added law, the representative of Denmark said that, under certain circumstances, farmers were not obliged to make out invoices for goods and services exchanged between farms. This provision took into account the long tradition of exchanges between neighbours in the agricultural sector. It did not affect the final tax burden on goods leaving the sector.

Question 2. There were no such important exceptions, but in a few cases an accumulation took place, for instance in the case of passenger transportation, which was tax free. The tax on value added paid on passenger cars by firms could not be deducted by them. Such accumulation was not compensated at the border.
Question 3. The basis for border tax adjustments was f.o.b. for goods exported and c.i.f. for goods imported. This c.i.f. basis was apparently a matter of special importance for some delegations. He said that the economic effect of the tax on added value was equal to the effect of a general retail tax. Goods produced in distant countries had to bear heavier c.i.f. costs, but the retail price of these goods had, ceteris paribus, to be the same as those produced in neighbouring countries since they competed on the market. This might be a somewhat simplified model of the economic process but if this were so, the differences in costs of transportation and insurance were not included in the selling prices and were consequently not taxed.

Question 4. Goods imported by tourists were exempt from tax on value added according to the regulations allowing for duty-free importation. Tourists might, under certain conditions, buy goods free of tax.

Question 5. This important question had been dealt with at length by the French delegate, and what he had said was, of course, also valid for the Danish tax on value added. Goods exported were exempt from the tax and all - or nearly all - the tax elements paid previously during the production and distribution of these goods were automatically deducted. Taxes paid on capital goods were deductible according to the normal rule, and negative balances were offset in cash, also according to normal procedure. Goods imported by a registered firm, on the other hand, went into the tax system and were treated exactly as other goods were treated.

There was, however, a small difference in the Danish system which called for special comment. The normal tax rate was, as previously stated 12 1/2 per cent on the tax-exclusive selling price. Imported goods were taxed on importation, but when the importer was a registered firm the rate applied was only 9 per cent. It was important to understand that this did in no way result in a final tax burden of less than 12 1/2 per cent. When the importer sold the goods his tax liability would be 12 1/2 per cent, but the importer would have only the 9 per cent deductible. In answer to questions, the representative of Denmark said that if there was no rate differential the importer would be at a slight disadvantage because he had to pay tax based on the full price of the product somewhat earlier - a domestic producer would be able to give the wholesaler credit for the goods plus the tax, while the importer would be able to give credit for the goods only. If, on the other hand, the tax was not levied on importation, the importer would be at a slight advantage. The introduction of the 9 per cent rate at importation was a compromise between these two situations, and was a pragmatic attempt to put imported and domestically produced goods on an equal footing.

Question 6. This question had been widely discussed and was still under consideration. It was useful to exercise some control at the frontier and, as had been explained, the elimination of adjustments at the border would mean some disadvantage to the domestic producer as compared to the importer. He was, however, inclined to believe that the importance of this question could be exaggerated.
Other

The representative of Denmark made the following points in reply to questions:

In the tax on value added system, tax paid on capital goods could be deducted from the tax payable in the tax period in question; if the balance of payment was negative, the firm received payment in cash corresponding to the negative balance.

Tax became due on the delivery of the goods rather than at the time of payment but discussions on this were still continuing.

The rate of tax on imported citrus fruit was the same as the tax on other fruits.

The legal provisions granting discretionary authority to the Government to make exemptions in certain cases had been used in very few cases, e.g. in connexion with sales by the blind of their own products.

The transportation of passengers was exempt from the tax; as a result, purchases by firms of passenger cars and fuel for use in these cars could not be offset against liability to tax on value added.

Norway

A. (c) Tax on value added

The proposal by the Norwegian Government on a draft law for the introduction of a value added tax system in Norway has been dealt with by the Parliament and the result is two laws dated 17 June 1969. The first one is the law on value added tax and the second is the law on tax of investment, etc. These two laws have entered into force on 1 January 1970. The Parliament has also decided as to the rates to be applied, namely a general tax rate of 20 per cent in the case of the value added tax and 13 per cent in the case of the tax on investment, etc.

The value added tax of 20 per cent is calculated on the selling price exclusive of the tax (corresponding tax rate of 16 2/3 per cent inclusive the tax itself). The tax of 13 per cent on investment, etc., has to be paid by the buyer (enterprises liable to value added tax for its sales) in those cases where the value added tax on their purchases are deductible, cf. below.

Question 1. According to the new Norwegian law on value added tax, the tax covers both goods and services and the tax is collected at all stages of transaction inclusive the import stage. Exports of goods and services are exempted from the value added tax.
In principle all goods sold commercially are taxable, including new building constructions, electricity and water from water supply works, etc., but not immovable property. Among the exempted goods are newspapers, books and certain periodicals, fishing ships, other ships of more than 25 tons used for commercial traffic and airplanes used for the same purpose. Hiring of ships and airplanes are also exempted from the value added tax. The exemptions here quoted are specifically mentioned in the law and the enterprises engaged in these businesses have to be registered in order to be able to get advantage of the right to deduction or refund of value added tax on their purchases in the same way as other firms which are taxable for their selling activity.

Services are also liable to value added in the same way as for goods. Those services which are not specifically mentioned in the law as tax free, are exempted from the tax. These are inter alia the passenger transport, the letting of rooms in hotels, etc., services rendered by doctors, dentists, hospitals, banks, insurance companies and postal services. Enterprises which are rendering such services fall outside the scope of the value added tax system and have no possibilities of getting refund of value added tax on their purchases. The same situation arises for businesses in goods and services with a turnover of below Nkr 6,000 a year. They are exempted from tax on their selling activity and fall outside the scope of the tax system.

There are no special taxes on goods and services which are tax free or which are exempted from the tax. The only exception is used motor cars previously registered in Norway which are exempted from the system and instead liable to a special registration fee when sold. Goods subject to special selective excises are also subject to the value added tax, but the excise taxes are not deductible in the TVA system.

Goods and services exempt from the value added system are not subject to border tax adjustments. Neither are there any border tax adjustments for compensating the tax on investments etc. for goods which are liable to value added tax.

Question 2. For enterprises liable to value added tax there are, with the exception of passenger cars and entertainment expenses, no restrictions on the right to deduct tax on purchasing that could result in accumulation of taxes. These two exemptions mentioned are not compensated at the border. The special tax on investment etc. which has to be calculated and borne by the taxable firms which buys and uses the investment goods are not deductible within the TVA system, but no border tax adjustments are made for this investment tax.

Question 3. The tax base is the sales price exclusive the tax itself. For imported goods the tax base is the customs value inclusive the duty, if any, exclusive the tax itself.

Question 4. Tourists are under the value added tax system as under the existing retail tax system exempted from turnover tax according to the regulations allowing duty-free importation. Tourists may also as before under certain conditions, buy goods free of tax for exports.
Question 5. The introduction of the value added tax system in Norway is part of a general tax reform, involving a partial transfer from direct to indirect taxation comprising a total amount of revenue of about NKr 3,000 million. This is the reason why the turnover tax rate has been increased from the existing retail sales tax of 13.64 per cent to a value added tax of 20 per cent, at the same time as the coverage for goods and services for taxation is widened. The increase of the indirect taxation is however intended to be compensated by a simultaneous reduction of the direct taxation and by increased rates for governmental social security services. The tax reform is not expected to lead to changes in the total taxation but only to changes in the structure of taxation. The previous retail sales tax of 13.64 per cent was also levied on investment goods, etc., bought by the industry. Enterprises liable to value added tax have the right to deduct this tax on their purchases of investment goods, but the purchasers are obliged to pay the investment tax of 13 per cent on the same goods without possibility of having this tax deducted or refunded. There are no border tax adjustments for this tax on investments, etc., neither on imports nor on exports.

On the question whether the Norwegian Government had received any reactions on its tax reform from other countries that apply a tax on value added, the answer was no.

Question 6. The value added tax is also levied at the import stage. This is found necessary for administrative and fiscal reasons and to avoid economic disadvantages for the domestic producers as compared with the importer.

Question 7. Yes.

SWEDEN

By way of introduction, the representative of Sweden outlined the reasons which had led his country to shift to tax on value added.

He recalled that, faced with a need to increase budgetary revenue, the Swedish Government had introduced a single-stage retail tax in 1960. A decision had also been taken at that time to look into the whole question of taxation. The Royal Commission which had been appointed had recommended a certain shift from direct to indirect taxation and had recommended the tax on value added because of its flexibility and its large revenue-raising ability. One factor that had influenced the choice was that the European Economic Community had adopted the tax on value added. Not all the recommendations of the Royal Commission had been accepted but, following extensive consultations, a bill for the introduction of a tax on value added had been laid before Parliament and accepted by it in May 1968.

Some changes of a technical nature might still be made to the system, which would be introduced on 1 January 1969.
It was noted that it had been argued that tax on value added was very similar in its end result to a single-stage tax at the retail level and asked why Sweden had felt it necessary to change from the one type of system to the other, the representative of Sweden said that it was his impression that the main reason was the budgetary limitation of the single-stage tax which is not effective if the rate is above 10 to 12 per cent.

**Question 1.** The Swedish tax on value added covered both goods and services. Imports were liable to tax and exports exempted.

In principle, all goods sold commercially were taxable, including buildings constructed and sold by building enterprises. Among exempted items were fishing ships, other ships of more than 20 tons used for commercial traffic, airplanes, electrical energy and fuels, certain military material, certain medicines, newspapers and certain other publications.

Services were also taxable, with the exemption of, inter alia, some personal services such as haircutting and beauty treatment, and services rendered by doctors, dentists, hospitals, banks, insurance companies, certain postal services and international transport. Goods and services exempt from tax would not be subject to border tax adjustments.

Goods subject to special excise taxes would also be subject to tax on value added.

Businesses with a turnover of below SKr 10,000 per year were exempt from tax.

**Question 2.** No exemptions existed from the right to deductions within the tax on value added system that could result in accumulation of taxes. It was, however, to be noted that tax on value added on passenger cars was not deductible even when the purchase was made by a business enterprise. On the other hand, no tax on value added was charged on second-hand cars.

**Question 3.** The tax base was the sales price including tax. Tax on imported goods was based on the customs value increased by duty, if any, and tax. A reduced basis for valuation existed in certain cases, the only case of interest for foreign trade being that of prefabricated houses. In answer to a question the representative of Sweden confirmed that this related to the house as such and not to building materials.

**Question 4.** Tourists were allowed to take goods up to a value of Skr 275 into the country free of duty and taxes. On the export side, purchases could be made at tax-free shops. Tourists could also arrange an export transaction.
Question 5. The change from a single-stage retail tax to tax on value added was not intended to lead to changes in the level of taxation on private consumption. The tax on value added system would, however, lead to a reduction of taxation on industry and commerce, as the tax on value added on investment goods was deductible. As a practical measure to offset this, a special employers charge would be levied in the form of a payroll tax at a rate of 1 per cent of all salaries and wages. No time-limit had been fixed for this tax. To avoid transitional difficulties resulting from the shift from the previous tax on investment goods to a tax on value added, business enterprises would have the right to an extra deduction of 10 per cent from the State income tax assessment for machinery acquired during 1968. No similar arrangements had been made for existing stocks.

Question 6. A group of purely fiscal experts had proposed that tax on value added should not be levied at the import stage but all the interested parties in Sweden, including importers, had felt that it should be imposed at that stage, since the tax would apply to all transactions and a transaction lay behind importation. If tax on value added were not applied at importation a certain amount of cash would not be tied up, thus escaping interest payments. On the other hand, if tax on value added is applied at the border it must be paid within fifteen days in the same way as customs duties, while credit for domestic sales could be granted for up to two months. The economic effects of making adjustments at the border also depended on the length of time goods were in the hands of the importer.

It was suggested that the explanation given by Sweden and other delegations on this point might be of critical interest to the Working Party, that countries with a tax on value added system should evaluate the question again, including any costs that might result from not making adjustments at the border, and that a paper on this point might be prepared at a later stage.

Question 7. Yes.

Other

Delegations noted that tax periods varied by category of firm and enquired why the tax period was shorter for export firms than for others. The representative of Sweden said that, as a general rule, the tax period was two months. For very small firms the interval was longer. A one-month period was used if a firm's credit under the system was greater than its liabilities by more than Skr 1,000. The credit was then paid in cash. This would apply normally to export companies but could also apply to other companies in special circumstances.

The representative of Sweden confirmed that there was no excise tax on tea and that the burden of taxation on tea would not be increased by the introduction of the tax on value added.
4. **SELECTIVE EXCISE TAXES**

Section IB of the outline deals with selective excise taxes. The following are the relevant questions:

1. Are there any selective excise taxes? To which goods do they apply? What is the tax base?

2. Are there selective excises imposed on products not produced in economically meaningful quantities domestically? Are there products, which are not produced domestically, which are nevertheless subject to an import border tax?

3. Where excise taxes are imposed on goods used in connexion with the production or transport of other goods, or are imposed on goods used as raw materials or components of other goods, is there any adjustment at the border for these taxes with respect to final products which may or may not, themselves, be subject to these taxes?

4. What is the valuation used for border adjustments on imports and on exports? Does the valuation for imports include the insurance, freight and duty? Do the bases and rate applicable to specific duties on imported goods differ from those applicable to similar home-produced goods and if so, in what circumstances and to what extent?

5. Are the selective excises collected in the case of purchases by firms? By what mechanism can the firm avoid payment of these taxes? Does the mechanism exist at the import stage?

6. In what circumstances are exported goods relieved from tax and in what circumstances is tax repaid?

7. If adjustments for imported goods are not made at the border but subsequently, at what stage are they made?

8. Where regional differences exist in such taxation, is special compensation afforded in respect of them at the inter-regional borders? What mechanisms are provided for this purpose? In this respect, is there any difference in the tax treatment of foreign products, on the one hand, and domestic products, on the other hand? If there is no inter-regional border compensation, how is equal treatment ensured for domestic and foreign products?

9. Is there a system of minimum exemptions from the adjustment for tourist purchases, small mail shipments etc., on exports and imports?
Replies by delegations

ARGENTINA

Question 1. The current system of excise taxes comprised of an indirect tax, payable by the manufacturer or the importer, on certain specific items of consumption on the domestic market, listed separately in the relevant law. The tax base varied according to the particular product. In most instances they were specific taxes, but some were ad valorem. In the latter case the base was the net selling price.

Question 2. The taxes were imposed on the same footing and without discrimination of any kind, on both domestic and imported products, the rates applicable and the exemptions being the same. Practically speaking, all the products affected by these taxes were produced domestically.


Question 4. With regard to exports, see question 6. The valuation used for imports, where the tax was of the ad valorem type, included insurance, freight and duty. There was no discrimination (see question No. 2).

Question 5. The taxes were ex-factory or ex-customs and the responsibility lay with the manufacturer or the importer, whether the purchaser was a firm or an individual. There was no mechanism for avoiding payment of these taxes.

Question 6. Exported goods were relieved from tax when the exporter was the manufacturer or the importer and the goods had not been sold on the domestic market. When products exported contain raw materials on which tax had been paid, a tax credit was in order provided it was possible to prove that the raw materials had actually been used.

Question 7. Did not apply.

Question 8. There were no regional differences; the system was national.

Question 9. There was no special system.

AUSTRALIA

1. Yes. The main products to which they applied were listed as follows:

Beer
Potable spirits
Spirits (non-potable) for fortifying wine
Cigars
Cigarettes
Tobacco, manufactured, n.e.i.
Gasoline
Aviation turbine kerosene
Automotive diesel fuel

Complete details were supplied in response to the questionnaire circulated in document Spec(68)56. In each case specific rates applied, i.e. excise duty is payable per unit of quantity.

2. Excise duty is payable only in respect of domestic production. There was no border tax adjustment as such on imports to match the excise duty on domestic production, but when customs duty rates on imports were determined, account was taken of the rates of excise duty on equivalent domestic production. There were some products not produced in Australia at present on which excise duty would be payable if they were produced. The wines specified in items 16 and 17 of the Australian Excise Tariff were examples.

In answer to questions, the representative of Australia said that in relation to products on which excise duty was payable, the customs duty might be conceived as having two elements - an element corresponding to the excise and a protective element. The customs duty would be equal to the excise duty when the protective element was zero, otherwise the customs duty would be higher than the excise duty.

As to the position when the customs duty was bound and the excise duty was altered, his Government would be guided by paragraph 2(a) of Article II of the GATT. Although excise duties were specific, customs duties on the same products could be specific, ad valorem or composite and still be within the principles outlined.

3. No.

4. As indicated above, there were no border adjustments as such on imported products in respect of excise duty. Any excise duty rebated in respect of exports was calculated at the same specific rate as was originally charged.

5. Yes. It would be seen from the details previously supplied that the Australian Excise Tariff provided for lower rates or freedom from excise duties when the provisions of excise by-laws were complied with. In other cases, goods for particular uses, e.g., for use by diplomats (vide excise item 10) were free of excise duty. In many, but not in all cases, similar provisions applied to the customs duties on imports.

6. Excise duties were not charged in cases where goods were manufactured in premises licensed under the Excise Act. In the case of exports of prescribed goods on which excise duties had been paid, drawback of the duties may be claimed provided the goods had not been used. All of the goods listed in Attachment A had been prescribed for drawback purposes.
7. As indicated above, there were no adjustments as such on imports in respect of excise duties, either at the time of importation or subsequently. Customs duties were payable at the time of entry for home consumption.

8. There were no regional differences in excise duties.

9. There were no border adjustments for excise duties, but customs duty (and sales tax) concessions were available to all incoming passengers. Details of the concessions had been published in a booklet freely available to passengers. There were also unlimited duty-free shopping facilities available to outgoing passengers. The goods so purchased were free of customs duty, excise duty and sales tax. Freedom from customs and excise duties was provided for small samples and for ships' and aircrafts' stores used outside Australian waters. Drawback of excise duty if not granted in respect of goods with a lower domestic value than the amount of drawback claimed or if the total drawback claimed did not exceed $A 2.

AUSTRIA

1. Selective excise taxes were imposed on hydrocarbon oil, tobacco products and beverages except milk. Alcoholic drinks were subject to a recurrent excise taxation. Tax bases:

   (a) tax on hydrocarbon oil
   (b) tax on tobacco products
   (c) (local) tax on beverages (except milk and beer)
   (d) beer tax
   (e) wine tax
   (f) sparkling wine tax
   (g) spirits tax (monopoly equalization levy)
   (h) special tax on alcoholic drinks

   quantity
   retail price
   retail price
   quantity
   quantity
   quantity
   quantity
   retail price

1The tax liability was conditioned by the consumption within the community concerned. No border adjustments.

2The special tax on alcoholic drinks, introduced by Federal Law of 27 June 1968, was also charged on imports. The tax base was the purchase price increased by the transport and insurance expenses to the Austrian frontier and by customs duties and other taxes imposed at importation. The importer, however, was entitled to deduct the tax paid on imports from the tax liability based on his retail sales (including withdrawals for private purposes) and to get a refund for exceeding amounts.
2. No.

3. No.

4. Normally no valuation for border adjustments. The bases and rates on imported goods did not differ from those applicable to similar home-produced goods. As regards the special tax on alcoholic drinks see footnote 2 in answer to question 1.

5. Yes. If the goods were used for purposes expressly mentioned in the laws concerned permits for tax-free purchases were given upon application. This mechanism also applied at the import stage.

6. Exported goods were exempt from tax. Taxes already paid were refunded.

7. The adjustment for imported goods could be deferred if the goods were retained in a warehouse for excisable goods under special fiscal control. The same applied for refineries in the case of imported hydrocarbon oil. The adjustment was made when the goods were removed from the warehouse (refinery) for sale or for consumption.

8. Not applicable.

9. No minimum exemption from adjustments for tourist purchases on the export side (exception: duty-free shop at the airport). On the import side minimum exemptions following the customs duties regulations.

Other

As regards what percentage of total consumer expenditure was covered by selective excise taxes and what were the criteria governing the recent extensive changes of these taxes, the observer from Austria said that he had no exact figure to show the percentage share. As to the question of changes he emphasized that with the exception of the new special taxes on alcoholic drinks which was of a temporary nature and which was introduced exclusively for budgetary reasons, there were no changes in the rate of selective excise taxes which could have any influence on prices.

CANADA

Question 1

(a) Federal selective excise taxes

Selective excise taxes were imposed on a narrow range of goods. These consisted of specific taxes and ad valorem taxes. The base for the ad valorem taxes was the same as that employed for the general manufacturers' sales tax; that is, the manufacturer's selling price (including all charges for advertising, financing, service, warranty, commission or any other matter except freight and
insurance) for domestic goods and duty-paid value for imported goods. Goods subject to the special excises were also subject to the general manufacturers' sales tax which was calculated by reference to the same base. Thus, for example, the total tax on jewellery was 22 per cent of the manufacturer's selling price (or duty-paid value) consisting of the 10 per cent selective excise tax plus the 12 per cent manufacturer's sales tax. Exported goods were exempt from both the excise tax and the manufacturer's sales tax.

The special excise taxes levied at present are set out below:

<table>
<thead>
<tr>
<th>Cigarettes</th>
<th>3 cents per 5 cigarettes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cigars</td>
<td>17½ per cent</td>
</tr>
<tr>
<td>Jewellery including clocks, watches,</td>
<td></td>
</tr>
<tr>
<td>articles of ivory, shell, precious or</td>
<td></td>
</tr>
<tr>
<td>semi-precious stones, goldsmiths' and</td>
<td></td>
</tr>
<tr>
<td>silversmiths' products</td>
<td>10 per cent</td>
</tr>
<tr>
<td>Lighters</td>
<td>10 cents</td>
</tr>
<tr>
<td>Playing cards</td>
<td>20 cents per pack</td>
</tr>
<tr>
<td>Radios</td>
<td>the greater of $2 per radio</td>
</tr>
<tr>
<td></td>
<td>or 15 per cent</td>
</tr>
<tr>
<td>Phonographs</td>
<td>15 per cent</td>
</tr>
<tr>
<td>Tubes for radios, phonographs and</td>
<td></td>
</tr>
<tr>
<td>television sets (not including</td>
<td></td>
</tr>
<tr>
<td>television picture tubes) priced</td>
<td></td>
</tr>
<tr>
<td>under $5 per tube</td>
<td></td>
</tr>
<tr>
<td>Television sets and picture tubes</td>
<td></td>
</tr>
<tr>
<td>Slot machines - coin-operated games</td>
<td></td>
</tr>
<tr>
<td>or amusement devices</td>
<td></td>
</tr>
<tr>
<td>Matches</td>
<td></td>
</tr>
<tr>
<td>Tobacco - pipe tobacco, cut tobacco</td>
<td></td>
</tr>
<tr>
<td>and snuff</td>
<td>90 cents per lb.</td>
</tr>
<tr>
<td>Tobacco pipes, cigar and cigarette holders and cigarette rolling devices</td>
<td>10 per cent</td>
</tr>
<tr>
<td>Toilet articles, including cosmetics, perfumes, shaving creams, antiseptics, etc.</td>
<td>10 per cent</td>
</tr>
<tr>
<td>Wines - domestic only¹</td>
<td></td>
</tr>
<tr>
<td>Wines of all kinds containing not more than 7 per cent absolute alcohol by volume</td>
<td>25 cents per gallon</td>
</tr>
<tr>
<td>Non-sparkling wines containing more than 7 per cent absolute alcohol by volume, but not more than 40 per cent proof spirit</td>
<td>50 cents per gallon</td>
</tr>
<tr>
<td>Champagne and all other sparkling wines</td>
<td>$2.50 per gallon</td>
</tr>
</tbody>
</table>

¹The basic selective excises on wines applied only to those manufactured in Canada. The customs tariff included a levy on imported wines to correspond to those excise taxes imposed on domestic production.
Wines - additional excises on both domestic and imported:
Wines of all kinds containing not more than 7 per cent of absolute alcohol by volume: 2½ cents per gallon
Wines of all kinds - other 5 cents per gallon

In answer to questions, the representative of Canada said the rates of excise taxes are imposed on top of and in addition to sales taxes.

(b) Federal selective excise duties

Excise duties were imposed upon alcohol, alcoholic beverages (other than wines) and tobacco products. Unlike the excise taxes which generally applied alike to domestic and imported goods, excise duties were restricted to domestic production. The customs tariff placed a corresponding levy on imported products. Exported goods were not subject to excise duties.

Spirits

The duties were on a per gallon basis in proportion to the strength of proof of the spirits. The duties did not apply to denatured alcohol intended for use in the arts and industries, or for fuel, light or power. The various duties were:

(A) On every gallon of the strength of proof distilled in Canada, $14.25.

(B) On every gallon of the strength of proof used in the manufacture of:
   (a) medicines, extracts, pharmaceutical preparations, etc., $1.50;
   (b) approved chemical compositions, 15 cents;
   (c) spirits sold to druggists for use in the preparation of prescriptions, $1.50;
   (d) imported spirits when taken into a bonded manufactory, 30 cents.

Canadian brandy

Canadian brandy, a spirit distilled exclusively from juices of native fruit without the addition of sweetening materials, was subject to a duty of $12.25 per gallon.

Beer

All beer and other malt liquor was subject to a duty of 42 cents per gallon.
Tobacco

(a) On manufactured tobacco of all descriptions except cigarettes, 35 cents per lb.

(b) Cigarettes
   - weighing not more than 3 lbs. per thousand, $4 per thousand,
   - weighing more than 3 lbs. per thousand, $5 per thousand.

(c) Cigars, $2 per thousand.

(d) Canadian raw leaf tobacco when sold for consumption, 10 cents per lb.

(c) Provincial selective excise taxes

In addition to the federal excise taxes and duties described above, the provincial governments levied selective excises on gasoline and diesel fuel and tobacco products, as follows:

(A) Motor fuels

All ten provinces imposed a special tax on motor fuels. However, such fuels which were not used to propel motor vehicles on public roads were generally either exempt or taxed at reduced rates. The rates are set out in the accompanying table.

(B) Tobacco

Eight of the ten provinces imposed special excise taxes on cigarettes, cigars and tobacco in lieu of the general retail sales tax. The rates for cigarettes are set out in the accompanying table.

Rates of Provincial Excises

<table>
<thead>
<tr>
<th>Province</th>
<th>Gasoline tax</th>
<th>Diesel tax</th>
<th>Cigarette tax</th>
</tr>
</thead>
<tbody>
<tr>
<td>Newfoundland</td>
<td>25¢</td>
<td>25¢</td>
<td>1/ 2¢</td>
</tr>
<tr>
<td>Prince Edward Island</td>
<td>21¢</td>
<td>21¢</td>
<td>2/ 5¢</td>
</tr>
<tr>
<td>Nova Scotia</td>
<td>19¢</td>
<td>27¢</td>
<td>1/10¢</td>
</tr>
<tr>
<td>New Brunswick</td>
<td>19¢</td>
<td>23¢</td>
<td>1/ 5¢</td>
</tr>
<tr>
<td>Quebec</td>
<td>19¢</td>
<td>25¢</td>
<td>2/ 5¢</td>
</tr>
<tr>
<td>Ontario</td>
<td>18¢</td>
<td>24¢</td>
<td>3/10¢</td>
</tr>
<tr>
<td>Manitoba</td>
<td>17¢</td>
<td>20¢</td>
<td>2/ 5¢</td>
</tr>
<tr>
<td>Saskatchewan</td>
<td>17¢</td>
<td>20¢</td>
<td>8/25¢</td>
</tr>
<tr>
<td>Alberta</td>
<td>15¢</td>
<td>17¢</td>
<td>Nil</td>
</tr>
<tr>
<td>British Columbia</td>
<td>13¢</td>
<td>15¢</td>
<td>5% (sales tax)</td>
</tr>
</tbody>
</table>
Question 2. No, selective excises were not imposed on products not produced in economically meaningful quantities domestically.

Question 3. There was no adjustment at the border for selective excises imposed on goods used in connexion with the production or transport of other goods.

Question 4. Federal - The valuation for border adjustments on imports was duty-paid value which was defined in Section 29(1)(e) of the Excise Tax Act as "the value of the article as it would be determined for the purpose of calculating an ad valorem duty upon the importation of such article into Canada under the laws relating to the customs and the customs tariff ... plus the amount of the customs duties, if any, payable thereon". The value for customs purposes was, in general, the f.o.b. market value in the country of origin or the actual selling price, whichever was the greater. The customs value generally included charges for advertising, servicing, warranty, packaging, etc., but ordinarily excluded insurance and freight.

   Provincial - The question of valuation did not arise for the selective provincial excises.

The basis and rates of selective federal excises were generally the same for imported and domestic goods with the exception of the excises on wines and the excise duties discussed above which were limited to domestic production. The rates of the selective provincial excises imposed on fuel and tobacco products did not distinguish as between domestic production and imports.

Question 5. The selective excises were collected on all taxable purchases by firms except where the goods were purchased under exempt conditions - for example, were purchased by a manufacturer if the goods were to be used in the production of excise taxable goods. The tax had to be paid in all cases unless the manufacturer or importer quoted the appropriate exemption certificate.

Question 6. Goods exported from Canada by a manufacturer licensed under the regulations were exempt from tax. In addition when tax-paid goods were exported, a refund could be granted provided the goods were not sold and used in Canada.
Question 7. Imported goods were subject to tax at the same stage whether or not the border adjustment was made at the time of importation. A wholesaler, for example, had to pay tax on importation, whereas a licensed manufacturer could defer tax until such time as the goods were resold. But the basis of the tax—that is, duty-paid value—remained the same whether or not the importer was licensed.

Question 8. There were differences in the rates of the provincial excises and the appropriate rate was that in effect in the province in which delivery was taken. The procedure applied alike to foreign and domestic goods.

Question 9. There was a system of minimum exemptions from federal excise taxes on gifts (maximum $10) sent from abroad and on goods up to a value of $25 accompanying residents of Canada returning from abroad after an absence of at least forty-eight hours ($100 if returning from outside North America after a stay of at least fourteen days). There was no exemption for shipments through the post.

Other

Personal consumption expenditure in 1967-68 (year ending 31 March 1968) ran at about $38 billion (Canadian); and the selective excise taxes at the Federal and Provincial level totalled Can$1 billion 700 million, this is broken down between tobacco and spirits and alcoholic products.

DENMARK

Question 1

<table>
<thead>
<tr>
<th>Coverage</th>
<th>Rate and basis</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Alcoholic beverages</strong></td>
<td></td>
</tr>
<tr>
<td>Beer and wine</td>
<td>Various rates per hectolitre and litre</td>
</tr>
<tr>
<td>Aquavit, liquors, etc. as</td>
<td>DKr 81.30/120 per litre pure alcohol</td>
</tr>
<tr>
<td>proposed from April 1969</td>
<td></td>
</tr>
<tr>
<td><strong>Tobacco</strong></td>
<td></td>
</tr>
<tr>
<td>Cigarettes</td>
<td>26.68/31.02 per a piece</td>
</tr>
<tr>
<td>Smoking tobacco</td>
<td>DKr 39.30/67.82 per kg.</td>
</tr>
<tr>
<td>Other products</td>
<td>Various rates</td>
</tr>
</tbody>
</table>
**Coverage**

<table>
<thead>
<tr>
<th>Motor vehicles</th>
<th>Rate and basis</th>
</tr>
</thead>
<tbody>
<tr>
<td>By first registration of cars</td>
<td>80-110 per cent of retail, tax-exclusive price</td>
</tr>
<tr>
<td>Periodic tax</td>
<td>DKr 100-400 per 6 months for cars, depending on net weight. Various rates for trucks, trailers, etc., depending on maximum total weight</td>
</tr>
<tr>
<td>Petrol</td>
<td>71 øre per litre</td>
</tr>
<tr>
<td>Chocolate and confectionery as from 1 February 1969</td>
<td>DKr 6 per kg.</td>
</tr>
<tr>
<td>Certain imported raw materials for production of chocolate etc.</td>
<td>Various rates per kg.</td>
</tr>
<tr>
<td>Radios, televisions and gramophones</td>
<td>16 2/3 per cent of wholesale price including tax</td>
</tr>
<tr>
<td>Perfumes and toilet preparations</td>
<td>37.5 per cent of retail price including tax</td>
</tr>
<tr>
<td>Gramophone records</td>
<td>One sixth of retail price including tax</td>
</tr>
<tr>
<td>Ice-cream</td>
<td>DKr 1.45 per litre</td>
</tr>
<tr>
<td>Mineral waters</td>
<td>60 øre per litre</td>
</tr>
<tr>
<td>Paperboard, lamps and fuses, matches, cigarette lighters, playing cards</td>
<td>Various specific rates</td>
</tr>
</tbody>
</table>

Asked in what form the excise taxes were levied on motor vehicles, the representative of Denmark said that a tax was paid only once when cars were registered for the first time and this tax was based on the value of the car. In addition, there was a tax to be paid on the weight of the car; this tax was earmarked for road building purposes.

It was pointed out that some excise duties were based on the retail price and it was questioned whether this would mean that the duty was levied at the retail level. The representative of Denmark said that there were two taxes levied at the retail stage. The first was a tax levied on alcoholic beverages consumed in restaurants; this tax was levied and assessed in restaurants. Other taxes such as tax on tobacco was levied on the retail selling price but was paid by the producer who stamped the retail price on the goods. The same applied in the case of perfumes. There was no special problem in cases where a retailer was an importer since he had to be registered to import on a commercial basis.
Question 2 and 2(b). Yes, e.g. wine was not produced domestically.

Question 3. The "taxes occultes" mentioned were not rebated on exports. Taxes on components and raw materials were refunded, provided sufficient control was possible.

Question 4. In general, there was no adjustment on imports and exports at the border. Goods imported by a registered firm were taxed on the same base (selling price/quantity) as home-produced goods. Goods exported from a registered firm were exempt from tax. Goods exported from a non-registered firm could receive repayment of tax under a special licence.

Question 5. Selective taxes were collected in the case of purchases by firms.

Question 6. Exported goods were relieved from tax, if the exporter was a registered firm.

Question 7. Tax on goods imported by registered firms was paid subsequently, either by the importer when he sold the goods, or by a wholesaler/retailer according to the tax system.

Question 8. The question did not apply to the Danish tax system.

Question 9. Goods, which were allowed to be imported duty free by tourists were also exempt from excise taxes. Excise taxes on goods bought by tourists were not refunded on exportation.

Other

In answer to questions regarding the information submitted on products of interest to developing countries and, in particular, the excise duties on cashew kernels (Spec(68)134/Add.2), the representative of Denmark said that the situation had changed after 1 February 1969 as a result of the changes in the tax on chocolate. The ad valorem tax on cashew kernels had been abandoned and there was only a tax based on weight. Consequently, the rates had been somewhat lower than those mentioned in document Spec(68)134/Add.2.

The tax on kernels, as a raw material used in the production of taxable goods, was levied merely to safeguard the tax on chocolates regardless of whether kernels were viewed as luxury articles or not.

BELGIUM

1. All the excise taxes charged in Belgium were specific taxes, with the exception of those on manufactured tobacco (which was subject to an ad valorem excise tax).

2. No.
3. Exports of products subject to excise tax were exempt from the tax in Belgium. Imports of products subject to excise tax were charged the same excise tax as the like domestic product. An adjustment was made in respect of raw materials incorporated in exported goods. No adjustment was made in respect of goods subject to excise tax that were used, either as auxiliary materials (heat, energy, light) in the production of goods, or for the transport of other goods.

4. The taxes were specific (i.e. BF x per hectolitre or per kg.). Insurance costs and customs duties did not therefore affect the tax base. The rates and base were the same for domestic and imported products.

5. Yes. In Belgium payment of excise taxes could not be postponed.

6. Exemption from excise tax was granted on exports (subject to proof that export had taken place). If excise duty had already been paid, no reimbursement was made but the exporter could deduct the amount paid from his future payments.

7. Adjustments were always made upon importation, i.e. when the goods were cleared for consumption.

8. This was not the case in Belgium.

9. On imports there was a system of minimum exemptions for travellers' small purchases and souvenirs. This exemption corresponded to that granted in respect of customs duties and had been established taking account of the amount of the duties concerned.

On exports there were no adjustments in respect of articles purchased by tourists (exception: tax-free shops at airports).

Other

Reference was made to the OECD Fact Finding Report (page 115 of the printed book) where it was stated under Excise Duties in Belgium "Imports, in principle, bear the same amount of tax as that borne by similar products on the home market, but for reasons of administrative convenience, the rates on certain imported products (e.g. spirits in large containers) may be higher than similar home market products." Asked for clarification, the representative of Belgium confirmed that in the past there was a slight difference but in 1968 a law was enacted which had done away with this discrimination.

FEDERAL REPUBLIC OF GERMANY

Question I. There were a number of excise taxes levied on specified products (alcoholic beverages, including beer; tobacco products, hydrocarbon oils; salt; sugar; tea; coffee; matches; illuminants¹; acetic acid; and playing cards). The tax base was established in terms of weight or volume or numbers or retail price or value, as the case may be.

¹See Spec(68)88/Add.2, page 25.
Question 2. Reference to 1 and to our reply to the GATT questionnaire on border tax adjustments (documents Spec(68)56 and Spec(68)88/Add.2).

Question 3. Excise taxes were generally applied to imported goods at the same rate as was applied to home-produced goods. Imported goods were subjected to excise taxes at the time they were imported; those taxes were by nature single stage taxes. Certain exemptions from excise taxes were provided for cases where excisable imports were either shipped to a domestic manufacturing plant immediately after being imported or were used for purposes which, under the various excise tax laws, would entail exemption if the products involved were home-produced.

Question 4. It was only in the insignificant case of the illuminants tax that the value was the tax base. In this case the retail price as indicated in the sales lists was normally regarded as the tax value. The tax value of imported illuminants coincided with the tax value of home-produced goods.

Question 5. Excise taxes were generally due on removal from the producer's premises, without regard to the purchaser. In the cases of imports, the provisions of customs legislation were applied mutatis mutandis. There were no special provisions for purchases by firms.

Question 6. Goods liable to excise taxes were generally exempt from excise taxes if they were exported, under official supervision, directly from their producer's premises or via a bonded warehouse. Tax rebates on exportation were allowed to a certain extent only in respect of alcohol (spirits) tax, hydrocarbon oils tax and sugar tax. Details were given in our reply to the questionnaire document Spec(68)56.

Question 7. Not applicable.

Question 8. Not applicable.

Question 9. There were certain exemptions for tourists and small shipments in line with the exemptions from customs duties in these cases. These exemptions were limited to specific quantities where the goods imported were subject to a heavy revenue tax (e.g. tobacco goods, alcohol). There were no special provisions concerning minimum exemptions in the cases of exports by tourists. But bonded warehouse facilities could be granted to firms selling goods at airports exclusively to tourists travelling by air.

FRANCE

Question 1. The selective excise taxes were applied to specified goods and were generally calculated on the basis of specific units.

Under the 1968 reform, the TVA had replaced certain single or special charges that had the character of excise taxes: on wines and cider, coffee and tea, transport of goods, as well as the milling tax on grains and the millers' licensing tax. The movement tax on meat was abolished on 1 December 1968.
The changeover from excises on tea and coffee to the value-added tax made no difference from the economic point of view.

The excise duties still in force applied mainly to the following:

- wines and cider: movement tax charged on the basis of the hectolitre by volume;

- beer and mineral water (hectolitre);

- consumption tax on spirits (charged per hectolitre of pure alcohol);

- surcharges on certain aperitifs based on aniseed spirits or obtained from the distillation of grains (charged per hectolitre of pure alcohol);

- assay tax on gold, silver and platinum (charged per hectogramme);

- special tax on heavy vehicles (on the basis of the total permitted laden weight).

The special tax on heavy vehicles was levied to help finance the maintenance of the high-roads. It applied also to foreign trucks effecting transport through France. The tax base was total weight or daily rate; the latter being applicable in the case of foreign trucks.

A monopoly tax was charged on tobacco and matches.

Petroleum products were generally subject to an internal charge applied when they left the warehouse to enter the consumption circuit (specific or ad valorem rates). A special ad valorem tax was charged on beetroot used for sugar manufacture, including quantities exported.

As asked what was the reason for having a surcharge on grain based spirits and whether there was any domestic production of spirits based on distillation of grain, the representative of France said that this surcharge was introduced for social reasons. This affected aperitifs and in particular those based on aniseed or obtained from the distillation of grain, including whisky. This surcharge particularly affected imported spirits. However, there had been a relatively small domestic production of grain-based spirits which were also subject to this surcharge. Since this surcharge had been introduced, imports of whisky in France had increased considerably.

Question 2. The excises were consumption taxes charged on all the goods concerned, even if not produced in France. Only the tax on tea and coffee - which has now been abolished - would seem to correspond to this question.
Question 3. In practice, adjustments existed only in respect of raw materials or components that were subject to an excise tax and were used in the manufacture of exports. There were no adjustments in respect of transport or energy.

Question 4. The problem of valuation did not arise in principle, since the taxes were essentially specific. The rates on imports were the same as on home-produced goods.

Question 5. Purchases by firms were taxed. The tax could not be avoided if the goods produced were delivered for domestic consumption.

Question 6. Exemption or reimbursement depended on the stage of utilization of products intended for export.

Question 7. The adjustment was made at the stage at which the same product of French origin is taxed.

Question 8. There were no regional differences in France.

Question 9. There was an exemption for imports of very small quantities corresponding to personal consumption, and a flat-rate charge was applied for reasons of simplification, within certain limits. On exports, exemption was granted in certain tax-free shops (airports) or if proof of export was shown.

ITALY

Question 1. There were numerous selective excise taxes in Italy, applied in the form of taxes on production or on consumption.

The principal products subjected to these taxes were: alcohol, beer, coffee and coffee substitutes, cocoa, sugar, petroleum products, vegetable oils (groundnut oil and olive oil), margarine, gas and electricity, natural gas, electric bulbs, textile fibres, bananas, tobacco, gramophone records, salt, matches, cigarette paper.

As regards the tax base, all the excise taxes mentioned above were specific. An additional tax equivalent to the internal tax was applied at the border on like products imported from other countries.

Question 2. As indicated in the reply to the preceding question, consumption taxes were also imposed on tropical products (coffee, cocoa, bananas).

Question 3. It should be emphasized that the products subjected to selective excise taxes in Italy included gas, electricity and natural gas which were means of production. These products were not exempt from the taxes when used for the production of other goods, so that the latter were undoubtedly affected by the taxes. (For example, the tax on electric power which was a substantial factor in aluminium production and an important component of the cost of the Italian product.)
With the exception of a few specific cases indicated below, no adjustment was made at the border in respect of taxes on domestic production.

Certain other products, for example alcohol and vegetable oils, were taxed at reduced rates or were exempt when used for certain specified industrial purposes, but taxes charged on the finished products were not generally reimbursed on exports or compensated on imports.

This situation was unfavourable to domestic production: one need only mention the very high consumption of alcohol in the pharmaceutical industry (for example for the production of insulin), or in the varnish industry, where ground-nut oils were the raw material.

An adjustment at the border in respect of taxes on transport was made for only two domestic production sectors, in that the incidence of those taxes on exports was reimbursed.

**Question 4.** All the selective excise taxes applied in Italy were specific taxes.

In principle, the same tax base and rates were applied to domestic products and to imports.

**Question 5.** Firms were also required to pay the selective excise taxes on their purchases, except where intended for certain specified uses, which were exempt.

Under the general regulations, products subject to selective excise taxes could in certain cases be stored under a tax suspension system until such time as they were offered for consumption.

The like products when imported could use the bonded warehouse system.

**Question 6.** In general, products intended for export were not taxed; in cases where the tax had already been paid, it was reimbursed after the product had been exported.

**Question 7.** The adjustments for imported goods were normally made at the border; in certain cases, however (for example, temporary admission or bonded warehouse), the tax was not charged until the product was offered for consumption.

**Question 8.** Not applicable.

**Question 9.** With the exception of purchases in the tax-free shops at airports, tourist purchases and small mail shipments were not eligible for any tax reduction or exemption.

Substantial import facilities were provided for tourists visiting Italy, and no tax was charged on articles and products brought in by them.
In answer to questions concerning Law 639 of 5 July 1964, the representative of Italy said that in accordance with international practice and the provisions of GATT, Italy had, for some time, been granting rebates on exports in the engineering industry, of the amount of the customs duties and certain indirect internal taxes on raw materials, auxiliary materials, capital goods and services used in the manufacture of such goods, and "miscellaneous" indirect taxes paid in conjunction with production. This practice was governed by Law 639. The fact that this Law provided for rebates covering a whole series of taxes had to do with the peculiar structure of the Italian tax system, the characteristic feature of which was a number of indirect taxes, certain taxes being taken into consideration for rebate purposes. Indirect taxes played a very important part in the Italian tax system. Such taxes constituted 72.3 per cent of Italy's total tax revenue, as compared with 27.7 per cent from income tax.

A reform of the Italian tax system was actually under consideration. In view of the scope of Law 639, obviously this problem was a mere matter of form, since it was the level of indirect taxation subject to adjustment which counted as far as international trade was concerned. In this respect, tax rebates in Italy were distinctly lower than those of other countries.

The indirect taxes covered by Law 639 were the following:

(a) customs duties and border taxes;
(b) excise taxes and consumption taxes;
(c) registration fees;
(d) stamp duties;
(e) stamp duties on transport documents;
(f) mortgage taxes;
(g) tax on publicity;
(h) tax on Government authorizations;
(i) vehicle road tax;
(j) additional and miscellaneous taxes.

The tax rebate rates were fixed by products or groups of products, and embodied two components, a base component and a specific component. To determine the base component, the amount of the customs duty charged on capital goods was used according to a method of calculation establishing an average rate for the
national engineering industry. Added to this average rate was the amount of indi-
rect domestic taxes, other than IGE, payable by the whole engineering industry.
The mean incidence of this base component was the same for all industries and all
products. On the other hand the specific component, which unlike the base com-
ponent varied for each group of products, was the figure resulting from the
specific incidence of customs and border taxes, manufacturing taxes and con-
sumption taxes on raw materials, semi-finished products and consumer goods used
in the production of each group of products. The incidence was calculated by
a sampling method.

These particulars indicated clearly the technical difficulty of using an
actual product as an example. It would mean, among other things, isolating a
whole series of taxes for transactions by undertakings and investigating other
technically complex factors.

All transactions coming under the heading of the series of indirect taxes
mentioned above were reflected in the rebate.

The tax rebate rates were not uniform for all products, since the customs
duties and charges borne by products varied according to a large number of
factors.

The method used in the case of the IGE was in principle similar to that
applied under Law 639. However, differences arose in practice owing to the fact
that under Law 639 a whole series of indirect taxes had to be taken into account
which, as had been pointed out, necessitated special calculations.

There was no excess rebate element, since the IGE and Law 639 applied in
entirely different situations. The hypothesis that rebates were granted on top
of rebates did not arise. Taxation under the IGE affected even excise duties
when these were paid to the State. Furthermore, the IGE applied also to the
value of goods exchanged and services rendered, including the taxes payable on
the latter, even taxes deductible under Law 639.

Border tax adjustments were justified by the principle of taxation in the
country of destination. This principle was accepted in the provisions of the
General Agreement. The reason for which the application of Law 639 was limited
to products containing iron and steel was largely a budgetary matter. The
priority given to the engineering sector was justified by its overwhelming
importance in the economic life of the country.

There is no reference to the period of validity of Law 639. However, the
Italian Administration had in mind to re-examine the Law in connexion with the
reform of the tax system now being studied.

There was no relationship between Law 1147 of 14 November 1967 and Law 639.
Law 1147 had to do with turnover tax rebates whereas Law 639 was concerned with
other tax rebates.
As of 1 January 1966, a 20 per cent rebate was applied to Italian iron and steel products exported to other countries members of the European Community. This treatment was established by Italy of its own accord, in the light of the customs union being worked out among the Six, under the Treaty of Rome, and with a general idea of harmonizing the tax systems and the practices followed by other member States in regard to border tax adjustments. However, as to the principle involved, the EEC Commission questioned the compatibility of the Italian legislation with the Treaty of Rome on two scores, the first concerning the possibility of applying standard mean rates for domestic rebates other than cascade taxes, and the second concerning the possibility - under Article 96 of the Treaty - of exempting export products from certain indirect taxes such as registration taxes, stamp duties and the government concessions tax payable by undertakings on their products. Although these taxes were reflected in the cost of the products, they were not easy to calculate exactly. The question was brought before the Court of Justice of the Community, which handed down an opinion in favour of the standard rebate method and an opinion against the relief of certain taxes on the grounds that they were not applied to the products at the various stages of production or at the final stage. This decision, which Italy had no alternative but to accept, in no way changed the schedule of rebates on exports to other countries of the Community, since for the reasons given, these rebates were not higher than those generally stipulated by the Court itself which looked at Italy's position in the light of the provisions of the Treaty of Rome, which was a highly sophisticated legal instrument of regional integration, whereas the GATT rules governed an agreement on international trade.

The Italian Administration was still convinced that, from the economic and legal point of view, it was impossible to make a distinction between indirect taxes affecting general costs and services for the production of goods as far as the incidence of the tax burden on the price of such goods was concerned, according to whether the tax was one of general application, e.g. turnover tax, or special taxes were involved such as those included in the Italian Law 639. If the basic concept of the Italian legislation had been different, these special taxes would have been incorporated in the general tax applied also to general costs and services, with a view to adjustment at the border.

The Italian delegation considered that Law 639 was concerned with rebates in respect of certain indirect taxes actually paid and representing a tax component of production costs, and that these rebates were therefore entirely in conformity with the provisions of GATT. The rates applied to exports of products containing iron and steel were still higher in the case of third countries than for EEC countries because the customs duties directly or indirectly borne by the products in the process of production were not taken into consideration in the trade between member States of the Community.
Question 1. There were a number of excise taxes levied. The taxes involved were the following:

Excise duty on beer
Excise duty on wine
Excise duty on sparkling wine
Excise duty on alcoholic products (other than beer, wine and sparkling wine)
Excise duty on sugar
Excise duty on tobacco products
Excise duty on hydrocarbon oils
Special consumption tax on passenger cars

Excise duty on beer

This duty was levied from the brewer on the quantity of the worts before fermentation expressed in terms of hectolitregrades. At importation the duty was levied from the importer on the quantity of the beer imported taking into account the hectolitregrades of the worts that would have been used if the beer imported would have been domestically produced.

Excise duty on wine

The tax base was quantity of wine imported or home-produced. A surcharge was levied on wine above 12 degrees of strength proof.

Excise duty on sparkling wine

The tax base was the quantity of wine imported or home-produced.

Excise duty on alcoholic products (other than beer, wine and sparkling wine)

The duty to which home-produced alcoholic products were subject was based on the quantity of absolute alcohol contained therein at a temperature of 15 degrees centigrade and amounted to f. 1,540 per hectolitre of absolute alcohol. In respect of imported alcoholic products the duty amounted, per hectolitre, to f. 15.40 per degree of strength proof.

This duty was decreased by 50 per cent for alcohol contained in or destined to be incorporated in perfumes, toilet articles and cosmetic products.

Other alcoholic products which were not destined for internal consumption were exempt from duty.

Excise duty on sugar

The tax base was the quantity of sugar imported or home-produced. Imported products containing sugar were subject to this duty for the quantity of sugar contained therein.
Sugar and products containing sugar not destined for internal human consumption and sugar destined for the manufacture of beer were exempt from duty.

**Excise duty on tobacco products**

The tax base for this duty was - for imported and home-manufactured products - the retail price (including all taxes and packing charges). This duty was levied on cigarettes, cigars, cigarillos, pipe-tobacco, chewing-tobacco and snuffing-tobacco. The tax was collected by selling revenue stamps to the producer or importer.

**Excise duty on hydrocarbon oils**

The duty to which imported and home-produced mineral oils were subject was based on the quantity expressed in hectolitres. The duty amounted to f. 34 for petrol, f. 2.80 for petroleum, f. 4.40 for gas-oil and f. 1.40 for fuel-oil.

Exempted from duty were mineral oils to be used as raw material in the manufacture of other products, mineral oils destined to be used by private persons or houses for old people for heating or lighting purposes and mineral oils used for heating purposes in the course of the manufacture of exported horticultural products.

**Special consumption tax on passenger cars**

This tax was imposed on the delivery by a manufacturer and on the importation of passenger cars, including so-called combined vehicles and stationcars. The tax was based on the price that had been, or would have been, charged upon the sale of the car to a private person, reduced by the amount of turnover tax included therein. The rate amounted to 15 per cent.

**Question 2.** Yes; in the case of the excise duty on wine. There was no national production of grape wine.

**Question 3.** For sugar see under 1.

There was no adjustment at the border - neither on importation nor on exportation - for the excise duty imposed on mineral oils used in the transportation of goods or used as auxiliary material (heating, fuelling, lighting) in the manufacture of goods. For horticultural goods see under 1.

**Question 4.** On importation the tax base was the quantity (beer, wine, sparkling wine, sugar, hydrocarbon oils), the strength proof (alcoholic products) or the retail price (tobacco products and passenger cars).

The bases and rates applicable to the existing excise taxes on imported goods did not differ from those applicable to the existing excise taxes on home-produced goods, except for the case of beer where there was a different tax base and a different rate, leading otherwise to a nearly equal fiscal charge.
Question 5. Apart from the case of beer and that of the special consumption tax on passenger cars, the excise taxes were collected at the time when the goods would be considered to have reached the consumption stage. Payment could be deferred by making use of the system of warehousing or of a credit system. The same mechanism existed at the import stage.

Question 6. Excise taxes were not charged on exported goods and, if tax had been paid, repayments were made (exportation of perfumes etc. and of goods containing sugar).

Question 7. Adjustments for imported goods were made at the border but could be deferred (see under 5).

Question 8. Did not apply.

Question 9. Imports: there was a system of small exemptions for tourists. Exports: no special provision except for purchases from the tax-free shop at Schiphol airfield.

EUROPEAN COMMUNITIES

The representative of the Commission of the European Communities reported on the work being done with a view to harmonizing excise taxes within the EEC. He recalled that the principal reasons underlying the harmonization were the difficulties encountered in collecting certain excise taxes on imports (for example, difficulty of determining the quantity of sugar liable to tax in imported products containing sugar). The harmonization of turnover taxes and the establishment of certain common policies (on agriculture, energy, etc.) made it necessary to align excise taxes with a view to the elimination of frontier controls.

As in the case of turnover taxes, the harmonization of excise taxes could, in principle, be achieved in two stages: alignment of tax structures, and subsequently alignment of tax rates.

Among the excise taxes existing in the EEC, some would have to be harmonized (in particular those on manufactured tobacco, mineral water, spirits, wines and beer) and other less important ones could be eliminated or integrated in the TVA. The Council of the Communities had not yet drawn up any specific programme in this respect. To date, only a draft for harmonizing excise tax structures with respect to manufactured tobacco had been presented to the Commission, other drafts would be submitted in the near future.

With a view to overcoming difficulties of collecting certain excise taxes on imports, some partial harmonization had already been achieved, and the measures taken in this context were applicable to the member States as well as to third countries.

It was pointed out by other delegations that difficulties arose regarding the sugar content of canned fruit. Most countries made no special provision for this because it was not commercially realistic, though technologically feasible. The point was also made that the problem might arise for other products subject to excise taxes.
Question 1. Excise taxes or comparable taxes were levied as follows:

<table>
<thead>
<tr>
<th>Name of tax</th>
<th>Subject</th>
<th>Unit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Excise tax on tobacco products</td>
<td>Conventional tobacco products and cigarette paper</td>
<td>(a) Basic tax, defined percentually from the retail price</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(b) Additional tax, defined by number of pieces or weight on the basis of retail price</td>
</tr>
<tr>
<td>Excise tax on sweetmeats</td>
<td>Chocolate and chocolate confectionary, sweets, and licorice products</td>
<td>Kgs. (net)</td>
</tr>
<tr>
<td>Excise tax on medium-strong and strong beer</td>
<td></td>
<td>Percentual tax on the basis of retail price</td>
</tr>
<tr>
<td>Excise tax on non-alcoholic beverages</td>
<td>(a) Light beer</td>
<td>Litres</td>
</tr>
<tr>
<td></td>
<td>(b) Mineral waters</td>
<td></td>
</tr>
<tr>
<td></td>
<td>(c) Sweetened aerated beverages</td>
<td></td>
</tr>
<tr>
<td></td>
<td>(d) Artificial juices (other than fresh juices)</td>
<td></td>
</tr>
<tr>
<td>Tax on liquid fuels</td>
<td>(a) Motor spirit</td>
<td>Normal litres (= at + 15° C)</td>
</tr>
<tr>
<td></td>
<td>(b) Diesel oil</td>
<td></td>
</tr>
<tr>
<td>Tax on motor-cars and motor cycles</td>
<td>(a) Passenger cars</td>
<td>(a) For imported vehicles Brussels normal price added with customs duty and excise tax</td>
</tr>
<tr>
<td></td>
<td>(b) Other cars, weight not exceeding 1,800 kgs.</td>
<td>(b) For domestically produced vehicles, producer's selling price with certain deduction (i.e. tax on motor-cars and motor cycles, sales tax)</td>
</tr>
<tr>
<td></td>
<td>(c) Motor cycles</td>
<td></td>
</tr>
<tr>
<td>Name of tax</td>
<td>Subject</td>
<td>Unit</td>
</tr>
<tr>
<td>-----------------------------</td>
<td>----------------------------------------------</td>
<td>---------</td>
</tr>
<tr>
<td>Excise tax on certain</td>
<td>Rusks, dry cakes, &quot;Danish bakery&quot;, biscuits, chocolate ice-cream, pastes, ice-cream and pudding powder, and some dressings and soups</td>
<td>Kgs. (net)</td>
</tr>
</tbody>
</table>

**Question 2.** All products subject to excise taxes were manufactured domestically on an industrial scale. Passenger cars were not yet being made in Finland, but a factory was being built for this purpose. Motor cycles liable to taxation were not produced in Finland.

**Question 3.** In case liquid fuels subject to excise tax were used for the production of export goods, the producer was entitled to a rebate of this tax.

**Question 4.** The valuation used for border adjustments was, where needed, done on the basis of the normal price in accordance with the Brussels definition of value. If the tax on the goods in question was defined on the basis of value, the taxable value included the costs paid for insurances, freights, customs, etc. Excise taxes were levied similarly on domestically produced and corresponding imported goods. There were differences between foreign and domestic products in the tax on motor-cars and motor cycles but this had no significance since there was no domestic production at that moment, and a review of the law was under consideration to harmonize the bases for these taxes before passenger car production was started.

**Question 5.** Excise taxes were levied on domestic goods which had been taken away from the place of production and on foreign goods which had been given away from customs control. If goods liable to taxation were moved under the supervision of authorities to an industrial plant to be used in the production of goods liable to excise taxes, the tax was paid on the final product only.

Motor spirit used as fuel, raw material or auxiliary material in industrial production was free of excise tax.

The excise taxes on motor spirit used in transport were not reimbursed.

**Question 6.** Excise taxes were not levied on exported goods liable to these taxes. The exemption took place either so that the tax was not paid at all for those products which were proven to have been exported, or so that tax would be refunded after exportation if it had already been paid.

**Question 7.** See paragraph 5 above.

**Question 8.** Nil.
Question 9. A passenger may take with him into the country or a person receive in a gift parcel from abroad certain smaller amounts of products liable to excise taxes without paying tax. These amounts were specified in the administrative orders of the customs.

INDIA

Question 1. Excise duty was a selective single-stage tax levied only by the Central Government on certain products "produced" or "manufactured" in the country. However, on alcoholic liquor for human consumption Indian hemp, opium and often narcotic drugs only the State Governments and not the Central Government were empowered by the constitution to impose single-stage excise duties.

At that time excise duties were being levied on about seventy-one commodities, important among which were sugar, tobacco and cigarettes, tea and coffee, petroleum products, plastics, paper, tyres, matches, textiles, motor vehicles, steel products, tin plates and tinned sheets, machinery such as electronic motors and internal combustion engines, refrigerators, air-conditioners, etc.

The rates of excise duties varied from product to product. They were as low as 4 per cent in some cases and as high as 300 per cent in case of certain luxury products.

Duty was collected from manufacturers, in the case of manufactured goods, and from processors and wholesalers in the case of agricultural products. In a large number of cases the duty was levied as a specific duty, but in cases where duty was levied on ad valorem bases the price at which goods were sold to wholesale dealers by manufacturers or, in case of agricultural goods, the wholesale price obtained by independent dealers was taken as tax base.

Question 2. No.

Question 3. If the raw materials and components used in the manufacture of an export product were subject to excise duties, drawback of the whole amount of excise duty paid on such raw materials or components was admissible when such product was exported. Manufacturers of goods producing for exports could also obtain certain raw materials under bond without payment of excise duties. No border tax adjustments were made in regard to excise duties paid on capital goods, ancillary materials and hydrocarbon oils.

Imported goods were subject to "countervailing duty" equal to the excise duty payable on like indigenous products whether the excise duty was levied by the Central Government or State. The rate of "countervailing duty" levied on an imported product was in all cases equal to the excise payable on similar domestic product. However, excise duties on raw materials and components as well as on capital goods and hydrocarbon oils used as inputs for manufacturing finished products were not taken into account in determining the level of
countervailing duty. For example, while domestic producers of cigarettes paid excise duty on tobacco, paper as well as on cigarettes, importers paid "countervailing duty" equal to excise duty payable only on cigarettes. In a large number of cases, therefore, the incidence of excise duties on imported product was much less than the total accumulated excises payable on indigenous products.

**Question 4.** The tax base for "countervailing duty", in cases where excise duty on like indigenous products was payable on ad valorem basis, was the "landed cost of the imported products plus customs duty". Where the excise duty on a domestic product was levied as a specific duty, the rate of countervailing duty applicable to a like imported product was the same.

**Question 5.** Yes, excise duties were collected at the production stage, irrespective of who was the producer.

**Question 6.** Manufacturers producing goods for exports were entitled to obtain certain raw materials, under bond, without payment of excise duty.

   In all cases, duty if paid on a product could be claimed as drawback at the time of exportation.

**Question 7.** Adjustment for imported goods was made at the point of importation.

**Question 8.** Did not apply since excise duty on the same product cannot be levied both by the Central and State Governments.

**Question 9.** Refund of excise duty could be claimed for goods exported by post parcel, provided the amount refundable was not less than Rs. 5.
Question 1. The following goods were liable to selective excise taxes at the rates indicated:

PART I

Selective Excise Taxes Chargeable on Both Home-Produced and Imported Products

<table>
<thead>
<tr>
<th>Description of goods</th>
<th>Tariff ref. No.</th>
<th>Rate of tax (1.3.70)</th>
<th>Tariff heading No.</th>
<th>Rate of tax (m.f.n. on 1.3.70)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Beer</td>
<td>400/1</td>
<td>£27.3s.9d. per standard barrel of 36 gals. of a specific gravity of 1055°</td>
<td>22.03 and 22.07(a)</td>
<td>£27.4s.3d. per standard barrel of 36 gals. of a specific gravity of 1055°</td>
</tr>
<tr>
<td>Spirits</td>
<td>405/1</td>
<td>£13.19s.9d. per proof gal.</td>
<td>22.08, 22.09 and 33.06(A)(1), Special Charging Provisions Nos. 1 and 2 (page xxix of Tariff)</td>
<td>£18.11s.4d. per proof gal.</td>
</tr>
<tr>
<td>Hydrocarbon oils:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(a) mineral hydro-</td>
<td>403/2</td>
<td>4s.1.82d. per gal.</td>
<td>27.07(A), 27.09(a), 27.10(A), 29.03(a), 36.08(a), 38.18(A) and 38.19(a)</td>
<td>4s.2.82d. per gal.</td>
</tr>
<tr>
<td>carbon light oil</td>
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<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(petrol)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(b) hydrocarbon</td>
<td>404/2</td>
<td>3s.6.57d. per gal.</td>
<td>27.07(C)(1), 27.09(B)(1), 27.10(D)(2)(a), 29.01(C)(1), 38.07(a), 38.08(a), 38.09(3), 38.18(6) and 38.19(6)</td>
<td>3s.7.57d. per gal.</td>
</tr>
<tr>
<td>oils, other sorts</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(diesel etc.)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Description of goods</td>
<td>Tariff ref. No.</td>
<td>Rate of tax (1.3.70)</td>
<td>Tariff heading No.</td>
<td>Rate of tax (m.f.n. on 1.3.70)</td>
</tr>
<tr>
<td>---------------------</td>
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</tr>
<tr>
<td>Tobacco, un-</td>
<td>411/8</td>
<td>£4.7s.3d. per lb.</td>
<td>24.01(a)</td>
<td>£4.8s.4d. per lb.</td>
</tr>
<tr>
<td>Manufactured</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Note: The duty on home-manufactured cigarettes and other tobacco products if collected by means of a customs duty on the leaf used in their manufacture; the duty on imported tobacco products is charged on the finished product. There is no home production at present of unmanufactured tobacco.</td>
<td></td>
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<tr>
<td></td>
<td></td>
<td></td>
<td>24.02(a)</td>
<td>£5.4s.10.5d. per lb. of cigarettes (the rates for other imported manufactured tobacco products vary slightly)</td>
</tr>
<tr>
<td>Table waters</td>
<td>410</td>
<td>1s.5 5/6d. per gal.</td>
<td>20.07(a), 22.01(a), 22.02(a) (additional duty only), 22.02(B) and 22.07(D)(2)</td>
<td>1s.9 5/6d. per gal.</td>
</tr>
<tr>
<td>Matches</td>
<td>402/2</td>
<td>11s.4d. per 7,200 matches</td>
<td>36.06</td>
<td>12s.1ld. per 7,200 matches</td>
</tr>
<tr>
<td>Cider and perry</td>
<td>401/2</td>
<td>1s. per gal.</td>
<td>22.07(c)</td>
<td>(1) 5s. per gal. if of a strength of less than 9° of proof spirit and not containing added spirit or spirit derived from the addition of sugar</td>
</tr>
<tr>
<td>Tyres and tubes for vehicles and certain machines</td>
<td>412/1</td>
<td>7½% of the retail price</td>
<td>40.11(a)</td>
<td>(2) Cider and perry not falling in (1) above - £18.13s.10d. per proof gal.</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>(1) Tyres and tyre cases - 45% or £3 each</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>(2) Tubes etc. - 45%</td>
</tr>
<tr>
<td>Description of goods</td>
<td>Tariff ref. No.</td>
<td>Rate of tax (1.3.1970)</td>
<td>Tariff heading No.</td>
<td>Rate of tax (m.f.n. on 1.3.1970)</td>
</tr>
<tr>
<td>----------------------</td>
<td>-----------------</td>
<td>------------------------</td>
<td>-------------------</td>
<td>---------------------------------</td>
</tr>
<tr>
<td>Wine</td>
<td>401/5</td>
<td>(a) Not exceeding 25° of proof spirit - 14s.6d. per gal.</td>
<td>22.05, 22.06, 22.07(B), 23.05(B) and 30.03(B)</td>
<td>(a) Still</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(b) Exceeding 25° but not exceeding 30° of proof spirit - 15s.6d. per gal.</td>
<td></td>
<td>(1) Not exceeding 25° proof spirit</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(c) Exceeding 30° of proof spirit - 19s.7d. per proof gal.</td>
<td></td>
<td>(2) Exceeding 25° but not exceeding 30° proof spirit</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>(3) Exceeding 30° but not exceeding 42° proof spirit</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>(B) Sparkling</td>
</tr>
</tbody>
</table>

An additional duty of 3.6d per gal. for every degree above 42° proof spirit is chargeable.
### PART II

Selective "Excise Taxes" Chargeable Only on Imported Products (These Taxes are Collected at Importation or on Delivery from Bonded Warehouse for Home Use)

<table>
<thead>
<tr>
<th>Description of goods</th>
<th>Tariff heading No.</th>
<th>Rate of tax (m.f.n. on 1.3.76)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unprinted paper and wallpaper</td>
<td>37.03(a)(1), 48.01(a)(2), 48.02(b), 48.03(a), 48.03(b), 48.04(a), 48.05(b), 48.07(c), 48.07(H)(2), 48.10, 48.11(a), 48.15(M), 48.15(N) and 48.15(Q)</td>
<td>4% ad valorem</td>
</tr>
<tr>
<td>Gramophone records</td>
<td>92.12(a)</td>
<td>12%, or 1s.2.4d. each, whichever is the greater</td>
</tr>
<tr>
<td>Dried fruit and certain preserved fruit</td>
<td>08.01(a)</td>
<td>10% ad valorem</td>
</tr>
<tr>
<td></td>
<td>08.02(b)</td>
<td>10% ad valorem</td>
</tr>
<tr>
<td></td>
<td>08.03(b)</td>
<td>7s. per cwt. plus 10% ad valorem</td>
</tr>
<tr>
<td></td>
<td>08.04(b)(1)</td>
<td>2s. per cwt.</td>
</tr>
<tr>
<td></td>
<td>08.04(b)(2)</td>
<td>10s. 6d. per cwt. plus 10% ad valorem</td>
</tr>
<tr>
<td></td>
<td>08.10(b)</td>
<td>10s. 6d. per cwt.</td>
</tr>
<tr>
<td></td>
<td>08.12(b)(1) - additional duty only</td>
<td>10% ad valorem</td>
</tr>
<tr>
<td></td>
<td>08.12(b)(2)</td>
<td>10s. 6d. per cwt. plus 10% ad valorem</td>
</tr>
<tr>
<td></td>
<td>08.12(b)(3)(a)</td>
<td>10% ad valorem</td>
</tr>
<tr>
<td></td>
<td>08.12(b)(3)(b)</td>
<td>10% ad valorem</td>
</tr>
<tr>
<td></td>
<td>20.06(b)(2)(b)</td>
<td>10% ad valorem</td>
</tr>
<tr>
<td>Edible nuts</td>
<td>The additional duty at the following tariff heading Nos. 08.05(a) and 11.04(a)</td>
<td>10% ad valorem</td>
</tr>
<tr>
<td>Description of goods</td>
<td>Tariff heading No.</td>
<td>Rate of tax (m.f.n. on 1.3.70)</td>
</tr>
<tr>
<td>-----------------------------------</td>
<td>------------------------------------------------------------------------------------</td>
<td>-------------------------------</td>
</tr>
<tr>
<td>Photographic apparatus</td>
<td>84.08(B), 85.01(A)(2), 90.02(a), 90.07(a)(2), 90.08(a) and 90.09(a)</td>
<td>18% ad valorem</td>
</tr>
<tr>
<td>Photographic film, etc., sensitized</td>
<td>37.02(b)(1) 37.03(a)(2) 37.03(b)(2)</td>
<td>18% ad valorem</td>
</tr>
<tr>
<td>Starch and dextrin</td>
<td>11.06(a) 19.04 19.06(b)</td>
<td>3s. per cwt.</td>
</tr>
<tr>
<td>Propelling and sliding pencils</td>
<td>98.03(d) 98.05(b)</td>
<td>36% ad valorem</td>
</tr>
<tr>
<td>Grapes</td>
<td>Additional duty at 08.04(a)(1)</td>
<td>1d. per lb.</td>
</tr>
<tr>
<td>Newspapers and periodicals</td>
<td>49.01(c)(1), 49.02 and 49.03(a)</td>
<td>Daily newspapers 1.2d. per copy</td>
</tr>
<tr>
<td>Sugar, etc., articles</td>
<td>09.01(b)(1)* 19.02(c)(1)(a)(ii) 19.05(a)(1)(a) 19.05(b)(1) 21.01(a)(1)* 21.02(a)(1)* 21.04(b)(1) 21.07(h)(1) 20.01(c)(1)(a)(ii) 20.01(c)(1)(b)(ii) 22.04(a) 30.03(g)(2)(a) 33.04(a)(1)* 33.04(b)(1)</td>
<td>2d. per lb. 2.5d. per lb. 2s.1d. per gallon 2s.1d. per gallon 2d. per lb. or 1s.8d. per gallon 2d. per lb. or 1s.8d. per gallon 2d. per lb. or 1s.8d. per gallon</td>
</tr>
</tbody>
</table>

*Additional duty only at relevant tariff headings.
<table>
<thead>
<tr>
<th>Description of goods</th>
<th>Tariff heading No.</th>
<th>Rate of tax (m.f.n. on 1.3.70)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Vehicles and vehicle parts and accessories (other than tyres and tubes)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(1) Complete or substantially complete vehicles, bodies and chassis</td>
<td>87.01(D)(2)</td>
<td>50% or £40 per body and 37.5% in respect of the chassis</td>
</tr>
<tr>
<td></td>
<td>87.02(a)(2), 87.02(D)(2), 87.04(B)(2), 87.05(B)(2)</td>
<td>75% (37.5% in respect of three-wheeled vehicles)</td>
</tr>
<tr>
<td></td>
<td>87.02(B)(2)</td>
<td>75% (50% for unused buses for the carriage of more than 16 persons inclusive of the driver)</td>
</tr>
<tr>
<td></td>
<td>87.03(B)(2), 87.08(B), 87.14(a)</td>
<td>37.5%</td>
</tr>
<tr>
<td></td>
<td>87.09(a)(2), 87.09(B)</td>
<td>37.5% (25% in respect of the sidecar, if any)</td>
</tr>
<tr>
<td></td>
<td>87.14(a)(2)</td>
<td>50% or £60 each</td>
</tr>
<tr>
<td></td>
<td>87.14(B)</td>
<td>50% or £40 each</td>
</tr>
<tr>
<td>(2) Aggregates of vehicles, chassis or bodies</td>
<td>87.01(D)(1), 87.02(a)(1), 87.03(B)(1), 87.05(B)(1), 87.08(a), 87.14(a)(1)</td>
<td>17.5%</td>
</tr>
<tr>
<td></td>
<td>87.02(B)(1), 87.02(D)(1), 87.04(B)(1). Special Charging Provision No. 7 (page XXXI of Tariff) applies to incomplete aggregates</td>
<td>17.5% (12.5% in respect of the chassis of buses and ambulances)</td>
</tr>
<tr>
<td></td>
<td>87.09(a)(1)</td>
<td>20%</td>
</tr>
</tbody>
</table>
### Description of goods

<table>
<thead>
<tr>
<th>Tariff heading No.</th>
<th>Rate of tax (m.f.n. on 1.3.70)</th>
</tr>
</thead>
<tbody>
<tr>
<td>(3) Parts and accessories</td>
<td></td>
</tr>
<tr>
<td>(imported otherwise than as aggregates of</td>
<td></td>
</tr>
<tr>
<td>vehicles, chassis or bodies)</td>
<td></td>
</tr>
<tr>
<td>40.10(a), 48.21(K), 68.14(a), 70.09(B)(1)(b), 70.14(B)(1), 73.25(a), 73.29(a), 73.25(D)(1), 83.01(a)(2), 83.02(a), 84.06(a), 84.08(a), 84.10(a)(2), 84.10(c)(1a), 84.11(a), 84.18(a), 84.21(a), 84.22(a)(1), 84.22(a)(3), 84.59(c)(2), 84.61(b), 84.63(b)(2), 84.64(a), 85.01(a)(1), 85.01(D)(1), 85.02(a), 85.04(b)(1), 85.08(c)(1), 85.09(a), 85.15(b), 85.15(D)(2), 85.18(a), 85.19(a), 85.24(a), 85.26(c), 87.06(E)(1)(d), 87.06(E)(4)(b), 87.12(a), 87.14(D)(3), 87.14(D)(4)(b)(ii), 90.23(a), 90.24(a), 90.27(a), 90.28(a), 90.29(b)</td>
<td>37.5%</td>
</tr>
<tr>
<td>70.09(B)(1)(a), 70.14(A)(2)(b), 87.06(E)(1)(b)(ii), 87.06(E)(1)(c), 87.06(E)(4)(a), 87.14(D)(4)(a), 94.01(A)(1), 94.01(B)(1)</td>
<td>50%</td>
</tr>
<tr>
<td>87.06(E)(1)(a), 87.06(E)(1)(b)(1), 87.06(E)(2), 87.06(E)(3)</td>
<td>75%</td>
</tr>
</tbody>
</table>

It was pointed out that the imported products contained in the table in Part I headed "Selective excise taxes chargeable on both home-produced and imported products", carried higher taxes than the home product. Moreover, the table in Part II was headed "Selective excise taxes chargeable only on imported products". Asked what was the general idea behind this, the observer from Ireland said that he would supply the answer at a later stage.

Rates of 'excise taxes' in imported goods contain protective elements and in some cases compensatory elements for the cost of revenue control on the home manufacturers. These 'excise taxes' which are applied primarily for the purpose of raising revenue, were imposed at various times (e.g. dried fruit) for budgetary reasons. In the case of the motor vehicle duties (which is the most important of these duties) it is the most convenient method of collecting revenue from motor vehicles which are assembled, but not manufactured, in Ireland. Some of the produces on the list are home-produced but it would not
be economic administratively to impose a selective excise-tax on the goods involved. The protective elements in the 'excise taxes' applied by Ireland are to be eliminated in so far as they apply to goods of United Kingdom origin on or before 1 July 1971 or alternatively in ten annual instalments commencing on 1 July 1966.

Question 2. Selective excise taxes were imposed on the following products listed in the reply to Question 1 above which were not produced in economically meaningful quantities domestically:

- Dried fruit and certain preserved fruit, edible nuts, photographic apparatus, photographic film etc., sensitized, propelling and sliding pencils, and grapes.

Most of the complete vehicles, bodies and chassis listed above were assembled in this country from imported aggregates of parts imported in a "knocked-down" (C.K.D) condition. There was home production of some items, e.g. certain trailers and bodies for vehicles and a limited range of vehicle parts.

Question 3. In the case of goods imported for a purpose of manufacture, drawback equal to the amount of customs duty paid was allowed on the export of the goods, whether or not incorporated with other articles as a part or ingredient of a manufactured product.

Drawback of excise tax was also allowed on some home-produced products for export, e.g. beer (see Part I of answer to Question 1). Generally home-produced goods subject to excise tax, which were intended for export, were exported direct from bonded warehouses.

A full rebate of excise tax on home-produced and imported "hydrocarbon oils, other sorts" (diesel, etc.) was allowed where such oils were used for a purpose other than combustion in the engine of a motor vehicle.

There was no provision for the refund of duty on goods, e.g. hydrocarbon oils liable to excise tax, used for the transport in road motor vehicles of goods used in the production of other products.

Question 4. The valuation used for border adjustments on imports was based on the Brussels Convention on the Valuation of Goods for Customs Purposes. For the purposes of the "excise taxes" on imports listed in the reply to Question 1 which are chargeable on an ad valorem basis, the value taken included freight and insurance but not the amount of duty payable.

The question of valuation did not arise for border adjustments on exports - see reply to Question 3. The value declared by exporters for statistical purposes was the f.o.b. value, i.e. the cost of the goods plus the charges for delivery on board the exporting ship or aircraft, or for conveying them to the land frontier, as the case may be.
The oases and rates applicable to specific duties on imported goods and similar home-produced goods were set out in Part I of the answer to Question 1.

Question 5. The selective excises were chargeable on all goods of a kind liable thereto, imported or home-produced, which were delivered for home use.

Question 6. See reply to Question 3. In addition to the general provisions for drawback, etc., on exported goods, there were various other provisions for remission or repayment of the selective excise taxes, e.g. goods destroyed or irretrievably lost after importation but before account of them had been taken by the Customs Officer, goods destroyed with the permission of the Revenue Commissioners without having been used in the State, and goods not in accordance with the contract of sale or damaged in transit, returned unused to, and with the consent of, the seller.

Question 7. Adjustments for imported goods were made at importation or on delivery from bonded warehouse for home use.

Question 8. No regional differences exist.

Question 9. Tourists residing in Great Britain, Northern Ireland or elsewhere in Europe could import goods liable to the selective excise taxes in accompanied baggage without payment of tax within the following limits:

1. Manufactured tobacco including cigars and cigarettes (e.g. 400 cigarettes or any assortment not exceeding 1 lb. in weight) 1 lb.

2. Spirits including liqueurs and cordials (i.e. one normal sized bottle) 1/6 gallon

3. Wine (i.e. one normal sized bottle) 1/6 gallon

4. Toilet waters or perfume (The above allowances apply to adults only) ½ pint

5. Dutiable goods (other than tobacco, spirits, wine, toilet waters or perfume) to a total value not exceeding £5.

Dutiable travel souvenirs acquired abroad of total value not exceeding £50 (£200 for tourists residing outside Europe) could also be imported in baggage provided they were being imported in transit only and would be re-exported at the termination of the importer's visit. Spirits or tobacco in any form could not be included.

The tax-free allowances at 1 to 4 above for tourists residing outside Europe are 2½ lb., 1/3 gallon, 1/3 gallon and 1 pint respectively and the concession at 5 above applied to dutiable goods (other than tobacco, spirits, wine, toilet waters or perfume) to a total value not exceeding:

per adult £20
per child £5.
Special facilities were available for the tax-free purchase by tourists of spirits, tobacco, etc. for export at Dublin and Shannon airports.

JAPAN

The delegate of Japan referred to Spec(68)88, which explained the essential characteristics of the Japanese indirect tax system, including the border tax adjustments made in respect of indirect taxes.

Question 1. Japan’s indirect tax system was, in terms of the contribution to the national revenue, composed primarily of a series of taxes on particular consumption of goods. These were taxes on alcoholic drinks; on tobacco products, for which there was a State monopoly; and on hydrocarbon oils. Their contribution to the total national revenue amounted as a whole to 11.9 per cent, based on 1966 figures. The revenue from the taxes on the three commodity groups which had long been traditionally subject to indirect taxes in most countries, accounted for about 52 per cent of revenue from all indirect taxes, excluding customs duties.

Taxes were levied on various other goods, including passenger motor vehicles, sugar, refrigerators, cameras, cosmetics. The revenues from all taxes on consumption accounted for 22.7 per cent of the total budgetary revenue in fiscal year 1966. These excise taxes were, with some exceptions, generally charged on the manufacturer’s selling price.

Question 2. A tax was imposed in Japan on coffee, cocoa and chicory which Japan did not produce in significant amounts. However, this tax was imposed solely for the purpose of raising revenues, in accordance with the ability to pay, from various types of beverages, whether or not nationally produced in substantial quantities.

Question 3. In regard to the border tax adjustments at the time of exportation, the use of tax-exempt sugar was authorized for confectionery and the use of tax-exempt components of automobiles such as car coolers was authorized for buses. No border tax adjustments of the kind mentioned in the question were made at the time of importation.

Question 4. As for imports, border adjustments were based on the value for customs purposes which included insurance and freight plus customs duty on such goods. The border tax adjustments at the exportation were based on the actual selling price on the home market.

In cases where specific duties were applied to imported goods the bases and rate applicable to such goods were the same as those applicable to similar home-produced goods.
Question 5. Selective excise taxes were imposed on any purchaser, no matter whether the purchaser were a firm or not. Therefore, generally speaking, there was no way for firms to avoid payment of such taxes.

Question 6. All goods which were subject to excise taxes were exempt from such taxes at the time of exportation. In cases where any goods on which excise taxes had already been imposed were exported or where any confectionery or canned fruits for which some taxed raw sugar had been used as a raw material were exported, such taxes were repaid upon presentation by exporters of the tax payment certificate issued by the chief of the local tax office.

Question 7. In Japan, adjustments were normally made at the border. Only in the case of those goods such as jewellery, fur coats, etc. were adjustments made not at the border but at the later retail stage.

Question 8. Not applicable.

Question 9. The following were exempted at importation:

(a) souvenirs for personal use value of which was not more than $10;

(b) goods imported personally for own use or for professional purposes.

Other

In reply to questions on the escalation of excise rates on alcohols which in practice appeared to place a higher tax burden on imported spirits such as whisky, the representative of Japan said that rates were decided on the basis of ability to pay and that higher rates were imposed on luxury products. Luxury Japanese products did not escape the higher rates. He undertook to try to obtain information on the criteria used for differentiating the rates and figures showing the quantity and value of alcohols paying each of the rates, broken down by imported and domestic products. Asked why coffee was still taxed, the representative of Japan said that coffee had not traditionally been drunk in Japan and, in that market, could be regarded as a luxury product.

The question was raised of the justification for the administration of the commodity tax on cigarette lighters above a specified value, under which domestically produced lighters generally did not bear the tax as they were valued at first sale, excluding the value of subsequent engraving, enamelling, jewel setting, etc. while imported lighters, which paid on a c.i.f. value (including duty), did bear the tax. The representative of Japan undertook to try to provide the questioner with comments at a later stage.
It was pointed out that excise taxes appeared to have a pervasive significance in Japan. Asked for any statistical data or information which might shed light on the economic impact of these taxes, especially with respect to the share of consumption expenditure covered by excises, the representative of Japan said that he would attempt to collect the relevant information.

**NEW ZEALAND**

**Question 1.** See paragraphs 1 to 4 on pages 158/159 of Spec(68)88.

**Question 2.** Excise taxes applied only to domestically produced goods.

**Question 3.** Full adjustment of tax was made in respect of materials incorporated in exported goods. No adjustment was made in respect of tax on goods consumed in the manufacture or transport of exported goods.

**Question 4.** Excise taxes were imposed only on goods produced domestically. However, equivalent imported products were subject to import duties.

The border tax adjustments on exports was the actual amount of tax which had been paid or would have been paid. The valuation used for adjustments on imports was the quantity, with the exception of perfumed spirits and toilet preparations, for which the wholesale value in the country of origin was used as a basis of valuation. The valuation for imports did not include insurance, freight or duty. For exports the basis of valuation was the quantity.

The base applicable to specific duties on imported goods was mainly the same as that applicable to home-produced goods with the exemption of medicaments containing alcohol. In other cases the ton was specified as against a cwt. for imports. The rates of duty on imported goods differed from the rates of excise on home-produced goods on the following tariff items which could be compared with the excise list on page 160 of Spec(68)88:

| 33.06.01 | 24.02.29 |
| 33.04.05 | 24.02.31 |
| 30.03.04 | 24.02.32 |
| 48.10.99 | 22.03.01 |
| 17.01.20 | 22.03.02 |
| 17.02.50 | 22.09.33 |
| 24.02.10 | 22.09.39 |
| 24.02.21 | 22.09.43 |
| 22.03.01 | 22.09.49 |

**Question 5.** See paragraph 1 on page 158 of Spec(68)88. There was no means of avoidance of payment by firms.
Question 6. See paragraph B.2 on page 161 of Spec(68)88.

Question 7. The adjustment for imported goods could be deferred if the goods were retained in warehouses under customs control. The import duties were paid when the goods were removed from warehouse for sale or for consumption.

Question 8. Did not apply.

Question 9. Exporter: no special provision except for purchases from duty-free shops, but normal procedure (drawback) could apply. Imports: not applicable.

NORWAY

Question 1. Selective excise taxes are levied on alcohol (spirits, wine, beer etc.), tobacco manufactures, motor vehicles, petrol, certain non-alcoholic beverages and cosmetics. The tax-base varies according to the product. In principle, however, the taxes are non-discriminatory in such a way that the effect of the taxation on home-produced and imported goods are identical.

Question 2. Yes, motor vehicles and wine.

Question 3. No adjustments at the border.

Question 4. See paragraphs 1 and 3.

Question 5. The selective excise taxes are collected on sales by producer/wholesaler to retailer. Firms have to pay excise taxes provided they do not purchase the goods for distribution to retailers.

Question 6. See paragraph 3.

Question 7. Upon sale from wholesaler to retailer.

Question 8. There exists no regional differences with respect to selective excise taxes.

Question 9. See paragraph A8 (retail).
Question 1. There were the following:

(i) Luxury tax on sumptuary expenditure:

(a) on purchases of particular products;

(b) on occupation of certain property;

(c) on the use of certain services.

The basis of calculation was: for (a), the selling price; for (b), the value as determined in each case; and for (c), the selling price to the public.

(ii) Special taxes:

(a) tax on the manufacture of alcohol, sugar, chicory, beer and refreshing drinks;

(b) taxes on petroleum and its derivatives;

(c) tax on telephone use.

The basis of calculation was: for (a), related to the volume or net weight or selling price, according to the case; for (b), specific units of measurement - as given in the tariff; and for (c), the actual amount charged to the subscriber.

Question 2. No.

Question 3. Where goods were exported in the production or transport of which materials which have borne selective excise taxes had been used, a tax adjustment was made at the border in the amount of the tax so levied.

Question 4. The basis adopted for calculating such border adjustments was the same as that used for calculating cascade tax; such adjustments were made at the same time and lumped together in one sum.

When the bases and rates applicable were specific, they were no different from those laid down for similar domestically-produced goods.

In answer to questions, the representative of Spain said that border tax adjustments were made not only for exports but also for imports. Such adjustments were calculated on the same basis used for the cascade taxes. Technical coefficients had to be determined for the different sectors, and the incidence of the tax was to be calculated according to the incidence of the various inputs for goods and services acquired.
Question 5. All purchases of products subject to these taxes were taxed, even in the case of purchases by commercial and industrial undertakings.

Question 6. All goods had to pay the tax, so when they were exported the tax already paid was refunded as described in paragraph 4.

As an exception, in the case of articles which had paid selective luxury tax, there were two cases to be considered, according to the point at which the refund is made:

(a) if the articles had been exempted from payment, in which case there was no refund on this account;

(b) if the articles had been taxed, in which case the tax was refunded.

Question 7. When adjustments for imported goods were not made at the border, as only happened in certain cases of luxury taxes, such goods, once they had entered the domestic market, were treated in exactly the same way as goods of domestic manufacture and taxed on the same basis.

Question 8. The exemption from some of these taxes which applied in the territories of the Canary Islands and the free ports of Ceuta and Melilla was covered by a special compensation arrangement in trade with the rest of the national territory.

Where regional differences existed in such taxation, the mechanism provided was the same as that used for foreign products, as was the fiscal treatment applied and was based on the difference in the tax borne. That was the case with the free ports of the Canary Islands, Ceuta and Melilla.

Question 9. Early in 1969, a system of duty-free shops was established in Spanish airports.

SWEDEN

Question 1. As can be seen from the documents C(68)49 and Spec(68)88, specific indirect taxes were levied in Sweden on tobacco products, alcohol, beer, soft drinks, motor vehicles, jewellery, carpets, furs, chocolate, confectionery, cosmetics, perfume, toilet water, fuel oils, coal, coke and electric energy. The taxes were for several products levied at specific rates. Jewellery and knotted carpets were taxable at 20 per cent of the retail price including tax, chocolate and confectionery, perfumes, cosmetics etc. at 50 per cent ad valorem and furs at rates corresponding to 10 per cent ad valorem (excluding tax).

Question 2. Some of the taxes mentioned under 1 covered also products not produced in Sweden in appreciable quantities, e.g. wine (included in a general taxation on alcohol), liquid fuels and coal (under a scheme of taxes on energy, also electric energy etc.).
Question 3. No.

Question 4. Special excise taxes were normally not collected at the importation stage except in cases when the importer was a final consumer or a non-registered dealer. The bases and rates for the taxation of imported goods depended on the systems applied for the products in question but to their effect, taxes on imported goods did not differ from those levied on similar home-produced goods.

Question 5. No mechanism existed by which purchases by firms could take place free of special excise taxes.

Question 6. Exports of taxable goods by manufacturers and dealers were free of special excise taxes. Taxes already paid on goods that were exported were however as a general rule not repaid.

Question 7. Goods that were imported by registered dealers were subject to excise taxes at the same stages as similar home-produced products.

Question 8. Not applicable to Sweden.

Question 9. Tourists were allowed to import free of tax and duty limited amounts of goods including such subject to special excises. No similar arrangements existed for tourists' purchases of goods in Sweden, with the exception of goods bought in tax-free shops at airports.

Other

As asked whether a credit could be given for the TVA on the purchases by a firm of cars, petrol and heavy oil, and be set off against the TVA due on its sales, the representative of Sweden said that this could be done in the case of heavy vehicles and not passenger cars. Petrol and heavy oil were not subject to the TVA but to energy tax.

SWITZERLAND

Question 1. Tax on beer and tobacco tax. Revised legislation on the tobacco tax was at that time being discussed in the Federal Chambers and should enter into force on 1 January 1970. The following information on the tobacco tax would relate to the new draft legislation.

The tax on beer was calculated on quantity (hectolitres); that on tobacco would in principle be based on the weight and number of units.

Question 2. No.

Question 3. Not applicable.

Question 4. In principle, the tax on imported goods was charged according to the same criteria as the tax on goods manufactured in Switzerland.
Question 5. The beer tax was charged at the brewery stage on the basis of output; the tobacco taxes were charged at the manufacturing stage pro rata to the quantity produced (weight, number of units).

Question 6. The beer tax was charged only on beer intended for consumption in Switzerland. On the other hand, the tobacco tax was charged on the entire output, and was subsequently reimbursed on exports provided the necessary documentary proof is adduced.

Question 7. Charged at the time of import.

Question 8. Not applicable.

Question 9. No refunds were made on small quantities exported by tourists; the tax was not charged on imports by individual travellers, provided that the quantities imported did not exceed the following limits:

<table>
<thead>
<tr>
<th></th>
<th>For travellers domiciled</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>in Europe (including Switzerland)</td>
</tr>
<tr>
<td>Cigarettes (units)</td>
<td>200</td>
</tr>
<tr>
<td>or cigars (units)</td>
<td>50</td>
</tr>
<tr>
<td>or pipe tobacco (grammes)</td>
<td>250</td>
</tr>
</tbody>
</table>
UNITED KINGDOM

**Question 1.** See pages 56-57 of C(68)47 Part III attached to Spec(68)57.

**Question 2.** Tobacco and oil were not grown or produced in economically meaningful quantities in the United Kingdom, but the United Kingdom had large tobacco manufacturing and oil refining industries and consumed large quantities of these commodities, which were traditionally taxed for revenue purposes in most countries.

**Question 3.** Full adjustment was made in respect of materials or components incorporated in exported goods. No adjustment was made in respect of goods used in the manufacture or transport of exported goods.

**Question 4.** As none of the selective excises imposed in the United Kingdom was charged ad valorem, no question of valuation arises. As regards specific goods see the second paragraph on page 57 of C(68)47 Part III attached to Spec(68)57.

**Question 5.** In general, firms in the United Kingdom were not entitled to buy goods free of any excise duty normally due. There was however provision for the delivery duty free of hydrocarbon oil and ethyl alcohol (after it had been denatured) for certain commercial uses, and for firms to obtain in certain circumstances duty-free samples e.g. of spirits and tobacco.

**Question 6.** See first paragraph on page 57 of C(68)47 Part III attached to Spec(68)57.

**Question 7.** The only circumstance in which excise duty was not charged on imported goods at importation but later was when goods were deposited in a bonded warehouse immediately on importation. The duty was then chargeable on the goods when they were removed from bonded warehouse, at the rate of duty current at that time.

**Question 8.** There were no regional differences.

**Question 9.**

(a) **Tourist purchases.** Visitors going to the United Kingdom and returning residents were allowed to bring in small quantities of tobacco goods, wines, spirits, perfumed spirits and one mechanical lighter for personal use, in their accompanied baggage. At most United Kingdom airports from which there were scheduled foreign flights there was provision for the purchase, by departing tourists, of tobacco goods, wines, spirits etc. at duty-free prices.

(b) **Small postal importations.** There was no legal exemption from duty for goods liable to excise duty when imported privately or commercially in small quantities by post; for exports the normal drawback procedures were available.
It was pointed out that excise taxes were particularly important in the United Kingdom. Asked if they could give the approximate proportion of consumer expenditure affected by excise tax, the expert of the United Kingdom answered that the proportion is about 17.5 per cent, made up of alcoholic drink 6.2 per cent, tobacco 6 per cent, hydrocarbon oils 3.7 per cent and other excise duties (betting, motor-vehicle licence duties, matches and mechanical lighters) 1.7 per cent. (1967 figures.)

**United States**

Question 1.

I. Federal Excise Taxes on the Transfer of Goods and Services

<table>
<thead>
<tr>
<th>Type of tax</th>
<th>Rate and basis</th>
</tr>
</thead>
<tbody>
<tr>
<td>A. Retailers' excise taxes:</td>
<td></td>
</tr>
<tr>
<td>Diesel and special fuels</td>
<td>46 per gallon</td>
</tr>
<tr>
<td>B. Manufacturers' excise taxes:</td>
<td></td>
</tr>
<tr>
<td>1. Passenger automobiles</td>
<td>7% of manufacturing price</td>
</tr>
<tr>
<td>2. Trucks, buses, trailers</td>
<td>10% of manufacturing price</td>
</tr>
<tr>
<td>3. Trucks parts and accessories</td>
<td>8% of manufacturing price</td>
</tr>
<tr>
<td>4. Tyres, etc.</td>
<td></td>
</tr>
<tr>
<td>highway type</td>
<td>10¢ per pound</td>
</tr>
<tr>
<td>other</td>
<td>5¢ per pound</td>
</tr>
<tr>
<td>inner tubes</td>
<td>10¢ per pound</td>
</tr>
<tr>
<td>tread rubber</td>
<td>5¢ per pound</td>
</tr>
<tr>
<td>5. Gasoline</td>
<td>4¢ per gallon</td>
</tr>
<tr>
<td>6. Lubricating oil</td>
<td>6¢ per gallon</td>
</tr>
<tr>
<td>7. Pistols and revolvers</td>
<td>10% of manufacturing price</td>
</tr>
<tr>
<td>8. Other firearms, shells, cartridges</td>
<td>11% of manufacturing price</td>
</tr>
<tr>
<td>9. Fishing equipment</td>
<td>10% of manufacturing price</td>
</tr>
<tr>
<td>C. Services</td>
<td></td>
</tr>
<tr>
<td>1. Telephone and teletype-writer service</td>
<td>10% of amount billed</td>
</tr>
<tr>
<td>2. Domestic air transport of persons</td>
<td>5% of amount paid</td>
</tr>
<tr>
<td>D. Miscellaneous taxes</td>
<td></td>
</tr>
<tr>
<td>1. Sugar</td>
<td>0.53¢ per pound</td>
</tr>
<tr>
<td>2. Imported oleomargarine</td>
<td>15¢ per pound</td>
</tr>
<tr>
<td>3. Machine guns</td>
<td>$200 per firearm</td>
</tr>
</tbody>
</table>
E. Alcohol and tobacco taxes

Alcoholic beverages:
1. Distilled spirits $10.50 per proof gallon
2. Beer $9 per barrel (31 gallons)
3. Still wines 17c to $10.50 per wine gallon
4. Sparkling wines $2.40 or $3.40 per wine gallon
5. Cordials and liquors $1.92 per wine gallon

Beer in bottles was taxed in terms of bottles making up the barrel equivalent.

Some delegations pointed out that the United States taxed imported alcoholic beverages on the assumption that these were 100°. They emphasized that the interest they evinced in this matter during the Kennedy Round negotiations remained strong. It was also noticed that preference to bulk imports was to the disadvantage of bottled products and it was difficult to determine the alcohol content of certain products, e.g., perfumes. Commenting on these points, the representative of the United States said that "hard liquor" within the range of 80°-100° or more was treated for tax purposes as if it were 100°. This led to increased volume of trade in these types of alcohol in the high proof categories; these being watered later. This matter was a subject of discussion during the Kennedy Round negotiations, and would no doubt be the subject of discussion in future negotiations. Turning to the question of alcohol content, he said that the general rule was to tax the product and not the component. He believed that there was no special tax on the alcohol content in perfume.

Tobacco products:
1. Cigarettes 8¢ per pack
2. Cigars $2.50-$20 per thousand
3. Snuff, smoking and chewing tobacco 10¢ per pound
4. Cigarette paper 1¢ per 50

F. Regulatory taxes

1. Opium 1¢ per oz.
2. Opium for smoking $300 per pound
3. Marihuana $100 per oz., except $1 per oz. to occupational users
4. White phosphorus matches 2¢ per 100
5. Adulterated butter 10¢ per pound domestic
6. Filled cheese 1¢ per pound domestic 8¢ per pound imported
Some delegations asked for further details regarding any Federal excise taxes which might fall differently on domestic products as opposed to imported goods, particularly in the case of leomargarine, adulterated butter and filled cheese. It was also asked if the two latter products could be defined and if these differential taxes were in accordance with Article III of the General Agreement. In response, the representative of the United States said that the list of taxes was complete and definitive. State taxes listed on subsequent pages were comprehensive and generally gave a good description of these taxes at the State levels. He thought the taxes on the above-mentioned goods existed to suppress activity in inferior material and not to differentiate between home and foreign products. Adulterated butter is defined as a grade of butter produced by mixing, reworking, rechurning in milk or cream, refining, or in any way producing a uniform, purified, or improved product from different lots or parcels of melted or unmelted butter or butter fat, in which any acid, alkali, chemical, or any substance whatever is used for the purpose or with the effect of deodorizing or removing rancidity. This definition also includes any butter or butter fat with which there is mixed any substance foreign to butter with intention or effect of reducing the cost of the product. It includes any butter in the manufacture or manipulation of which any process or material is used with the intent or effect of causing the absorption of abnormal quantities of water, milk, or cream.

Filled cheese means substances made of milk or skimmed milk with the addition of butter, animal oils or fats, vegetable or other oils, or compounds foreign to milk, and made in imitation of cheese. Substances and compounds consisting principally of cheese with added edible oils, which are not sold as cheese or as substitutes for cheese but are primarily used for imparting a natural cheese flavour to other foods, are not filled cheese (Code Section 4346).

Total tax collections in 1966 on sales of adulterated butter and filled cheese, both domestic and imported, were $2,000. Included in this $2,000 figure is a licence tax of up to $600 on domestic producers and sellers of both products. The quantity of these products sold in the United States, therefore, is extremely small.

II. STATE EXCISE TAXES

The most important State excises were those on motor fuels, alcoholic beverages and tobacco products. They were normally imposed at the wholesale level. There were also State taxes on insurance, public utilities, amusements and motor vehicles.

A. Motor fuels

Motor fuels were taxed in all fifty States and the District of Columbia. Seven States also taxed motor fuels under a general retail tax. The frequency distribution of rates was as follows:

<table>
<thead>
<tr>
<th>Cents per gallon</th>
<th>Number of States</th>
</tr>
</thead>
<tbody>
<tr>
<td>5</td>
<td>4</td>
</tr>
<tr>
<td>6</td>
<td>10</td>
</tr>
<tr>
<td>6.5</td>
<td>5</td>
</tr>
<tr>
<td>7</td>
<td>28</td>
</tr>
<tr>
<td>7.5</td>
<td>2</td>
</tr>
<tr>
<td>8</td>
<td>1</td>
</tr>
<tr>
<td>9</td>
<td>1</td>
</tr>
</tbody>
</table>
Diesel fuel was subject to tax in forty-nine States and the District of Columbia. In forty States the rates were the same as for gasoline, and in ten States the rates were roughly 1 cent per gallon more than for gasoline.

B. Alcoholic beverages

Many States taxed various forms of alcoholic beverages. In a number of cases these taxes were imposed in addition to a general retail tax.

1. Distilled spirits

Distilled spirits were taxed in thirty-three States and the District of Columbia. The frequency distribution of rates was as follows:

<table>
<thead>
<tr>
<th>Dollars per gallon</th>
<th>Number of States</th>
</tr>
</thead>
<tbody>
<tr>
<td>$1.00-$1.50</td>
<td>6</td>
</tr>
<tr>
<td>$1.50-$2.00</td>
<td>11</td>
</tr>
<tr>
<td>$2.00-$2.50</td>
<td>6</td>
</tr>
<tr>
<td>$2.50-$3.00</td>
<td>7</td>
</tr>
<tr>
<td>$3.00 and over</td>
<td>3</td>
</tr>
<tr>
<td>20% of wholesale price</td>
<td>1</td>
</tr>
</tbody>
</table>

2. Beer

Beer was taxed in all fifty States and the District of Columbia. The frequency distribution of rates was as follows:

<table>
<thead>
<tr>
<th>Dollars per barrel</th>
<th>Number of States</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than $1</td>
<td>3</td>
</tr>
<tr>
<td>$1-$2</td>
<td>11</td>
</tr>
<tr>
<td>$2-$3</td>
<td>12</td>
</tr>
<tr>
<td>$3-$4</td>
<td>6</td>
</tr>
<tr>
<td>$4-$5</td>
<td>5</td>
</tr>
<tr>
<td>$6-$8</td>
<td>4</td>
</tr>
<tr>
<td>$8-$10</td>
<td>2</td>
</tr>
<tr>
<td>$10-$12</td>
<td>4</td>
</tr>
<tr>
<td>$12-$14</td>
<td>3</td>
</tr>
<tr>
<td>20% of wholesale price</td>
<td></td>
</tr>
</tbody>
</table>

3. Light wines

Light wines were taxed in thirty-seven States and the District of Columbia. The frequency distribution of rates was as follows:

<table>
<thead>
<tr>
<th>Cents per gallon</th>
<th>Number of States</th>
</tr>
</thead>
<tbody>
<tr>
<td>1¢</td>
<td>1</td>
</tr>
<tr>
<td>10¢-30¢</td>
<td>19</td>
</tr>
<tr>
<td>30¢-50¢</td>
<td>6</td>
</tr>
<tr>
<td>50¢-80¢</td>
<td>5</td>
</tr>
<tr>
<td>80¢ and over</td>
<td>6</td>
</tr>
<tr>
<td>20% of wholesale price</td>
<td>1</td>
</tr>
</tbody>
</table>
4. Fortified wines

Fortified wines were taxed in thirty-six States and the District of Columbia. The frequency distribution of rates was as follows:

<table>
<thead>
<tr>
<th>Cents per gallon</th>
<th>Number of States</th>
</tr>
</thead>
<tbody>
<tr>
<td>2¢</td>
<td>1</td>
</tr>
<tr>
<td>10¢-30¢</td>
<td>9</td>
</tr>
<tr>
<td>30¢-50¢</td>
<td>8</td>
</tr>
<tr>
<td>50¢-80¢</td>
<td>12</td>
</tr>
<tr>
<td>80¢ and over</td>
<td>6</td>
</tr>
<tr>
<td>20¢ of wholesale price</td>
<td>1</td>
</tr>
</tbody>
</table>

C. Tobacco products

Cigarettes were taxed in forty-nine States and the District of Columbia. See below for frequency distribution of rates.

Cigars were taxed in seventeen States at rates which varied by weight and retail price. Specific rates varied from $1 to $40 per thousand. Ad valorem rates varied from 10 per cent to 40 per cent of wholesale price.

Smoking tobacco was taxed in sixteen States, chewing tobacco in fifteen States and snuff in thirteen States.

<table>
<thead>
<tr>
<th>Cents per 20 cigarettes</th>
<th>Number of States</th>
</tr>
</thead>
<tbody>
<tr>
<td>2.5¢</td>
<td>2</td>
</tr>
<tr>
<td>3¢</td>
<td>1</td>
</tr>
<tr>
<td>4¢</td>
<td>2</td>
</tr>
<tr>
<td>5¢</td>
<td>2</td>
</tr>
<tr>
<td>6¢</td>
<td>3</td>
</tr>
<tr>
<td>7¢</td>
<td>5</td>
</tr>
<tr>
<td>8¢</td>
<td>13</td>
</tr>
<tr>
<td>9¢</td>
<td>2</td>
</tr>
<tr>
<td>10¢</td>
<td>9</td>
</tr>
<tr>
<td>11¢</td>
<td>3</td>
</tr>
<tr>
<td>12¢</td>
<td>1</td>
</tr>
<tr>
<td>30¢ of retail price</td>
<td>1</td>
</tr>
<tr>
<td>40¢ of wholesale price</td>
<td>1</td>
</tr>
</tbody>
</table>

D. Other State excise taxes

Motor vehicles were subject to selective excise taxes in ten States and the District of Columbia. They were generally imposed at rates similar to those of general State sales taxes (i.e. 2 per cent to 5 per cent). Selected public utilities were subject to tax in thirty-eight States. Twenty-seven States taxed admissions to selected amusements. Insurance premiums of one or more types were taxed in all States. Other State excises included pari-mutual betting, restaurant meals and soft drinks.
III. LOCAL EXCISE TAXES

Local excise taxes, where imposed, were generally on alcoholic beverages, motor fuels, public utilities, tobacco products and amusement admissions. They were generally similar in form to the corresponding State taxes, but at lower rates.

In 1964, local governments in eight States imposed cigarette taxes. The most common rate was 2 cents per twenty cigarettes. Selected municipalities in five States impose excises on one or more types of alcoholic beverages. Municipalities in eleven States may tax amusement admissions, but such taxes were widely used only in three States. Municipal gasoline taxes were imposed in seven States, but only in two States, Alabama and New Mexico, was the practice widespread, with these two States accounting for two thirds of the municipal governments imposing the tax.

Local excises were of minor importance, accounting for about 6 per cent of local tax revenues and less than 3 per cent of total local revenues.

Question 2. All products subject to selective excises in the United States were produced domestically in economically meaningful quantities. All products subject to border taxes were produced domestically.

Reference was made to the statement that "All products subject to border tax were produced domestically". It was asked whether the United States produced sparkling cider since imports of this were taxed as sparkling wines. The United States representative has determined that there have been small quantities of sparkling cider produced domestically in the United States.

Question 3. In general, Federal excise taxes were not imposed on purchases by firms of otherwise taxable goods if the purchases were to be used in further production, though there were exceptions (see question 5, below). In cases where taxes were imposed on goods used in connexion with or as a material or component in the production of an exported good no adjustment was made at the border for those taxes.

State and local excises were generally wholesale level taxes and, therefore, purchases of taxable commodities by manufacturers would often not be subject to tax. If, however, a manufacturer did pay State or local excise taxes on purchases of goods used in the production of exports, no adjustment was made at the border for these taxes when the final products were exported.

Question 4. The border tax adjustment on exports generally took the form of an exemption from tax. The valuation basis for the export adjustment, therefore, was the same as the basis for the imposition of tax, generally the manufacturer's selling price, in the case of Federal excises, and the wholesaler's selling price in the case of most State and local excises.
The Federal tax on imports, as a general rule, was imposed at the time that the importer sold the product domestically. The tax was based on the domestic selling price, which generally covered all costs including customs duties, ocean freight and insurance. When the importer used the product himself this use was a taxable event, and the base was the total acquisition cost including freight, insurance and customs duties.

When the importer sold the product at retail the tax was imposed on the established retail selling price reduced by 25 per cent in the case of automobiles, and by other appropriate percentages for other taxable items, to reflect the fact that the retail price was higher than the price normally charged by a manufacturer. This reduction also applied in the case of sales at retail by domestic producers.

Bases and rates on imported goods were the same as those on home-produced goods, with the minor exceptions noted under question 1.

Taxable goods imported into a State or locality imposing a wholesale excise tax would be subject to the tax at the time of importation if the product was imported by a retailer, or at the time of the first sale in the State at wholesale if imported by a manufacturer or wholesaler. The base of the tax was the wholesale sales price, the same as for a domestic good.

Reference was made to the word "generally" in the first paragraph of the answer to this question, asked whether this implied that rebates were granted in certain cases, the representative of the United States referred to the United States answer to question 6 which showed that in certain cases refunds were made for taxes previously paid on exported goods.

A question was asked whether the 25 per cent reduction in tax applied when direct delivery was effected by overseas suppliers and whether the basis for taxation was the true sales price or could some special criteria be used to determine it? The representative of the United States said that in such cases the tax was based on the full value of the product. As to the tax basis in cases where there was a domestic sale by the importer, it was the price at which the actual transaction was made reduced by 25 per cent to provide for an estimate of the wholesale value.

**Question 5.** With respect to the Federal taxes, the general rule was that sales by a manufacturer for use by the purchaser for further manufacture or for resale to a second purchaser for further manufacture were exempt from manufacturer's excises. The purchase of goods not used in further production was subject to tax. The same rules apply whether the product was produced domestically or imported.

An article was generally treated as sold for use in further production if the purchaser used the article as a material or component in the production of another article which was subject to Federal excise tax. Thus, for example, automobiles or trucks purchased by a firm for transportation of goods in the course of production would be subject to tax, but lubricating oil purchased by a firm for use as a material in the production of another taxable product, say, a pistol, would be exempt. Automotive parts, gasoline and tyres were treated differently.
Automotive parts and accessories used by the purchaser as a material or component in the production of any other article, whether or not taxable, were considered as "used in further manufacture" and could be sold free of tax. As a practical matter, the second product would generally be taxable, since automobiles, trucks and buses were subject to Federal excise taxes.

Gasoline used by a purchaser for non-fuel purposes, as a material in the manufacture or production of another article was treated as "used in further manufacture" and was exempt from Federal excise tax.

Tyres could be purchased tax free if the purchaser used the tyres on or in connexion with the sale of another article manufactured by the purchaser and if the other article was sold free of tax either because it was exported or because it was used as supplies for vessels or aircraft, or sold to a State or local government or a non-profit organization.

In order to receive exemption on the sale of an otherwise taxable product to another producer for use in further manufacture, an exemption certificate had to be filed by the manufacturer certifying that the product would be used in the further manufacture of a taxable article. In the case of sales for further manufacture through an intermediate dealer, proof of resale for further manufacture had to be supplied to the original manufacturer within six months of the time of his sale. In the absence of such proof, the original manufacturer became subject to tax on the sale.

The rules regarding State excise taxes varied widely from State to State. Purchases by businesses of goods for direct resale or of goods which became physical ingredients in other goods produced by the purchaser were generally exempt. A number of States provided exemptions for sales of gasoline for use in agriculture and, in some cases, for other non-highway uses.

In answer to questions, the representative of the United States said there was no distinction between an importer and a domestic buyer as to the right or otherwise for an exemption until the product was further processed ready for the tax to be levied at some later stage.

Question 6. The Federal automobile excise had to be distinguished from the other Federal excises in this respect. The general rule, not applicable in the case of automobiles, was that if the manufacturer sells directly for export or to an intermediate seller who certified that the product would be exported, no excise tax was charged. If, however, the tax had been paid and then a product is exported, a refund or credit was allowed for the tax already paid.

In the case of the auto excise, an automobile had to be exported free of tax only if there was certification, prior to the manufacturer's sale, that it would be exported. There were circumstances in which the tax was paid, even where there had been prior certification. In these cases a refund of the tax could be made. If the decision to export was made after the manufacturer's sale, however, and therefore without prior certification, no refund or credit was allowed for the tax which had been paid.
State and local excises were not levied on sales to out of State purchasers. Manufacturers' sales were not normally subject to these taxes in any event, since they were mostly wholesale taxes. Exports by wholesalers were exempt. There was, however, no provision in State laws for the repayment of taxes which had previously been paid in cases where exporting occurred at the retail level.

Asked under what precise conditions refunds were granted on taxes paid, the representative of the United States said that an automobile might be exported free of tax only if there was certification prior to the manufacturer's sale; otherwise no refund of credit was allowed for the tax which had been paid. This was, however, an exceptional case. As a general rule, when the export was effected through an intermediate seller who certified that the product would be exported, no excise tax was charged. In that case, if, however, the tax had been paid and then a product was exported, a refund of credit was allowed.

It was pointed out that the member States of the Community made no provisions for cash refunds as regards exports although in certain cases tax exemptions or credit were granted. Asked what was the practice in the United States, the representative of the United States said that the tax did not apply in a normal case. It was only in exceptional cases where the tax was applied and rebated.

**question 7.** The border tax adjustment for Federal excises on imported goods was not made at the border. In the general case, where an importer imported a product for sale to another person, the tax liability arose at the time of the sale by the importer. In the case of an importer who uses the imported product himself, the tax liability arose when the product was first used. The tax had to be paid on or before the last day of the month following the calendar quarter in which the tax liability was incurred.

State excises were generally imposed at the wholesale level, so that if a commodity entered the State at the retail level, the retailer was taxed at the time of importation. This would also be true of importations by a final consumer, in those cases where a use tax was enforced. If taxable goods were imported at the wholesale or manufacturer's stage, the tax would be charged when the good was sold at wholesale in the State. For retail excises, imported goods would be taxed subsequently on retail sales by exporters.

Use taxes were generally not enforced on final consumers who bring gasoline, tobacco or alcoholic beverages in from another State. Automobiles were subject to a use tax at the time of registration in those States which imposed a selective excise on automobiles.

In answer to questions, the representative of the United States said that border tax adjustments for Federal excises on imported goods were not made at the border but when the sale was effected. Thus the excises were not incorporated in any way either in the tariff or in the tariff process assessment.
Question 8. The general United States rules applicable to international transactions in goods subject to State excise taxes also applied to inter-State transactions in these goods. There was no differentiation between a sale to another State and a sale to another country or between a purchase from another State or another country.

Exports to another State or another country were exempt, but where tax has been imposed at a stage prior to exportation no refund was made. Imports from another State or another country were subject to tax if imported at or prior to the taxable stage. If imported subsequent to the taxable stage, i.e., by a final consumer, tax was imposed only if a use tax was enforced. The treatment, however, did not differ according to the source of the import.

The use taxes referred entirely to States and not to the Federal Government.

It was pointed out that there was a contradiction between the reply to Question 6 which indicated that a refund or credit might be allowed for taxes paid on export automobiles and the reply to Question 8 which seemed to prohibit such a refund. Commenting on this, the representative of the United States said that question 6 related to the Federal system while question 8 referred to regional taxes which provided for somewhat different treatment.

Question 9. There was no formal system of minimum exemptions. However, as a practical matter small imports by individuals of taxable commodities were not taxed because there was no administrative structure to handle such cases.

Other

It was pointed out that in the case of a unitary State, the tax authorities must be concerned mainly with what a type of commodity could stand in the way of taxation. Under a Federal system, like the United States, the Federal Government and many of the States shared the taxation revenue from certain important commodities such as alcoholic beverages, tobacco products and motor fuel. Asked how this was organized, the representative of the United States said that there was no organization of the ratio of tax paid to the local and Federal authorities. In some exceptional cases there might be informal co-ordination which related to a special situation.

He further pointed out that there was no consistent pattern in the taxation and the sources of revenue to the States varied considerably. The Federal Government had not circumscribed certain powers for itself and the States had freedom of action. Custom duties were applied at the border only by the Federal Government. There had been some discussion on the reform of the revenue sources for the States and local governments. If such reform were to take place then the nature of the taxation system might be adjusted.
YUGOSLAVIA

Question 1. Yugoslavia had no excise taxes in the sense of separate indirect taxes, independent of the general system of taxation on sales.

The indirect taxes levied on the commodities traditionally subjected to excise taxes (manufactured tobacco, beer, spirits and hydrocarbons) were simply specific items in the system of taxes on sales.

There were still a few commodities subject to specific taxes (touring cars, jewellery), but the traditional ones accounted for 92 per cent of the total income from specific taxes.

Question 2. Selective taxes did not apply to goods which were not produced in economically meaningful quantities domestically.

Question 3. Specific taxes were governed by the same principles as all other commodities liable for the payment of sales tax. The first basic principle governing the system of taxes on sales - which was fully observed as regards specific taxes - was that no tax was levied on goods used for the production of other goods or on goods used as raw materials for or as components in other commodities. The sole exception to this principle was the case of the specific taxes on hydrocarbons. These were paid by all purchasers, with the single exception of the petro-chemical industry.

Question 4. Border adjustments in specific taxes were made only when the goods are imported directly by the ultimate consumer. The tax bases and the rates were the same for imported goods as for similar home-produced goods.

Question 5. Yes, except in cases where the goods were purchased with a view to resale or to be used in the manufacture of other products.

Question 6. Exported commodities were exempt from tax. The tax was never refunded.

Question 7. Adjustments were made at the time of sale to the final consumer (generally speaking, the retailer).

Question 8. Theoretically, there were no regional differences in specific indirect taxes. In the case of the two most important ones (manufactured tobacco and hydrocarbons, which together provided 80 per cent of the total yield of all specific taxes) the selling price was fixed uniformly for the whole country. Tax rates were prescribed by Federal legislation, and the local authorities were not empowered to tax these products.

Question 9. Purchases made by foreign tourists in shops operating under special supervision enjoyed a rebate of 10 per cent on retail prices.
5. OVERLAPPING INDIRECT TAX SYSTEMS

Section IC of the outline deals with overlapping indirect tax systems. The following are the relevant questions:

1. Are there selective excise or other indirect taxes which apply to goods also subject at the same or another stage to a general broad-based indirect tax, including single-stage, cascade and value added taxes? The description should include taxes on raw materials, components and final products, on the one hand, and auxiliary materials, capital goods and services on the other hand.

2. For which of these taxes are border tax adjustments made and how are they made?

Replies by delegations

ARGENTINA

Question 1. Goods subject to selective excise taxes were also subject to sales tax, except where they were among the exceptions expressly laid down by law.

Question 2. In the case of imports, both taxes were applicable. For exports the adjustments were made by way of exemption or refund of taxes, as appropriate.

AUSTRALIA

Question 1. Sales tax, where applicable, was imposed generally on the last wholesale sale value and this included any customs or excise duty already imposed on the goods. However, few goods subject to excise duty were subject also to sales tax.

Question 2. Border adjustments were made in respect of the sales tax and the excise duty to the extent that goods for export which would otherwise be subject to tax in their final form were exempted from these taxes.

AUSTRIA

Question 1. All selective excise taxes were levied in addition to the general turnover tax.

Question 2. Border adjustments were made for selective excise taxes (except the local tax on beverages) as well as for the turnover tax.

CANADA

Question 1. Commodities subject to the selective federal excises were generally subject also to the federal manufacturers' sales tax and the provincial retail sales taxes.
Question 2. Border tax adjustments were made on exports for excise duties, excise taxes and the federal and provincial sales taxes as set out in the OECD Fact-Finding Report C(66)47, Part III at page 10. In the same way border tax adjustments were made on imports for all such sales and excise taxes except for the excise duties on alcohol, alcoholic beverages and tobacco products and except also for the basic selective excise taxes on wines. These selective federal excise duties were restricted to domestic products; however, such products when imported were subject to import duties under the customs tariff.

Other

In answer to questions, the representative of Canada said that selective excise taxes on imports were levied on the basis of the value for customs duty which was f.o.b. value. As to the excise duties on alcohol and tobacco, Canada had adopted the British structure which confined excise duties to domestic production; the legal authority for the levying of equivalent duties was found in the customs legislation. In the customs tariff a provision was made that whatever the amount that was levied on domestically produced spirits at the stage of production, was also levied automatically on imported goods by the same method of calculation. These were specific duties levied on the quantity of alcohol involved, both domestically produced and imported. In this respect he added that there was a substantial production of Canadian wine. However, the burden of the tax was the same on both, and there was no question of discrimination. Besides there was an additional excise duty on wine which was an example of sumptuary taxation. As to the provincial excise taxes these were collected by the retailer as an agent of the provincial taxing authorities and these were an element in the final retail price levied only at that stage.

DENMARK

Question 1. All goods listed in question I.B.1 were subject to the added-value tax.

Question 2. Border tax adjustments were made for all goods and all taxes according to the rules laid down in the various tax laws.

EUROPEAN ECONOMIC COMMUNITY

BELGIUM

Question 1. In Belgium the excise taxes applied to goods that were also subject to the cumulative tax.

Question 2. Border tax adjustments: for excise tax, see reply under B.6; for cumulative tax, see reply under A - "cascade taxes".
Question 1. There are selective excise taxes which applied to goods also subject to the value-added tax. Reference to part B.

Question 2. Reference to part B.

Other

All goods subject to excise taxes were also subject to the value-added tax. In Germany there were certain provisions which mitigated the accumulation of taxes. The reduction in the rates of the tobacco tax (Spec(68)88/Add.2, pages 31 and 32) had been made to offset the additional burden of the turnover tax borne by that element of cost which was attributable to tobacco tax. Furthermore, some goods subject to excise taxes were liable to the reduced rate of 5.5 per cent, e.g. coffee, tea, sugar, acetic acid and salt.

FRANCE

Question 1. In France all products subjected to an excise tax were also liable to TVA.

Question 2. A normal border tax adjustment was made for the two taxes. However, the internal tax and TVA on petroleum products were not reimbursed in respect of energy and fuel.

ITALY

Question 1. In general, all products subject to excise taxes or other selective indirect taxes were also subject to the general turnover tax.

The Italian tax system was characterized by numerous excise taxes, which, while being consumption taxes, were also imposed on goods used as raw materials or auxiliary materials for the production of other goods.

The incidence of the tax system was therefore reflected in the price of products manufactured in Italy and, according to the principle of the country of destination, an adjustment at the border could be made in the form of a refund on exports and compensatory charges on imports.

On the other hand, if these various selective excise taxes were incorporated in the turnover tax rates, from the substantive aspect the border tax adjustment could be applied in the same way as this tax. So long as consumption taxes were maintained in the form of specific excise duties, it was less easy to calculate the indirect incidence on the price of processed products.

In any case, the indirect incidence of specific excise taxes on the production price of exports from Italy was taken into consideration for border adjustments only in respect of engineering products and man-made fibres.
It should be emphasized, on the other hand, that no border tax adjustment was made for imports of the above-mentioned products; the foreign producer therefore had an advantage over the Italian producer.

**Question 2.** In order to answer this question in detail, it should be stated that the Italian tax system at present in force provided for a great many indirect taxes in addition to the general turnover tax, customs duties and selective excise taxes.

These indirect taxes accounted for 12 to 13 per cent of total tax revenue.

Some of these taxes were applicable to private persons as well as to producing undertakings, trade and services - for example, the registration tax, stamp duties, insurance tax, stamp duties on transport documents, and Government licence taxes.

All these fiscal charges were borne by undertakings in relation to their production and it was therefore quite logical that, like other production costs, they should be reflected in the final price of goods and services.

No adjustment was made at the Italian border for these taxes, however, except in respect of exports of engineering products and man-made textile fibres.

**NETHERLANDS**

**Question 1.** All goods subject to excise taxes were also subject to the general turnover tax (TVA).

**Question 2.** This applied to both imported and home-produced goods.

**EUROPEAN COMMUNITIES**

Asked whether in all the member States of the Community which had or would have the value-added tax, this tax was calculated on a value which included excise taxes, the representative of the Commission of the European Communities said that the basis for valuation was the price including excise taxes already borne by the goods in question.

**FINLAND**

**Question 1.** Goods liable to excise taxes as mentioned under B.1 were also subject to general sales tax.

**Question 2.** As above.

**INDIA**

**Question 1.** Under the Indian Constitution, both the central and the State Governments had powers to levy and collect taxes. In the field of indirect taxes, while the central Government was empowered to levy customs duties on
imports and excise duties on goods produced and manufactured in the country, sales
tax on sale and purchase of goods within the areas of the States were levied by
the State governments.

Almost all the State governments levied sales tax on transactions within the
State, but the system of taxation varied from State to State; it was single-
point in some and multi-point in others.

The legislation regarding levy of sales tax differed from State to State,
both in regard to coverage of transactions as well as the rates of tax. In
general, sales tax applied to sales or purchases of all kinds of movable
properties, but various classes of goods were exempted either by the Act itself
or by notifications issued by the State governments from time to time. The goods
which were generally exempted from payment of sales tax were necessaries or
essential goods, newspapers, industrial raw materials and goods which were
subjected to taxes under other laws of the State or central Government.

Goods subjected to excise duties could be subject to sales tax. In such
cases, sales tax rates were comparatively lower.

Question 2. Except in the case of two States, which had recently adopted
procedures for grant of rebates of sales tax, most of the other States in India
did not allow any border tax adjustments to be made in respect of sales tax paid
on products exported.

IRELAND

Questions 1 and 2. All of the goods listed in the reply to question B.1 (selective
excise taxes) were subject to turnover tax either at the retail stage only or at
the retail and wholesale stages.

JAPAN

Question 1. No. There were no overlapping indirect taxes.

Question 2. Not applicable.

NEW ZEALAND

Question 1. The following goods were subject to both excise and sales taxes:
alcohol used in production of perfumed spirits and toilet preparations; spirits
and spirituous mixtures, namely gin, geneva, schnapps and vodka.

Question 2. The foregoing were subject to selective excises when domestically
produced only; they were subject to the sales tax whether domestically produced
or imported. On export both excise and sales taxes were adjusted in full.

NORWAY

Goods subject to selective excise taxes are not exempted from the
value added tax.
SPAIN

Question 1. The luxury tax applied to goods and services which could also be subject to the cascade tax.

Question 2. Border tax adjustments were made for all indirect taxes which could be shown to have affected the cost of the final product. In such cases the adjustment was made as described in the answer to question No. 4.

SWEDEN

Question 1. Purchases of goods subject to selective excise taxes were also subject to tax on value added with the exception of fuels and electric energy, which were subject to energy tax and thus exempt from tax on value added.

Question 2. See answers under I.A and B.

SWITZERLAND

Question 1. The turnover tax was charged to the producer (brewer, tobacco manufacturer) simultaneously with the beer tax and the tobacco tax, on the basis of the wholesale delivery price. Transactions at the ensuing stages (trade, hotel industry) were not subject to any further tax.

Question 2. The turnover tax was charged on imports; exports of manufactured tobacco and beer were exempt from it.

UNITED KINGDOM

Question 1. There were a few items of minor importance which were composed of two or more elements, one of which is liable to a revenue duty and one (or the whole) to purchase tax. Examples were:

- mechanical lighters in the form of ornamental figures;
- chocolate liqueurs;
- perfumed spirits;
- some soft drinks, e.g. shandy.

(In addition motor vehicles were subject to an excise licence duty as well as to purchase tax.)

Question 2. Full adjustment was made in the normal way on imports and on exports for both the purchase tax and the excise elements.)
UNITED STATES

Question 1. There was no general broad-based indirect tax at the Federal level. General sales taxes in a number of States and localities, however, did cover sales of goods and services subject to Federal selective excises. There were also State and local excise taxes imposed on certain goods which were subject to Federal excise taxation, and, in some cases, to general State sales taxes.

Passenger automobiles, for example, were subject to a 7 per cent Federal manufacturers' excise tax. In thirty-seven States they were subject to a general State sales tax, and in nine of these thirty-seven States they could also be subject to local sales taxes. In eleven States, automobile purchases were subject to a selective State tax, and in one State only a local tax was imposed. Therefore, in only two States was there no State or local tax overlapping the Federal excise tax on automobiles.

Gasoline was taxed at a rate of 4 cents per gallon under a Federal manufacturers' excise. It was also subject to an excise tax in all fifty States and the District of Columbia. In seven of these States it was subject to general sales tax, in addition to selective excises. Some localities could also tax gasoline.

Tyres, lubricating oil, firearms and fishing equipment were subject to Federal excise taxes and, in general, to sales taxes in those States which impose them.

Tobacco products and alcoholic beverages were generally subject to State and sometimes local excise taxes in addition to the Federal excises. In some States these products were also subject to a general sales tax.

General State retail sales taxes did not generally apply to raw materials and components of other products, but they could apply to auxiliary materials, capital goods, and components. Federal excise taxes did not generally apply to components and raw materials either, but they too applied to certain auxiliary materials such as gasoline and lubricating oil, and on services, such as telephone. On the purchase of such goods and services, there could be an overlapping of general and selective taxes. It was even possible, particularly in the case of gasoline, to find three excise taxes, Federal, State and local, imposed in addition to a general State sales tax. There were no Federal or State excise taxes on capital goods.

In answer to questions, the representative of the United States said that no adjustments at the border were made for tax occulte. The question related to the argument about what was borne by the product, this was reviewed with the utmost strictness in the United States. State and local gasoline tax which was used in the operation of business for example was not remitted or exempted for export purposes; it was carried on in the price without remission. As to the relevance of the word "normally" in the text, he referred to the exceptions noted in the United States paper.
Question 2. When a product was exported it was not generally subjected to any tax, regardless of whether one or more taxes normally applied domestically, except in some cases where a tax had already been paid at a stage prior to the export stage. Imported goods were normally subject to all taxes imposed domestically on the goods by all levels of Government.

When one or more taxes had been imposed on a raw material, component, auxiliary material, capital good or service, in connexion with the production of an export, there was normally no border adjustment made for these taxes. There was also no compensating tax on imports to equalize the burden on imports with that of domestic goods.

Other

It was asked if the United States moved towards a Federal TVA system, what would this imply to the taxing authority of the States and would it be feasible for the Federal Government to collect sufficient revenue through TVA so that it could turn some of it to the States, thus enabling them to reduce their reliance on independent taxation? In reply, the representative of the United States, speaking in his personal capacity, said that it had been suggested that the local taxes be replaced by the TVA. If the TVA were hypothetically introduced, dealing with State and local taxes would not be an insurmountable problem. In the TVA countries, there were also excise taxes. It was his impression that the long-term philosophy in these countries was to incorporate all of these indirect taxes eventually into the TVA; this was a philosophy that was not necessarily a practicality. This was for the United States a hypothetical question depending on the political realities.

YUGOSLAVIA

Questions 1 and 2. Under the Yugoslav system there was no possibility of indirect taxes being superimposed on each other. There was only a single sales tax. It was true that, in addition to the Federal tax, there was a local sales tax, but this (in so far as the economic consequences of the taxes are concerned) was really a tax divided into two fractions rather than two taxes. The basis of calculation was the same for the Federal and the local tax - always the retail selling price (not including tax).
II. CHANGES IN BORDER TAX ADJUSTMENTS

Section II of the Outline deals with changes in border tax adjustments. The following are the relevant questions:

1. In changing from one system of general indirect taxation to another, or in expanding the coverage of existing systems, are there types of transactions which had previously been subject to selective excises which become subject to the broad-based tax? Were border adjustments made for the excises? Are they made for the general tax on these transactions?

2. When a change is made in the level of border adjustments with no change in the level of domestic taxation in order to remove under-compensation, what criteria are used in determining the timing of such a change?

3. How are under-compensation and over-compensation determined and measured in order that they can be fully removed?

4. Are there reasons other than the elimination of under-compensation or over-compensation for making changes in border adjustments which are not associated with changes in internal taxation?

Replies by delegations

ARGENTINA

There have been no changes in the indirect taxation system and therefore the related questions were not relevant.

In answer to a question concerning the adoption by Argentina of the value-added tax, the representative of Argentina confirmed that his Government had not yet taken specific actions along these lines. His Government was, however, considering the possibility of a change to the TVA towards 1970.

AUSTRIA

The observer from Austria pointed out that no changes had been made in border tax adjustments since the OECD fact-finding report had been issued. The only exception was the special tax on alcoholic drinks.

BELGIUM

Question 1. This case had not arisen in Belgium.

Questions 2 and 3. Changes in compensatory charges on imports.

The reasons why Belgium had changed the rates of existing compensatory charges and of any existing refunds are indicated below.
(a) Changes in the system of taxation applicable to the products concerned made it necessary to review the calculations.

(b) Changes in the rate of increase for certain raw materials, auxiliary materials and packaging. Such a change (new increase or pegging-up of an existing increase) made it necessary to peg up the increase on finished products in which such materials or packaging were used.

(c) Changes in manufacturing process

(d) Changes in sectorial structure

The original calculation was based on a breakdown of the turnover of a factory that had now ceased all activity. Since then one or more new factories had been established and the new calculation was based on the accounting data of the new factories.

Disappearance of integrated factory. Production was still only carried out by non-integrated factories. Result - increase in tax burden.

Creation of non-integrated factories, whereas all factories were integrated when the rates of increase were determined.

Declining importance of custom work.

Increase in production by integrated factories and decline in that by non-integrated factories resulted in a reduction in the rate of increase.

(e) Changes in import tariff

In Belgium many increases had been established since 1953 and 1954. At that time the import tariff in force was much less detailed than it is now. The common external tariff of the European Economic Community countries included many headings and sub-headings, making it easier to isolate many products for which separate rates of increase could now be set. As a result there had been some upward and some downward adjustments in certain increases in recent years, for example:

- The calculation was originally based on an average for an entire heading. The new calculations related only to certain products within the heading.

- Plastic materials. The import tariff in force in 1952 included these products under three or four headings with virtually no sub-headings. Under the present customs tariff, plastic materials fall within Chapter 39, comprising seven headings. Each of these was sub-divided into numerous sub-headings for phenoplasts, aminoplasts, alkyds, polyamides, polyurethanes, polyethylene, polypropylenes, polyvinyls, acetates, etc. For each of these products there were further sub-headings for powders, sheets,
flakes, articles, etc. It was therefore only normal that in setting the rates of increase a differentiation should be made for each of these products under special tariff headings. These new calculations may then cause certain changes in the rates of increase.

- The same case applied for paper, paperboard and articles thereof.

- The same case applied for yarn of man-made fibres (i.e. separate calculations are now made for each sub-heading in the import tariff).

Note: The situation described above as regards the import tariff may also cause reductions in existing rates of increase.

(f) **Changes in the selling price breakdown**

As already mentioned, Belgium established increases in 1953 (Royal Decree of 11 March 1953). The first adjustments therefore dated back to 1952. Many increases were introduced during the years 1954–1957. It was therefore normal that the new enquiries should have yielded results that in some cases differed from the original calculations since the price of products and of the raw materials, packaging, energy, etc. have changed. Moreover, since 1952 certain new increases had been established or existing increases had been pegged up on certain materials used in the manufacture of these products. These changes could result in an upward adjustment in the rate of increase.

It was noticed that this reply did not indicate the question of timing which was a very important element before the Working Party. Commenting on this, the representative of Belgium said that they had not selected any specific date for changes. It was only after the calculations were made and proved correct that the Decree had to be passed and the measures were effected.

**Question 4. No.**

**Other**

It was pointed out that the Belgian Government had issued a statement indicating that export rebates and import-compensating taxes were being expanded to meet the situation created by the adoption of the TVA in neighbouring countries. Asked what was the economic rationale for this, the representative of Belgium said that the measures taken in 1968 were merely the continuation of those which started in 1963 concerning compensatory taxes. These measures were prepared in 1966 before the adoption by Germany of the TVA.

The point was made that export rebates on certain goods were introduced in Belgium in 1965. Additional goods were brought under the export rebate in 1967 and 1968; this increased the extent to which taxe occulte was compensated for in exports. Asked whether industries which were in a less competitive position received preferential treatment and to what extent taxe occulte was taken into consideration, the representative of Belgium said that the taxe occulte was not
completely compensated for. Taxes on overheads were not taken into account. Thus, there was a certain element of taxe occulte borne by the product which increased the burden on exports even for those products which benefited from the system of rebates. There was no competitive criteria applied to this but simply a question of calculations. He further referred to the OECD document on consultation with Belgium which contained more detailed information.\footnote{OECD document TC(68)22.}

**FEDERAL REPUBLIC OF GERMANY**

**Question 1.** As from 1 January 1968, the previous cumulative turnover tax and the transport tax (Beförderungsteuer) were replaced by the value-added tax. The new tax system did not affect the existing excise taxes, which continued to be in force.

As a provisional measure relating to the traffic policy, a law was enacted on 28 December 1968 concerning road taxation (Bundesgesetzblatt 1968 I P.1461). According to this law a tax on the transport of goods by lorries had been introduced. The tax applied equally to inland and foreign vehicles and would expire on 31 December 1970.

**Question 2.** Not applicable.

**Question 3.** Application of average rates may lead to distortions of competition. If export refunds failed to offset the actual turnover tax burden of a product, international competitiveness of the product concerned was impaired. If, however, the average refund exceeded the taxes paid at previous stages, the additional compensation acted as an export premium on the product concerned. Similar effects existed in the application of average equalization tax rates on imported products. If the equalization tax was higher than the actual turnover tax charged on identical or comparable home-produced goods, the effect produced was of a protective character. If equalization tax rates on imports were lower than the actual turnover tax burden on identical or comparable home-produced goods, foreign goods would enjoy a competitive advantage in the domestic markets. The value-added tax system avoided all these weaknesses and distortions.

**Question 4.** The main disadvantage of the cascade system was that it led to distortions not only between national and foreign firms but also between national enterprises. The cascade system worked in favour of integrated enterprises and is disadvantageous to firms of a lesser degree of integration, particularly small and medium-sized enterprises. In the Federal Republic of Germany, the change to the value-added tax was also necessary for legal reasons, as the Federal Constitutional Court (Bundesverfassungsgericht) had ruled that the inequality of tax treatment as
between integrated and non-integrated firms was not in conformity with the Basic Law of the Federal Republic. Finally, the change to the value-added tax system was in line with the objects of international conventions aiming at the expansion of world trade on a multilateral, non-discriminatory basis in accordance with international obligations.¹

Other

Referring to the German measures of November 1968, the representative of the Federal Republic said that these measures should be regarded as special action taken in an extraordinary monetary situation and not as a tax law in the usual sense. The introduction of a temporary bonus for imports and a tax burden on exports did not imply that they were turning away from the principles of tax adjustments at the border since the law of the value-added tax and the practices of border adjustments laid down in that law remained unchanged. The basis for the turnover tax on imports was different from that of the import bonus which was assessed on the import value without any special excise duties. On the export side, the scope of the new export tax was much wider than that of the normal turnover taxation as it was levied also on transactions which under the German legislation did not fall under the concept of taxable turnover, e.g. internal transactions between a German firm and its permanent establishment abroad or other border-crossing transactions. Considering the trade effects of these measures the representative of the Federal Republic stated that the expectations of the Government have been realized with respect of the measures, i.e. that the foreign prices for German products would rise by the tax burden introduced in November 1968 and that the competitive position of German exports would be relatively worsened by that amount. These measures were abolished in connexion with the revaluation of the deutsche mark on 27 October 1969.²

FRANCE

The representative of France said that the value-added tax which came into force on 1 January 1968 had brought no significant changes in the field of border tax adjustments. However, in 1968 the compensatory rate was brought down from 20 per cent (corresponding to 25 per cent tax-free prices) to a rate of 16 2/3 per cent (corresponding to a rate of 20 per cent). Under the 1968 reform, the TVA has replaced certain special taxes. Furthermore, some of the taxes which might bring about overlapping had been done away with. Overlapping still existed, e.g. in the case of petroleum products.

It was pointed out that a number of key officials of the French Government had commented on changes in border tax adjustments effective in November 1968. Apart from a Statement by Ministers, the Bank of France issued a publication on TVA; this source mentioned the implications of border tax adjustments. However, this attitude of French officials had not been reflected in France's replies to the questions. Commenting on this, the representative of France said that his delegation would make, at the next meeting, a statement on the nature of these changes and the motives behind them.

¹See also Annex D: Statement by the Federal Republic of Germany on the effects on prices and German foreign trade after the change-over from the cumulative turnover tax system to the tax on value added.

²See also Annex E: Statement by the Federal Republic of Germany considering the trade effects of the measures taken in November 1968.
NETHERLANDS

Question 1. With the replacement, on 1 January 1969, of the cumulative multi-stage turnover tax by the value-added tax (the standard rate of which is 12 per cent on a tax exclusive base) a special consumption tax on passenger cars (see under I) was introduced to balance the loss of revenue. Under the cascade system passenger cars were taxed at a rate of 25 per cent on a tax inclusive base. For the same reason the excise duty on alcoholic products (other than beer, wine and sparkling wine) was increased by 10 per cent; under the cascade system alcoholic products were taxed at a rate of 18 per cent on a tax inclusive base.

Questions 2-4. Reference was made to the following Memorandum on the effects on border tax adjustments of the change-over to the TVA:

1. Since 1 July 1967 - date on which the rates of the tax have been increased by 20 per cent - the standard rate of the turnover tax in case of sale of home-produced goods by a producer was 6 per cent expressed on the basis of a tax-inclusive value. There were four increased rates, 7 per cent (cigarettes), 14 per cent (chocolate, confectionery, mopeds and beverages not subjected to excise duty on spirits), 18 per cent (jewellery, motor cycles, pleasure boats, silk and fur clothing, recorders, radio receiving sets, perfumes, beverages subject to excise duty on spirits, etc.) and 25 per cent (passenger cars, private aeroplanes and television sets).

There were also two reduced rates. A rate of 1.8 per cent applied to textiles and a rate of 3 per cent applied to footwear. Finally, basic necessities were exempted from tax.

Direct deliveries by a producer to a consumer were taxed at 4.8 per cent. A reduced rate of 0.9 per cent applied to the wholesale trade. Retail sales were exempted from tax.

The rate of tax on services was 4.8 per cent, reduced to 3.6 per cent, however, on the construction and repair of buildings and the transport of passengers and goods. Many transactions were exempt e.g. the construction and repair of ships, boats and aeroplanes, most kinds of international transport, the leasing and renting of buildings and sub-contracting in the building industry.

2. Imports were taxable on the same conditions and at the same rates as internal deliveries of similar goods by a producer to an entrepreneur. Imported goods were thus charged with turnover tax at the standard rate of 6 per cent, expressed on the basis of a tax-inclusive value, unless an increased rate (7, 14, 18 or 25 per cent), a reduced rate (1.8 or 3 per cent) or an exemption was to be applied.

3. Imported goods could, however, in addition to the tax imposed at one of the rates mentioned above be charged with a surcharge to eliminate the difference between the tax borne by home-produced goods and that borne by imported goods. This compensatory levy thus served to cover the tax borne on the home market before products reached the manufacturer of goods similar to those imported. The surcharge could be applied to a maximum of 3.4 per cent.
4. Under the provisions of the Statute of 9 December 1954 governing the turnover tax two features marked the way in which surcharges were calculated:

(a) account was taken only of the tax borne by materials, raw materials as well as auxiliary materials; the tax borne by capital goods and services was left out of account;

(b) for each type of goods the average or usual home tax burden was worked out; there were no fixed rates for particular classes of goods.

5. Under this system a surcharge on imports was fixed only if justified by detailed studies on costs in enterprise or group of enterprises and, at least in the majority of cases, only if the study was made in response to a request by industrial or commercial circles.

6. Surcharges from 0.6 to 8.4 per cent were fixed in this way in somewhat more than 700 cases. They apply to designated goods or to goods which fall under designated positions or sub-positions of the customs tariff. In sixty cases the rate of the surcharge was fixed at 0.6 or 1.2 per cent, in 100 cases at 1.8 or 2.4 per cent, in 300 cases at 3 or 3.6 per cent, in 180 cases at 4.2 or 4.8 per cent, in eighty cases at 5.4 or 6 per cent and in forty cases at 6.6, 7.2, 7.8 or 8.4 per cent. The arithmetical average of the surcharge was about 3 per cent. These rates are expressed on the basis of a tax-inclusive value. It may be observed that, before 1 July 1967, these rates were multiples of 0.5 per cent. After that date - on which the tax rates were raised by 20 per cent - they became multiples of 0.6 per cent.

7. Exports were not chargeable with turnover tax. Deliveries of goods for export were, in the export stage, exempted from tax and a refund can be claimed in respect of the tax paid on those goods, or on materials, raw materials as well as auxiliary materials, used in the manufacture of such goods.

8. Under the provisions of the Statute of 9 December 1954 repayment was not made in respect of tax levied on capital goods and services.

9. The Statute expressed the intention that, in principle and with the exception of the tax imposed on capital goods and services, the exact amount of tax paid at all previous stages should be refunded. It was, however, practically impossible to calculate this amount, which for one good could differ on account of the cost structure, at each exportation. Export refunds were therefore calculated on the basis of general guiding-lines. These enabled exporters and tax authorities to approach very nearly to the real tax burden.

10. The main guiding-lines were the following:

A. In case of export by a manufacturer of home-produced goods listed in a statutory schedule the tax to be refunded was calculated on the basis of the rates figuring in that schedule. The rates, which ran from 0.6 to 8.4 per cent applied to the ex-factory selling price.
B. In case of export by a manufacturer of other home-produced goods the refund was calculated on the basis of a percentage of the purchase price of the raw and auxiliary materials used in the manufacturing of the exported goods. The percentages to be taken into account were the following:

(1) With respect to materials which figured on the schedule mentioned under A the rate of refund was that stated in this schedule increased by the rate which applied to the delivery of such materials by a manufacturer to an entrepreneur.

(2) For electricity used in the production of exported goods the rate of refund was, in general, 6 per cent increased by 0.168 cent per kilowatt-hour, for gas 7.5 per cent and for solid fuels 6 per cent.

(3) With respect to other materials used in the production of exported goods the rate of refund was that which applied to the delivery of such materials by a manufacturer to an entrepreneur increased by a rate which runs from 0 to 2.4 per cent and which depended on whether all of the materials used or just a part of them or none of them were chargeable with tax.

C. In case of export by a manufacturer of goods in the production of which materials had been used which the manufacturer himself had imported, the amount of tax to be refunded for such materials was equal to the amount of tax paid on importation.

D. In case of export by a merchant the refund of tax was calculated on the basis of a percentage of the purchase price of the exported goods. For luxury goods - goods which fall under the 18 and 25 per cent rate - the refund was calculated on the basis of 90 or 85 per cent of the purchase price unless the goods had been procured directly from the manufacturer. The percentages to be taken into account were the following:

(1) With respect to goods which figured on the schedule mentioned under A above the rate of refund was that stated in this schedule increased by the rate which applied to the delivery of such goods by a manufacturer to an entrepreneur.

(2) For solid fuels the rate of refund was nil and for gas 1.5 per cent.
(3) With respect to other goods the rate of refund was that which applied to the delivery of such goods by a manufacturer to an entrepreneur increased by a rate which ran from 0 to 4.2 per cent and which depended on whether all of the materials used in the production by the manufacturer or just a part of them or none of them were chargeable with tax.

(4) In case of export of goods which had been imported by the exporting merchant himself the amount of tax to be refunded was equal to the amount of tax paid on importation.

11. As from 1 January 1968, new legal provisions made it possible to deal with the shortfall of the turnover tax charged on the importation of goods and of the tax refunded on exportation in comparison with the tax in effect borne by similar home-produced goods. These measures had been taken to obtain a greater fiscal neutrality in the imposition of the turnover tax, to improve by this the international competitive position of national producers - which had grown worse since the increase of the general rate from 5 to 6 per cent on 1 July 1967 - and to ensure without too much disturbance, the establishment of the value-added tax system as from 1 January 1969.

12. The first measure concerned the creation of fixed surcharges on the importation of goods in respect of which a compensatory levy, in addition to the general rates, had not yet been established. As said before, up to now, surcharges were fixed for certain goods only if justified by detailed studies on costs in enterprises. This procedure - which made use only of micro-economic data - nevertheless raised administrative and technical difficulties and included the risk that the measures were not formulated in time. A thorough study of this matter led to the conclusion that it was possible and justifiable to calculate with the aid of micro-economic data - themselves examined in the light of the micro-economic data assembled over the years - the difference between the tax borne by home-produced goods and that borne by imported goods when imported at the general rates. According to this study this difference was estimated at 2.4 per cent to 4.8 per cent in favour of imported goods. The general surcharge could thus be fixed at 3.6 per cent, but to make sure that, in a concrete case, no tax was levied which was higher than the maximum allowed (namely the tax borne by home-produced goods which differed for different goods owing to the cost structure), a rate of 2.4 per cent had been chosen as a starting-point. On the basis of this starting-point and on the basis of the experience acquired over the years in dealing with the 700 cases in which a surcharge was fixed in the past, general surcharges of 0.6, 1.2, 2.4, 3 and 3.6 per cent had been introduced for goods in respect of which no compensatory levy existed before 1 January 1968. The goods on which these surcharges are applied are listed below.

13. Since that date the situation has been as follows. There were surcharges in somewhat less than 4,000 cases. They applied to designated goods or to goods falling under designated chapters, positions and sub-positions of the customs tariff. In 700 cases the rate of the surcharge was 0.6 or 1.2 per cent, in
1100 cases 1.8 or 2.4 per cent, in 1,000 cases 3 or 3.6 per cent, in 180 cases 4.2 or 4.8 per cent, in eighty cases 5.4 or 6 per cent and in forty cases 6.6, 7.2 or 8.4 per cent. The arithmetical surcharge was about 2.8 per cent, expressed on the basis of a tax-inclusive value.

14. The second measure concerned the compensation - on importation as well as on exportation - of the tax borne by capital goods and services used in the production of goods. This compensation was fixed at a flat rate of 1 per cent. At importation this 1 per cent supplementary surcharge was levied in addition to the turnover tax at the general rate and in addition to the surcharge compensating the turnover tax on raw and auxiliary materials. In case of exportation by manufacturer tax refund was increased by 1 per cent of the ex-factory selling price and in case of exportation by a merchant tax refund was increased by 1 per cent of the purchase price.

15. The calculation on which the flat 1 per cent supplementary surcharge and refund are founded was the following.

For the year 1968 the total of the amounts written off for depreciation of capital goods could be estimated at f. 7.7 billion. The total consumption of services could be estimated at f. 5 billion. The tax borne by capital goods amounted thus to 9.6 per cent of f. 7.7 billion = f. 740 million and the tax borne by services to 3 per cent of f. 5 billion = f. 150 million. Since it was ascertained that about 35 per cent of the depreciations and services applied to exports, the tax borne by capital goods and services used in the home production of exported goods amounted to 35 per cent of (f. 740 million plus f. 150 million) = about f. 311 million. For the year 1968 the exports in respect of which a tax refund could be claimed were estimated at f. 25 billion, so that the tax charged on capital goods and services used in the manufacture of exported goods could be calculated at 1.24 per cent, or round 1 per cent.

It could be observed that the total amount of the depreciations of f. 7.7 billion included not only the depreciations which could be attributed to the last production stage previous to the export but also the depreciations which were charged to the producer of export goods in the price of which he had to pay for the raw and auxiliary materials (and investment goods) and which fell on the cost price of his products.

16. The flat 1 per cent supplementary refund applied to all goods exported, with the exception of precious metals, alloys of precious metals (including gold plate) in the form of ores, bars, etc., chemical combinations of precious metals and not mounted precious stones.

17. Surcharges on importation effective on 31 December 1967 remained operative. In other cases the general surcharges mentioned under 12 applied. In addition to these surcharges the supplementary surcharge of 1 per cent was imposed on all goods with the exception of:
(a) goods to which the 1 per cent supplementary refund on exportation did not apply (see under 16);

(b) goods which fell under the positions 27.09, 27.10 and 44.01 to 44.14 inclusive of the customs tariff;

(c) tobacco manufactures.

18. It follows from what has been stated under 12 that the fixed general surcharges effective since 1 January 1968 did not lead to a full compensation of the tax borne by raw and auxiliary materials and that there was still a difference in taxation in favour of the imported products of maximum 1.2 per cent. Since these surcharges touched upon one third of the total value of importation, the difference in taxation to the detriment of the home-produced good could be estimated at 0.4 per cent, expressed on the basis of the total value of importation (maximum).

19. With respect to the surcharges already effective on 31 December 1967 (see under 6) it could also be noticed that they did not fully compensate the difference in tax burden between the imported good and the home-produced good. Since these surcharges covered two thirds of the total value of importation, the difference in taxation in favour of the imported good could be estimated at $\frac{2}{3} \times 0.6 = 0.4$ per cent (maximum).

20. In keeping with the determination made under 12, 15, 18 and 19 the under-compensation at importation existing in 1967 could be computed at $0.4$ per cent (see 19) + $0.4$ per cent (see 18) + $1.2$ per cent (see 15) + $0.8$ per cent (see 12: $\frac{1}{3} \times 2.4$ per cent) = $2.8$ per cent (maximum).

21. At 1 January 1968 this under-compensation had been reduced to $0.4$ per cent + $0.4$ per cent + $0.2$ per cent (see 15: $1.2$ per cent - $1$ per cent) = $1$ per cent (maximum).

22. This under-compensation would be further reduced at 1 January 1969, the date on which the value-added tax would become operative. The value-added tax would not eliminate immediately in full the existing under-compensation at importation. This was due to the fact that the Act introducing the value-added tax excluded from the pre-tax deduction all of the tax levied on investment goods under the present-day cascade system and some of the tax paid in respect of investment goods under the planned value-added tax system. The latter system restricted the pre-tax deduction to 30 per cent for investments made in 1969, to 60 per cent for investments made in 1970 and to 90 per cent for investments made in 1971. In 1972 and following years the pre-tax deduction would reach 100 per cent. This means that the tax which, under the value-added tax system,
would not be deductible - and which therefore constituted a supplementary charge on the home-produced good and not on the imported good - amounted to:

9.6 per cent for investments made in 1968 or before;
8.4 per cent \((100 \text{ per cent} - 30 \text{ per cent}) \times 12 \text{ per cent}\) for investments made in 1969;
4.8 per cent \((100 \text{ per cent} - 60 \text{ per cent}) \times 12 \text{ per cent}\) for investments made in 1970;
1.2 per cent \((100 \text{ per cent} - 90 \text{ per cent}) \times 12 \text{ per cent}\) for investments made in 1971.

Taking the line of a ten-year depreciation on the basis of the historical cost price and an annual growth of national production of 8 per cent, it was assumed that in 1969 there would still be a difference in taxation between the imported good and the home-produced good - in favour of the imported good - of 0.62 per cent (of the cost price of the inland producer). The difference in taxation would continue to exist - the first three years in an increasing extent, afterwards in a decreasing extent - until 1981 and would be eliminated in full in 1982.

23. It follows from the foregoing that the shift to the value-added tax would reduce the existing under-compensation at importation of 1 per cent (see under 21) to 0.62 per cent in 1969.

24. From what has been stated under 10 it follows that at exportation the tax borne by raw and auxiliary materials used in the production of exported goods was never fully reimbursed. The under-compensation could be estimated at 0.4 per cent. This means that for 1967 the total under-compensation at exportation could be computed at 0.4 per cent + 1.2 per cent (investment goods and services, see under 15) = 1.6 per cent. At 1 January 1968, this under-compensation had been reduced to 1.6 per cent - 1 per cent = 0.6 per cent.

After 1 January 1969, date on which the value-added tax system would become operative, there would still be an under-compensation with respect to the tax charged on investment goods. This under-compensation amounted to 0.62 per cent in 1969 and would - first in an increasing extent and then in a decreasing extent - continue to exist until 1981 (see under 22).

25. It was very difficult to say what factors will account for the 1 per cent price increase which was expected to accompany the change-over to the value-added tax. In parliamentary papers the Government mentioned the figure of 1 per cent. The Central Planning Office recently mentioned a figure of 1.3 per cent. This office had published the following survey of the effects of the shift to the value-added tax on prices in some branches on the basis of consumer prices tax excluded:
<table>
<thead>
<tr>
<th>Branches (I.S.I.C.)</th>
<th>Tax burden</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Old</td>
<td>New</td>
<td>Price-effect</td>
</tr>
<tr>
<td>Agriculture</td>
<td>3.6</td>
<td>6.9</td>
<td>3.2</td>
</tr>
<tr>
<td>Mining industry</td>
<td>3.3</td>
<td>4.0</td>
<td>0.7</td>
</tr>
<tr>
<td>Animal food</td>
<td>5.9</td>
<td>4.0</td>
<td>-1.8</td>
</tr>
<tr>
<td>Other food</td>
<td>7.9</td>
<td>8.8</td>
<td>0.8</td>
</tr>
<tr>
<td>Luxuries</td>
<td>13.3</td>
<td>12.9</td>
<td>-0.4</td>
</tr>
<tr>
<td>Textiles, clothes, footwear</td>
<td>6.6</td>
<td>12.0</td>
<td>5.1</td>
</tr>
<tr>
<td>Wood industry and furniture</td>
<td>6.9</td>
<td>12.0</td>
<td>4.8</td>
</tr>
<tr>
<td>Paper industry</td>
<td>9.8</td>
<td>12.0</td>
<td>2.0</td>
</tr>
<tr>
<td>Printing and publishing industry</td>
<td>4.8</td>
<td>4.0</td>
<td>-0.8</td>
</tr>
<tr>
<td>Leather and rubber</td>
<td>7.1</td>
<td>12.0</td>
<td>4.6</td>
</tr>
<tr>
<td>Chemicals and oils</td>
<td>8.0</td>
<td>7.6</td>
<td>-0.4</td>
</tr>
<tr>
<td>Pottery, glass, lime, stone</td>
<td>5.8</td>
<td>12.0</td>
<td>5.8</td>
</tr>
<tr>
<td>Metal - machine industry</td>
<td>8.8</td>
<td>12.0</td>
<td>2.9</td>
</tr>
<tr>
<td>Electrotechnical industry</td>
<td>10.8</td>
<td>12.0</td>
<td>1.1</td>
</tr>
<tr>
<td>Means of transport industry</td>
<td>15.6</td>
<td>19.9</td>
<td>3.7</td>
</tr>
<tr>
<td>Other industries</td>
<td>7.1</td>
<td>12.0</td>
<td>4.6</td>
</tr>
<tr>
<td>Building industry</td>
<td>8.3</td>
<td>12.0</td>
<td>3.4</td>
</tr>
<tr>
<td>Public utilities</td>
<td>5.8</td>
<td>4.0</td>
<td>-1.7</td>
</tr>
<tr>
<td>Banks etc.</td>
<td>2.6</td>
<td>1.1</td>
<td>-1.5</td>
</tr>
<tr>
<td>Insurances</td>
<td>3.0</td>
<td>1.5</td>
<td>-1.5</td>
</tr>
<tr>
<td>Housing</td>
<td>2.3</td>
<td>2.4</td>
<td>0.1</td>
</tr>
<tr>
<td>Transport</td>
<td>6.2</td>
<td>4.4</td>
<td>-1.7</td>
</tr>
<tr>
<td>Medical services</td>
<td>2.1</td>
<td>1.9</td>
<td>-0.2</td>
</tr>
<tr>
<td>Professions</td>
<td>4.4</td>
<td>9.4</td>
<td>4.8</td>
</tr>
<tr>
<td>Entertainment</td>
<td>3.3</td>
<td>8.0</td>
<td>4.5</td>
</tr>
<tr>
<td>Hotels, cafés, restaurants</td>
<td>6.9</td>
<td>12.0</td>
<td>5.0</td>
</tr>
<tr>
<td>Other services</td>
<td>3.9</td>
<td>9.4</td>
<td>5.3</td>
</tr>
</tbody>
</table>
26. With respect to the expected receipts of the value-added tax the following information may serve for 1969:

<table>
<thead>
<tr>
<th>Description</th>
<th>(f. million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Expected receipts</td>
<td>+ 5,280</td>
</tr>
<tr>
<td>Special regulations for agricultural and small entrepreneurs</td>
<td>- 150</td>
</tr>
<tr>
<td>Special consumption tax on private vehicles</td>
<td>+ 300</td>
</tr>
<tr>
<td>Increase of excise duty on alcohols</td>
<td>+ 30</td>
</tr>
<tr>
<td>Receipts cascade system</td>
<td>- 5,200</td>
</tr>
<tr>
<td>Decrease of registration tax</td>
<td>- 120</td>
</tr>
<tr>
<td>Increase of Government expenses</td>
<td>- 110</td>
</tr>
<tr>
<td><strong>Balance</strong></td>
<td><strong>+ 30</strong></td>
</tr>
</tbody>
</table>
## LIST OF GOODS ON WHICH A SURCHARGE IN ADDITION TO THE NORMAL TURNOVER TAX IS ESTABLISHED BY THE ROYAL DECREES OF 18 DECEMBER 1967

<table>
<thead>
<tr>
<th>Chapters or positions of the customs tariff</th>
<th>Rate of the surcharge</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chapters 1 and 2</td>
<td>1.2</td>
</tr>
<tr>
<td>Chapter 4</td>
<td>1.2</td>
</tr>
<tr>
<td>Chapter 5</td>
<td>0.6</td>
</tr>
<tr>
<td>Chapter 6</td>
<td>1.2</td>
</tr>
<tr>
<td>Chapters 7 to 15 inclusive</td>
<td>0.6</td>
</tr>
<tr>
<td>Chapter 16</td>
<td>1.2</td>
</tr>
<tr>
<td>Positions 18.03 to 18.06 inclusive</td>
<td>3.6</td>
</tr>
<tr>
<td>Positions 19.01 to 19.07 inclusive</td>
<td>0.6</td>
</tr>
<tr>
<td>Position 19.08</td>
<td>2.4</td>
</tr>
<tr>
<td>Chapters 20 to 23 inclusive</td>
<td>0.6</td>
</tr>
<tr>
<td>Chapter 25</td>
<td>0.6</td>
</tr>
<tr>
<td>Positions 27.04 to 27.08 inclusive</td>
<td>1.2</td>
</tr>
<tr>
<td>Positions 27.12 to 27.14 inclusive</td>
<td>2.4</td>
</tr>
<tr>
<td>Chapters 28 and 29, with the exception of oxides coming under positions 28.28F, 28.28G and 28.28H and of position 28.28H-I</td>
<td>3.0</td>
</tr>
<tr>
<td>Chapter 30</td>
<td>1.2</td>
</tr>
<tr>
<td>Chapter 31</td>
<td>2.4</td>
</tr>
<tr>
<td>Positions 32.01 to 32.05 inclusive</td>
<td>2.4</td>
</tr>
<tr>
<td>Positions 32.06 to 32.11 inclusive</td>
<td>3.6</td>
</tr>
<tr>
<td>Positions 33.01 to 33.03 inclusive</td>
<td>2.4</td>
</tr>
<tr>
<td>Positions 33.05 and 33.06</td>
<td>0.6</td>
</tr>
<tr>
<td>Chapters 34 to 38 inclusive, with the exception of soldering and welding powder and paste coming under position 38.13A</td>
<td>2.4</td>
</tr>
<tr>
<td>Chapter 39, with the exception of waste and scrap materials</td>
<td>3.6</td>
</tr>
<tr>
<td>Positions 40.02 and 40.05 to 40.16 inclusive</td>
<td>2.4</td>
</tr>
<tr>
<td>Position 42.06</td>
<td>1.2</td>
</tr>
<tr>
<td>Chapter 43</td>
<td>1.2</td>
</tr>
<tr>
<td>Positions 44.15 to 44.20 inclusive</td>
<td>2.4</td>
</tr>
<tr>
<td>Positions 44.21 to 44.28 inclusive</td>
<td>3.6</td>
</tr>
<tr>
<td>Positions 45.02 to 45.04 inclusive</td>
<td>2.4</td>
</tr>
<tr>
<td>Chapter 46</td>
<td>1.2</td>
</tr>
<tr>
<td>Chapter 48</td>
<td>3.6</td>
</tr>
<tr>
<td>Position 49.08</td>
<td>2.4</td>
</tr>
<tr>
<td>Positions 49.09 to 49.11 inclusive</td>
<td>1.2</td>
</tr>
<tr>
<td>Chapters or positions of the customs tariff</td>
<td>Rate of the surcharge</td>
</tr>
<tr>
<td>-------------------------------------------</td>
<td>-----------------------</td>
</tr>
<tr>
<td>Positions 50.04 to 50.08 inclusive</td>
<td>0.6</td>
</tr>
<tr>
<td>Positions 50.09 and 50.10</td>
<td>1.2</td>
</tr>
<tr>
<td>Positions 57.05 to 57.08 inclusive</td>
<td>0.6</td>
</tr>
<tr>
<td>Position 57.12</td>
<td>1.2</td>
</tr>
<tr>
<td>Position 58.03</td>
<td>1.2</td>
</tr>
<tr>
<td>Positions 59.01 and 59.02</td>
<td>1.2</td>
</tr>
<tr>
<td>Position 59.06</td>
<td>0.6</td>
</tr>
<tr>
<td>Positions 59.11 and 59.12</td>
<td>1.8</td>
</tr>
<tr>
<td>Position 59.14</td>
<td>1.2</td>
</tr>
<tr>
<td>Positions 64.05 and 64.06</td>
<td>2.4</td>
</tr>
<tr>
<td>Chapter 65</td>
<td>1.2</td>
</tr>
<tr>
<td>Chapters 66 to 69 inclusive</td>
<td>2.4</td>
</tr>
<tr>
<td>Positions 70.01-B to 70.05 inclusive</td>
<td>1.2</td>
</tr>
<tr>
<td>Positions 70.06 to 70.19 inclusive</td>
<td>2.4</td>
</tr>
<tr>
<td>Position 70.20</td>
<td>0.6</td>
</tr>
<tr>
<td>Position 70.21</td>
<td>2.4</td>
</tr>
<tr>
<td>Positions 71.12 to 71.16 inclusive</td>
<td>2.4</td>
</tr>
<tr>
<td>Positions 73.01 and 73.02</td>
<td>2.4</td>
</tr>
<tr>
<td>Positions 73.04 to 73.17 inclusive</td>
<td>2.4</td>
</tr>
<tr>
<td>Positions 73.18 to 73.32 inclusive</td>
<td>3.6</td>
</tr>
<tr>
<td>Positions 73.33 and 73.34</td>
<td>0.6</td>
</tr>
<tr>
<td>Positions 73.37 and 73.40</td>
<td>3.6</td>
</tr>
<tr>
<td>Positions 74.12 to 74.19 inclusive</td>
<td>3.6</td>
</tr>
<tr>
<td>Positions 75.06, 76.16, 78.06, 79.06 and 80.06</td>
<td>3.6</td>
</tr>
<tr>
<td>Positions 81.04-N-II-a and 81.04-R</td>
<td>3.6</td>
</tr>
<tr>
<td>Chapter 82</td>
<td>2.4</td>
</tr>
<tr>
<td>Chapter 83</td>
<td>3.6</td>
</tr>
<tr>
<td>Chapters 84 and 85</td>
<td>2.4</td>
</tr>
<tr>
<td>Chapter 86</td>
<td>3.6</td>
</tr>
<tr>
<td>Chapter 87</td>
<td>2.4</td>
</tr>
<tr>
<td>Chapters 90 to 98 inclusive</td>
<td>2.4</td>
</tr>
</tbody>
</table>

Remark: The surcharges applied to goods falling under the above-mentioned chapters and positions of the customs tariff only in so far as a surcharge fixed before 1 January 1968 was not applicable to these goods.
FINLAND

No changes are envisaged at present.

JAPAN

Questions 1-4. Not applicable. There had been no changes from one system to another, nor were there broad-based taxes in Japan.

NEW ZEALAND

This section did not appear to be relevant to the position of New Zealand which had not changed its system of indirect taxation for many years.

SPAIN

Question 1. Not applicable.

Question 2. At the end of 1964 border tax adjustment tariffs were introduced in Spain, corresponding to the tax system reform introduced in the same year. Since then, the rates corresponding to certain goods have been increased in order to remove under-compensation. About three quarters of all these changes simply represent a return to the tariff rates which were considered to be correct but were not applied in the initial period (1964) to these goods in order to avoid any price increase in the domestic market or because of the fact that there was no domestic production at that time. Changes in this group relate to certain chemical products and certain types of machinery. The other changes, which are listed below, were introduced for one or more of the following reasons:

1. Consideration of the tax burden on the products concerned, where this was not taken into account when the tariff was originally drawn up.

2. Revision of the calculations on the basis of new data, as a result of changes in production processes or in the cost structure of goods, or of alterations in the structure of the producing sector.

3. Revision of the rates corresponding to goods with a substantial content of materials, elements or parts affected by paragraphs 1 and 2.

Question 3. By re-examining the economic structure of the sector, the production process used and the applicable tax legislation.

Question 4. No with respect to any increase in the rates. These have nevertheless been reduced on occasion for reasons of supply or the general economic situation.
CHANGES IN RATES OF THE INTERNAL CHARGES COMPENSATION TAX-AND TAX REBATE ON EXPORTS DURING THE PERIOD FROM THE TAX REFORM OF 1964 TO 1 APRIL 1969

<table>
<thead>
<tr>
<th>Tariff item No.</th>
<th>Product</th>
<th>Former rate</th>
<th>Present rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>07.02</td>
<td>Vegetables (whether or not cooked), preserved by freezing</td>
<td>8</td>
<td>10</td>
</tr>
<tr>
<td>07.04</td>
<td>A. Dehydrated vegetables, in airtight containers</td>
<td>7</td>
<td>10</td>
</tr>
<tr>
<td>08.10</td>
<td>Fruit (whether or not cooked), preserved by freezing, not containing added sugar</td>
<td>8</td>
<td>10</td>
</tr>
<tr>
<td>12.10</td>
<td>Mangolds, swedes, fodder roots; hay, lucerne, clover, sainfoin, forage kale, lupines, vetches and similar forage products:</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>A. Lucerne:</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>1. Dehydrated</td>
<td>6</td>
<td>10</td>
</tr>
<tr>
<td></td>
<td>2. Other</td>
<td>6</td>
<td>7</td>
</tr>
<tr>
<td></td>
<td>B. Other</td>
<td>6</td>
<td>7</td>
</tr>
<tr>
<td>14.02</td>
<td>B-1 Vegetable hair</td>
<td>7</td>
<td>9</td>
</tr>
<tr>
<td>18.01</td>
<td>Cocoa beans, whole or broken, raw or roasted:</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>A. Raw</td>
<td>8</td>
<td>10</td>
</tr>
<tr>
<td></td>
<td>B. Roasted</td>
<td>9</td>
<td>11</td>
</tr>
<tr>
<td>18.02</td>
<td>Cocoa shells, husks, skins and waste</td>
<td>8</td>
<td>11</td>
</tr>
<tr>
<td>18.03</td>
<td>Cocoa paste (in bulk or in block), whether or not defatted</td>
<td>10</td>
<td>13</td>
</tr>
<tr>
<td>18.04</td>
<td>Cocoa butter (fat or oil)</td>
<td>9</td>
<td>13</td>
</tr>
<tr>
<td>18.05</td>
<td>Cocoa powder, unsweetened</td>
<td>9</td>
<td>13</td>
</tr>
<tr>
<td>18.06</td>
<td>Chocolate and other food preparations containing cocoa</td>
<td>13</td>
<td>14</td>
</tr>
<tr>
<td>25.24</td>
<td>Asbestos</td>
<td>7</td>
<td>4</td>
</tr>
<tr>
<td>Tariff item No.</td>
<td>Product</td>
<td>Former rate</td>
<td>Present rate</td>
</tr>
<tr>
<td>----------------</td>
<td>-------------------------------------------------------------------------</td>
<td>-------------</td>
<td>--------------</td>
</tr>
<tr>
<td>32.04</td>
<td>A. Colouring matter of vegetable origin (excluding indigo):</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>1. Obtained from paprika</td>
<td>9</td>
<td>12</td>
</tr>
<tr>
<td>38.08</td>
<td>Rosin and resin acids, and derivatives thereof, other than ester gums included in heading No. 39.05; rosin spirit and rosin oils</td>
<td>8</td>
<td>10</td>
</tr>
<tr>
<td>40.02</td>
<td>Synthetic rubber latex:</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>1. Based on polybutadiene or polybutadiene styrene</td>
<td>7</td>
<td>12</td>
</tr>
<tr>
<td>40.10</td>
<td>Transmission, conveyor or elevator belts or belting, of vulcanized rubber</td>
<td></td>
<td></td>
</tr>
<tr>
<td>42.03</td>
<td>Articles of apparel and clothing accessories, of leather or of composition leather:</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>A. Articles of apparel (jackets, overcoats and the like)</td>
<td>10</td>
<td>11</td>
</tr>
<tr>
<td></td>
<td>B. Special individual protective articles and equipment for all trades (aprons, sleeves and other)</td>
<td>10</td>
<td>11</td>
</tr>
<tr>
<td>45.03</td>
<td>Articles of natural cork:</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>A. Stoppers, including flat stoppers:</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>1. Without accessory parts of other material</td>
<td>10</td>
<td>11</td>
</tr>
<tr>
<td></td>
<td>2. Other</td>
<td>11</td>
<td>12</td>
</tr>
<tr>
<td></td>
<td>B. Discs for lining crown corks and for similar uses</td>
<td>10</td>
<td>11</td>
</tr>
<tr>
<td></td>
<td>C. Other</td>
<td>10</td>
<td>11</td>
</tr>
<tr>
<td>45.04</td>
<td>Agglomerated cork (being cork agglomerated with or without a binding substance), and articles of agglomerated cork</td>
<td>10</td>
<td>11.5</td>
</tr>
<tr>
<td>Tariff item No.</td>
<td>Product</td>
<td>Former rate</td>
<td>Present rate</td>
</tr>
<tr>
<td>----------------</td>
<td>------------------------------------------------------------------------</td>
<td>-------------</td>
<td>--------------</td>
</tr>
<tr>
<td>48.13</td>
<td>Carbon and other copying papers (including duplicator stencils) and transfer papers, cut to size, whether or not put up in boxes</td>
<td>15</td>
<td>17.5</td>
</tr>
<tr>
<td>48.14</td>
<td>Writing blocks, envelopes, letter cards, plain postcards, correspondence cards; boxes, pouches, wallets and writing compendiums, of paper or paperboard, containing only an assortment of paper stationery</td>
<td>15</td>
<td>17.5</td>
</tr>
<tr>
<td>48.16</td>
<td>Boxes, bags and other packing containers, of paper or paperboard</td>
<td>15</td>
<td>16.5</td>
</tr>
<tr>
<td>48.17</td>
<td>Box files, letter trays, storage boxes and similar articles, of paper or paperboard, of a kind commonly used in offices, shops and the like</td>
<td>15</td>
<td>16.5</td>
</tr>
<tr>
<td>48.18</td>
<td>Registers, exercise books, notebooks, memorandum blocks, order books, receipt books, diaries, blotting-pads, binders (loose-leaf or other), file covers and other stationery of paper or paperboard; sample and other albums and book covers, of paper or paperboard</td>
<td>15</td>
<td>16.5</td>
</tr>
<tr>
<td>48.19</td>
<td>Paper or paperboard labels, whether or not printed or gummed</td>
<td>14</td>
<td>16.5</td>
</tr>
<tr>
<td>48.20</td>
<td>Bobbins, spools, cops and similar supports of paper pulp, paper or paperboard (whether or not perforated or hardened)</td>
<td>14</td>
<td>16.5</td>
</tr>
<tr>
<td>48.21</td>
<td>Other articles of paper pulp, paper, paperboard or cellulose wadding</td>
<td>14</td>
<td>16.5</td>
</tr>
<tr>
<td>49.03</td>
<td>Children's picture books and painting books</td>
<td>12</td>
<td>14.5</td>
</tr>
<tr>
<td>49.04</td>
<td>Music, printed or in manuscript, whether or not bound or illustrated</td>
<td>12</td>
<td>14.5</td>
</tr>
<tr>
<td>49.05</td>
<td>Maps and hydrographic and similar charts of all kinds, including atlases, wall maps and topographical plans, printed; printed globes (terrestrial or celestial)</td>
<td>12</td>
<td>14.5</td>
</tr>
<tr>
<td>Tariff item No.</td>
<td>Product</td>
<td>Former rate</td>
<td>Present rate</td>
</tr>
<tr>
<td>----------------</td>
<td>-------------------------------------------------------------------------</td>
<td>-------------</td>
<td>--------------</td>
</tr>
<tr>
<td>49.06</td>
<td>Plans and drawings, for industrial, architectural, engineering, commercial or similar purposes, whether original or reproductions on sensitized paper; manuscripts and typescripts</td>
<td>12</td>
<td>14.5</td>
</tr>
<tr>
<td>49.07</td>
<td>Unused postage, revenue and similar stamps of current or new issue in the country to which they are destined; stamp-impressed paper; bank notes, stock, share and bond certificates and similar documents of title; cheque books</td>
<td>12</td>
<td>14.5</td>
</tr>
<tr>
<td>49.08</td>
<td>Transfers (Decalcomanias)</td>
<td>12</td>
<td>14.5</td>
</tr>
<tr>
<td>49.09</td>
<td>Picture postcards, Christmas and other picture greeting cards, printed by any process, with or without trimmings</td>
<td>12</td>
<td>14.5</td>
</tr>
<tr>
<td>49.10</td>
<td>Calendars of any kind, of paper or paperboard, including calendar blocks</td>
<td>12</td>
<td>14.5</td>
</tr>
<tr>
<td>49.11</td>
<td>Other printed matter, including printed pictures and photographs</td>
<td>12</td>
<td>14.5</td>
</tr>
<tr>
<td>68.12</td>
<td>Articles of asbestos-cement, of cellulose fibre-cement or the like</td>
<td>10</td>
<td>9</td>
</tr>
<tr>
<td>68.13</td>
<td>Fabricated asbestos and articles thereof (for example, asbestos board, thread and fabric; asbestos clothing, asbestos jointing), reinforced or not, other than goods falling within heading No. 68.14; mixtures with a basis of asbestos and mixtures with a basis of asbestos and magnesium carbonate, and articles of such mixtures</td>
<td>10</td>
<td>9</td>
</tr>
<tr>
<td>68.14</td>
<td>Friction material (segments, discs, washers, strips, sheets, plates, rolls and the like) of a kind suitable for brakes, for clutches or the like, with a basis of asbestos, other mineral substances or of cellulose, whether or not combined with textile or other materials</td>
<td>10</td>
<td>9</td>
</tr>
<tr>
<td>71.05</td>
<td>Silver, including silver gilt and platinum-plated silver, unwrought or semi-manufactured: A. Unwrought, (lumps, ingots, grains, etc.)</td>
<td>2</td>
<td>5</td>
</tr>
<tr>
<td>Tariff item No.</td>
<td>Product</td>
<td>Former rate</td>
<td>Present rate</td>
</tr>
<tr>
<td>----------------</td>
<td>-------------------------------------------------------------------------</td>
<td>-------------</td>
<td>--------------</td>
</tr>
<tr>
<td>71.05 (cont'd)</td>
<td>B. Slabs, plates, sheets and discs</td>
<td>3</td>
<td>6</td>
</tr>
<tr>
<td></td>
<td>C. Other</td>
<td>3</td>
<td>6</td>
</tr>
<tr>
<td>71.06</td>
<td>Rolled silver, unworked or semi-manufactured</td>
<td>3</td>
<td>5</td>
</tr>
<tr>
<td>71.12 A.</td>
<td>Articles of jewellery, of solid gold, silver or platinum:</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>2. Other</td>
<td>5</td>
<td>6.5</td>
</tr>
<tr>
<td>71.12 B.</td>
<td>Other articles of jewellery</td>
<td>3</td>
<td>9.5</td>
</tr>
<tr>
<td>71.13</td>
<td>Articles of goldsmiths' or silversmiths' wares and parts thereof, of precious metal or rolled precious metal, other than goods falling within heading No. 71.12:</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>A. Table knives, forks and spoons:</td>
<td>5</td>
<td>7</td>
</tr>
<tr>
<td></td>
<td>1. Of gold, silver or platinum</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>2. Of gold, silver or platinum alloys</td>
<td>8</td>
<td>10</td>
</tr>
<tr>
<td></td>
<td>3. Of rolled gold, rolled silver or rolled platinum</td>
<td>8</td>
<td>10</td>
</tr>
<tr>
<td></td>
<td>B. Other:</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>1. Of gold, silver or platinum</td>
<td>5</td>
<td>7</td>
</tr>
<tr>
<td></td>
<td>2. Of gold, silver or platinum alloys</td>
<td>8</td>
<td>10</td>
</tr>
<tr>
<td></td>
<td>3. Of rolled gold, rolled silver or rolled platinum</td>
<td>8</td>
<td>10</td>
</tr>
<tr>
<td>71.14</td>
<td>Other articles of precious metal or rolled precious metal</td>
<td>5</td>
<td>7</td>
</tr>
<tr>
<td>76.04</td>
<td>B-1 Aluminium foil (whether or not embossed, cut to shape, perforated, coated or printed), backed with paper or paperboard</td>
<td>14</td>
<td>15.5</td>
</tr>
<tr>
<td>82.14</td>
<td>Spoons, forks, fish-eaters, butter knives, ladles and similar kitchen or table-ware:</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>B. Of iron or steel, coated or not</td>
<td>13</td>
<td>14</td>
</tr>
<tr>
<td></td>
<td>C. Of copper, coated or not</td>
<td>13</td>
<td>14</td>
</tr>
<tr>
<td></td>
<td>D. Of other base metals</td>
<td>13</td>
<td>14.5</td>
</tr>
</tbody>
</table>
SWEDEN

Question 1. The change from a retail sales tax to tax on value added had not made any difference in the system of special excise taxes as described under I.B.

Questions 2-4. Not applicable to Sweden.

UNITED KINGDOM

With regard to changes in indirect taxes subject to border tax adjustments, the Chancellor of the Exchequer announced in the April 1969 Budget that:

(i) The type of change which was envisaged in the questions relating to this section had not in fact taken place in the United Kingdom. There had, however, been certain changes in the levels of taxes both on the purchase tax side and on the excise duty side.

(ii) The special surcharge on purchase tax, which had been in force since 23 November 1968, would be withdrawn and the substantive rates of purchase tax would be increased to the surcharge inclusive levels, viz. 13 3/4 per cent, 22 per cent, 36 2/3 per cent and 55 per cent in place of the substantive rates of 12 1/2 per cent, 20 per cent, 33 1/3 per cent and 50 per cent which were in force before the imposition of the surcharge.

(iii) The following goods which were previously not chargeable with purchase tax would be brought within the scope of the tax:

- household textiles and plastic wall coverings etc. at the rate of 13 3/4 per cent;
- pet foods at the rate of 22 per cent;
- potato crisps and similar potato products and similar savoury cereal-based products and salted or roasted nuts also at the rate of 22 per cent.

(iv) The special surcharge effective since 23 November 1968 on hydrocarbon oils, tobacco, wines and British wines, beer and potable spirits would be withdrawn and the substantive rates of duty applicable to these goods would be increased to the surcharge inclusive level (or close thereto) except in the case of light hydrocarbon oil and wine and British wine where the increase would take the rates above this level.

These measures became operative from midnight 15/16 April 1969, with the exception of the extensions in purchase tax which were effective from midnight 26/27 May 1969, and the increase in oil duty which operated from 6 p.m. on 15 April 1969.

UNITED STATES

The specific questions under this heading were not applicable to the United States. There had been no major changes in the indirect tax system in the United States in recent years, nor was any structural change contemplated. Any changes which had been made in the level of border adjustments had been directly related to changes in domestic tax rates or coverage. These changes included the elimination in recent years of the bulk of the Federal excise taxes and the reduction in rates of some of the remaining Federal excises. It also included the increases over the years in many States sales taxes, for which the change in border adjustments was automatic.

YUGOSLAVIA

The present system of indirect taxes on sales for ultimate consumption had remained unchanged since 1965.
III. MISCELLANEOUS

Section III of the outline deals with miscellaneous questions. The following are the relevant questions:

General

1. Is the revenue obtained from border tax adjustments intended to compensate in whole, or in part for government expenditure on social security?

2. What is the importance of such taxes as property taxes, inventory taxes, licence fees, stamp taxes, not referred to in Chapter I and not being taxes on income or capital, which have an effect on production and distribution costs?

3. Are there border tax adjustments for taxes on transportation costs on goods in transit?

4. Is there a special basis for valuation of goods when the buyer is the final consumer?

5. What proportion of total taxation (including local taxes and social security contributions) is collected through taxes which are the subject of border tax adjustments?

Other tax-related border adjustments and export rebate schemes

6. What tax credits are given to exporters relative to increases in export sales?

7. Which tax credits or deductions are given for export sales promotion expenses?

8. Do export sales result in more rapid depreciation of capital equipment, temporary accumulation of untaxed company reserves, or other forms of tax deferral? If yes, by what computation?

9. Does the corporate income tax rate vary from export profits and domestic profits? If yes, how?

10. Is the corporate income tax averaged to allow a given amount of tax rebate per unit of exported goods? If yes, how?

11. What investment incentives are provided in the corporate income tax system?

12. What possibilities are provided for spreading losses in the corporate income tax system?

13. What provisions apply to appreciation of assets in the corporate income tax system?
14. What possibilities are there for offsetting against corporate income tax any taxes paid abroad and any losses incurred by establishments or subsidiaries in other countries?

15. Are there any taxes on business capital? At what rates? Are they deductible from profits?

16. What border adjustments are made for property taxes or inventory taxes?

17. Are social security or wage taxes assessed differently depending upon a firm's export or import volume?

18. What adjustments are made for other taxes? What other tax credits are given relative to exports or imports?

Replies by delegations

ARGENTINA

General

Question 1. The revenue from indirect taxation goes to the "general income" section of the national budget and consequently is not earmarked for any special purpose.

Question 2. They were of relatively minor importance.

Question 3. No.

Question 4. No.

Question 5. Reply pending.

Other tax-related border adjustments and export rebate schemes

Question 6. Deduction from the tax assessment of an amount equal to 10 per cent of the f.o.b. value was permitted in the case of exports of non-traditional products.

Question 7. No.

Question 8. No.

Question 9. No.

Question 10. No.

Question 11. Reply pending.
Question 1. No. Revenue from sales tax and excise duties was paid into general revenue to meet the general revenue needs of the Commonwealth.

Question 2. Land taxes, stamp duties, licence fees, etc. were levied by State and/or Local Government Authorities - except that in Commonwealth territories they were levied by the Commonwealth. They were of fairly minor importance. In 1966-67, land taxes and stamp duties, only a portion of which would fall on the business sector, represented 3.6 per cent of total taxation revenue (Commonwealth, State and Local Government Authorities). The Commonwealth levied a payroll tax on most salaries and wages paid by employers. In 1966-67 it represented 3.2 per cent of total taxation revenue.

Question 3. No adjustment was made in the case of exports for any elements of State road taxes or Commonwealth fuel taxes which could be included in the prices of goods. These taxes were imposed on road transport operators and users of motor fuels generally, no distinction being made according to the source or destination of the goods carried.

Question 4. No.

Question 5. In 1967-68, collections of sales tax and excise duty, which were not levied on goods exported, were 21.2 per cent of total taxation revenue. This percentage was made up as follows:
Sales tax 7.0 per cent
Excise tax on traditional products (tobacco, cigarettes, beer, wines and spirits, petrol) 13.2 per cent
Excise duty on other products 1.0 per cent
Total 21.2 per cent
(There were no social security taxes in Australia.)

It was pointed out that land tax, stamp tax and payroll tax were not included in that percentage because they were not subject to adjustments at the border.

Other tax-related border adjustments and export rebate schemes

Question 6. Payroll taxpayers who export could qualify for a rebate in accordance with and to the extent allowed under the following formula:

Rebate = 10.5 per cent of: the total value of exports in the year of export minus the average annual value of exports in the base period.

The base period was the first three of the eight years immediately preceding the year of export. That is, the base period was a three-year moving period "lagged" five years behind the year of export. For example, the rebate entitlement of an employer in respect of his exports in 1968/69 was:

Rebate = 10.5 per cent of: value of exports in 1968/69 minus average annual value of exports in the three years 1960/61 to 1962/63.

In 1969/70, the base period would be the three years 1961/62 to 1963/64. Thus, under this formula an exporter could qualify for a rebate only if he achieved continuing increases in exports. It should also be noted that the rebate was linked not with exports of particular goods but with the increase in the total value of all exports of the taxpayer (excluding specifically minerals and petroleum products). Under these arrangements there would be, of course, significant export values in respect of which exporters would not earn a rebate. Special provisions exist for calculating the payroll tax rebate entitlement of exporters who commenced to export in the year ended 30 June 1962, or in a later year.

Question 7. A special rebate of income tax, the export market development allowance, was allowed in respect of certain prescribed expenditures aimed at developing export markets. This rebate was allowed at a rate not exceeding 42.5 cents per dollar of eligible expenditure. Eligible expenditure included expenditure on market research, advertising, the provision of free samples or free technical information, the preparation of tenders for goods not of a kind and specification being regularly produced or supplied by the tenderer and for the supply of services outside Australia and expenditure on securing patent and trademark protection for Australian goods sold overseas.
Question 8. No such special allowances were provided.

Question 9. Rates of company income tax on export profits and domestic profits were the same.

Question 10. No export rebate of income tax was allowed in respect of goods exported.

Question 11. Investment incentives provided in the income tax law were the investment allowances, i.e. a deduction equal to 20 per cent of the cost of certain new plant, available to manufacturers and primary producers, and the deductions allowed for certain capital expenditure on land used in a business of primary production and for certain expenditure relating to the mining and petroleum industries. In addition, a special flat rate of depreciation of 20 per cent was allowed to primary producers on plant (excluding motor-cars) equipment and structural improvements including, within specified limits, residential accommodation for employees. These provisions applied to both individuals and companies.

Question 12. The provisions of the income tax law allowed deductions for business losses incurred in previous years, by companies and individuals, limited to losses of the previous seven years except in the cases of losses incurred in a business of primary production, which were allowed without limit as to time. There was no provision for the carry-back of losses.

Question 13. Where an asset was sold for an amount in excess of its purchase price, this excess was not included in a taxpayer's assessable income unless the asset was purchased for the purpose of resale at a profit. Where an amount was received on the disposal, loss or destruction of an asset in excess of the asset's depreciated value for income tax purposes, then the excess, up to the extent of depreciation previously allowed thereon, was either included in the assessable income of the taxpayer for that year or applied in reduction of the value of other depreciable assets so as to reduce correspondingly the deductions subsequently allowable for depreciation available on these latter assets. These provisions applied to companies and to individuals.

Question 14. Under the existing Australian income tax law, income (other than dividends or interest or royalties the foreign tax on which is limited under a double taxation agreement) derived from sources outside Australia and Papua/New Guinea, where that income was not exempt from income tax in the country where it was derived, was exempted from Australian income tax; dividends received by a company from a foreign subsidiary were effectively freed from Australian tax by the rebate of tax allowed under section 46 of the Income Tax Assessment Act. Credit for the foreign tax on the above-mentioned interest and royalties, and for the Papua/New Guinea tax on profits of a Papua/New Guinea branch, was allowed against the Australian tax on that income.

Losses incurred by an overseas establishment which was a branch of an Australian company were taken into account in determining the Australian company's taxable income if, had a profit been made by the branch, it would have formed part of the assessable income of the Australian company. Where branch profits would have been exempt because of their not having been exempt from the
foreign tax, the losses would not be allowable deductions for the Australian company. Where a loss was incurred by a foreign subsidiary, as when such a loss was incurred by an Australian subsidiary, no deduction for the loss was allowed against the parent company's assessable income.

**Question 15.** Land taxes and rates were levied at various rates by State and/or Local Government Authorities. They were allowable deductions for income tax purposes. No land taxes or taxes on business capital were levied by the Commonwealth.

**Question 16.** The only property taxes administered by the Commonwealth were estate duty and gift duty.

When the estate of a person domiciled in Australia included ex-Australian personal property on which duty was payable where that property is situated, a rebate of estate duty was allowable.

In the case of gift duty, a rebate was similarly allowable but only where the gift duty law of the overseas country afforded a similar rebate in the converse situation.

(N.B. at present New Zealand alone has a reciprocal gift duty provision.)

However, as regards the United States, the provisions outlined above had been superseded by conventions for the avoidance of double taxation of estates and dispositions of property by way of gift.

Similar duties were also levied by the States.

**Question 17.** A rebate of payroll tax was available to employers who increased their annual export sales above their average annual export sales in a base period (see above).

No social security taxes were levied in Australia.

**Question 18.** No other tax credits were given relative to exports and imports in respect of the taxes administered by the Commonwealth.

**Other**

Asked what was the rationale behind the schemes referred to in answers to questions 6 and 7 and how these were related to the agreed international rules regarding export subsidies, the representative of Australia said that they had previously expressed doubts as to the relevance of Part III to the questionnaire to the work of the Working Party. The main task of the Working Party was to examine the effects on imports and exports of border tax adjustments which had hitherto been regarded as neutral in their trade effects. However, Part III was
included in the questionnaire and Australia accordingly submitted information. No border tax adjustments were made in relation to either scheme. They were export incentives schemes, whose purpose was to encourage exporters to enter the export field and to increase their level of exports. They were not subsidies. Payroll tax was not a direct tax, but a tax on a factor of production and thus was rather like a tax on value added. The rebate was not related to the export of specific products, but to increases in exports as a whole over a twelve-month period, compared with a base period. It was a moving base period and because of this continued increases in exports were necessary to attract the rebate. With respect to firms which had not exported during the base period, there was provision for new exporting firms to benefit after they had been exporting for one year and for their base period in time to be phased into the base period of other exporters (see above). All firms were eligible and there was no discrimination between Australian firms and foreign firms. The market development allowance was a rebate of a direct tax but the allowance was not a subsidy. The amount of the allowance was not related to the volume of exports and was payable even if no sales were made. The rebate was deducted from income tax which otherwise would be payable.

As to the practical effects of the payroll tax rebate scheme on receipts of the firms concerned, this would vary considerably from firm to firm, as it would depend on the other elements of cost and of the total operations of the firm. However, in 1966/67 revenue from payroll tax was 3.2 per cent of total taxation revenue.

Payroll tax was levied on the payroll of the firm and was paid by the firm. The analogy with value-added was that wages paid by the firm were a cost of production and therefore must be an element of the value that was added to the product by the firm.

Concerning the mechanism of the export market development allowance scheme, the representative of Australia said that eligible expenditure came into the reckoning of income tax payable in two ways. Firstly, as with other deductions, including, of course, market development expenditure within Australia, such expenditure was deducted from the total assessable income of the firm to arrive at taxable income. Then, after the rate of tax was applied to this figure to arrive at tax payable, a tax rebate was deducted, calculated by applying 42.5 cents for every dollar spent on eligible expenditure.

An Australian firm with a branch overseas could include eligible expenditure by that branch for the rebate for market development allowance. As to the budgetary costs of each of the two export incentive schemes, these were, in 1967/68, as following:

Payroll tax rebate scheme: $A 25.2 million
Market development allowance scheme: $A 7.3 million
The two had a combined value equal to 0.5 per cent of total revenue (Commonwealth, State and local government).

The only products not eligible for the payroll tax scheme were certain classes of minerals and products of the treatment of minerals. Alumina, pellets and other agglomerated forms of iron, coke and briquettes of coal and coke, were ineligible. So was petroleum and products obtained from refining and treating petroleum, materials obtained by quarrying and precious or semi-precious stones which were not mounted, set or permanently strung before export.

In cases where the amount of rebate exceeded the amount of payroll tax payable, the exporter could maintain the excess as a credit against future payroll tax liabilities, or pass on the excess for use by suppliers or merchants, or a combination of the three.
AUSTRIA

General

Question 1. The revenue in question was not earmarked for social security schemes.


Question 3. No.

Question 4. No.

Question 5. See table in OECD fact-finding report.

Other tax-related border adjustments and export rebate schemes

Questions 6 to 10. Not applicable.

Question 11.

(a) Accelerated depreciation allowance (maximum rate 45 per cent of the costs of movable capital assets, 20 per cent of the costs of buildings).

(b) Investment reserve up to 20 per cent of the income. Within the three following years the reserve had to be set off against the amounts of accelerated depreciation allowance for purchased or self-produced capital assets. Otherwise an increased taxation was applied.

These two investment incentives resulted in a tax deferral and not in a tax exemption. Furthermore, they were applicable irrespective of whether a company was engaged in export activities or not.

Question 12. Losses of domestic companies could be carried forward five years.

Question 13. Gains from the alienation of assets were included in the taxable income. However, capital gains could be set off against the costs of purchased or self-produced capital assets on condition that the alienated capital asset formed part of the business property during ten years (twenty years in the case of immovable property).

Question 14.

(a) Permanent establishment abroad: in the absence of a convention for the avoidance of double taxation the profit or loss was included in the taxable income. Foreign tax was deducted from the income. The Ministry of Finance was authorized to grant tax exemption or tax credit. For cases falling under a double taxation convention the rules of the convention applied.
(b) Subsidiary abroad: not the profits or losses of the subsidiary but only the distributed profits (dividends) were taken into account when assessing the income of the parent company. Foreign tax paid on dividends was credited against the tax of the parent company according to the provisions of a double taxation convention or according to a special permission of the Ministry of Finance. Otherwise the foreign tax was deducted from the income.

**Question 15.** The taxes imposed on the business capital of a company were:

(a) the capital tax including surcharges (rate for 1969 and 1970 0.765 per cent);

(b) the tax on property eluding estate duties (rate 0.5 per cent);

(c) the tax on the capital of commercial and industrial enterprises (rate 0.3 per cent);

(d) the land tax (rate about 0.8 per cent).

The taxes listed under (a) and (b) were not deductible from profits.

**Question 16.** Not applicable.

**Question 17.** No.

**Question 18.** Not applicable.

**Other**

It was pointed out that replies to questions 11 to 15 indicated certain conditions which permitted adjustments to taxable income. These raised broad questions about the treatment, not only of indirect taxes but also direct taxes. As to the rationale behind this, the observer from Austria said that these tax reliefs such as accelerated depreciation allowances and investment reserve were granted to the enterprises concerned regardless of whether or not these were exporters and whether the owner of the enterprise was a resident of Austria or not.

**BELGIUM**

**General**

**Question 1.** The revenue from taxes in general was intended to offset all Government expenditure.

**Question 2.** Impossible to determine (in Belgium there are no inventory taxes).
Question 3. No.

Question 4. No.

Question 5. The taxes that were the subject of border tax adjustment accounted for about 24 per cent of total tax revenue.

Other tax-related border adjustments and export rebate schemes

Question 6. No tax credits were granted.

Question 7. No tax credits or deductions were granted.

Question 8. No measures of this kind existed in Belgium.

Question 9. There was no differential rate in Belgium for export profits and domestic profits.

Question 10. No such rebate existed in Belgium.

Question 11. In principle, there were no investment incentives, except for investments in certain areas of the country (degressive amortization).

Question 12. Losses could be spread over a maximum period of five years.

Question 13. Appreciation of assets was taxed as follows:

- assets invested for less than five years: normal tax system;
- assets invested for five years or more: tax at the rate of 15 per cent provided that the assets remain invested in the firm.

Question 14. Profits by establishments or subsidiaries in other countries.

(a) for countries with which Belgium had concluded a double taxation agreement:

profits were not subject to tax in Belgium;

(b) for countries with which Belgium had not concluded a double taxation agreement:

the tax on such profits was one quarter of the normal rate.

Losses by establishments or subsidiaries in other countries:

the losses could be offset against profits by the Belgian undertaking over a maximum period of five years.
It was pointed out that the avoidance of double taxation in the absence of double tax treaties could imply incentives to trade. This matter related to the well-known problem posed by tax exemption or reduction by some countries for foreign source income. The problem concerned a number of countries and it would be useful to have from the countries concerned some information on the judgment of their governments as to the results of these special provisions. Asked whether the deduction of 25 per cent was in lieu of foreign tax credit and whether a firm could be established as a foreign trading company solely to benefit from this deduction, the representative of Belgium said that there was no rebate of 25 per cent. The profits gained abroad by the branch of a Belgian firm were taxed 25 per cent of the normal rate of taxation due in Belgium. He was not aware of any case where a subsidiary of a Belgian firm was established only for the purpose of trading to benefit from this reduction. However, he would check with the competent authorities to find out if such cases existed. He further pointed out that such foreign trading companies had to pay taxes abroad plus 25 per cent of the normal taxation in Belgium. It was therefore a matter of calculation. The point was made by other delegations that differentiation should be made between permanent establishments and subsidiary companies. In cases where the tax rates were similar in certain countries, there seemed to be no difference whether double taxation should be avoided by a credit or by an exemption.

Question 15. None.

Question 16. No border tax adjustments were made for property taxes. Wealth taxes and inventory taxes did not exist in Belgium.

Question 17. No.

Question 18. No adjustments were made for other taxes. No other tax credits were given in Belgium relative to exports or imports.

FRANCE

General

Question 1. None of the revenue obtained from border tax adjustments was intended to compensate, even in part, for Government expenditure on social security.

It was pointed out that part of the wages taxes was earmarked for rural social security. However, these taxes were abolished in November 1968, but presumably rural social security payments had continued. Asked what happened in transition and whether a specified portion of the TVA revenue was now destined for this purpose, the representative of France said that 85 per cent of the wages tax revenues was used for the purpose of making payments to the local collectivities. The remaining 15 per cent went to agricultural social benefits. Funds for the complementary budget for agricultural social benefits, formerly derived from 15 per cent of the proceeds of the wages tax that has now been eliminated, have been made up by an appropriation from the general budget. No part of the increase in proceeds from the tax on value added, resulting from the higher rate of this tax as from 1 December 1968, is appropriated for the complementary budget for agricultural social benefits.
Question 2. Importance of property taxes, inventory taxes, licence fees and stamp taxes:

- there were no inventory taxes;
- the other taxes referred to were of little importance: < 5 per cent.

Question 3. No - transportation is in general subject to TVA, but is exempt therefrom in the case referred to.

Question 4. In principle, no.

Question 5. Proportion of total taxation that is the subject of border tax adjustments: 34.2 per cent in 1965 (OECD report).

Other tax-related border adjustments and export rebate schemes

Question 6. There were no specific deductions designed to encourage export expansion.

Question 7. No deductions were allowed for export sales promotion expenses.

The French system reinforced considerably the control of overhead expenses of enterprises. However, a less strict control for the overhead expenses incurred in respect of foreign traders was provided for.

Question 8

(1) Provision was made for additional depreciation in respect of goods acquired prior to 1 January 1960 and was equivalent to 1.5 times the product of the normal depreciation allowance multiplied by ratio $TE/T$ (before tax). This system as no longer in force, however. The principles of the system were condemned when the progressive depreciation system was introduced, and survived on an optional basis until 1966, when it was finally eliminated.

(2) French legislation made strict provision concerning reserves, which could be accumulated only when specifically authorized. Provision was therefore made for the accumulation of a special reserve in respect of credits granted for a term of more than two years to foreign clients, subject to a ceiling of 10 per cent of the amount of outstanding credit.

(Special risks - special liabilities.)

Question 9. The company profits tax system did net make any differentiation according to the origin of the profits - whether from sales in France or abroad.

Question 10. There was no tax rebate.
Question 11. There were no permanent investment incentives. The depreciation allowance in respect of assets that depreciate through use or age was based on the normal utilization period.

On the other hand, temporary measures had been taken with a view to boosting demand for certain capital goods, in the form of a tax allowance equivalent to 10 per cent of the cost price of new capital goods ordered over a limited period (10.5 months in 1966, 16 months in 1968-69).

The items to which these measures applied represented approximately 25 to 30 per cent of industrial and commercial investments.

Question 12. Possibilities for spreading losses were limited in space and time:

- in space, in the sense that they could only be resorted to by the undertaking which actually incurred the losses (no possibility of transferring deficits) and offset against the subsequent profits of the same undertaking;
- in time, in the sense that such losses could only be allowed against profits in the ensuing five financial periods.

Question 13. There were two systems:

- short-term appreciation of assets;
- long-term appreciation of assets.

Short-term appreciation of assets covered:

(a) with respect to assets held for less than two years:

- the difference between the transfer price and the net balance-sheet value of the assets transferred;

(b) with respect to other assets:

- the over-depreciation.

In both cases such appreciation of assets was subject to tax according to the ordinary tax scale, subject to spreading over five years.

Long-term appreciation comprises assets that did not fall within the definition of short-term appreciation, and was taxed at a uniform reduced rate of 10 per cent.
Question 14. Possibilities for offsetting taxes paid abroad or losses incurred by establishments or subsidiaries in other countries.

Subject to ministerial approval, there were two possibilities:

- performance could be balanced against performance, on the basis or worldwide or consolidated profits;
- cost could be balanced against cost (in principle, in the case of an establishment) within the limits of the amount approved and of the actual cost incurred by the main headquarters.

In answer to questions, the representative of France said that the ministerial approval was given in limited cases to both foreign and French companies when their rights were justified. It was hoped that these measures would enable French firms without any fiscal handicap, to establish branches abroad.

Question 15. No. There were no taxes on business capital.

Question 16. No adjustments were made.

Question 17. Social security and wage taxes (the latter have just been eliminated) were not assessed differently depending on export or import volume.

Question 18. No adjustments were made and no tax credits were given relative to exports or imports.

Other

Asked how the market development tax allowance, which appeared to permit a rather generous five-year framework for deductions for foreign market surveys and similar activities, operated, the representative of France said that expenses for studies on foreign market prospects were deductible subject to authorization.

FEDERAL REPUBLIC OF GERMANY

General

Question 1. No.

Question 2. Reference to their reply to the GATT questionnaire on border tax adjustments page 2, (I 1 c and d), page 20/22, (I 2 c).

Question 3. Tax exemptions made provided for transportation across the border (paragraph 4 No. 5 UStG).

Question 4. Customs legislation applied, i.e. the value was determined by application of the customs provisions with regard to valuation for customs purposes.
Question 5. Proportion of total taxation collected through taxes which were subject of border tax adjustments.

Reference to OECD document C(68)47 Part III page 69:

1965 Consumption taxes 29.4 - 1.9 per cent
    (customs duties) = 27.5 per cent
    Income taxes 32.7 per cent
    Taxes on capital etc. 3.5 per cent)
    Social security charges 29.2 per cent
    Others 3.8 per cent

Proportion 27.5 : 72.5

For 1967, the proportion of consumption taxes (Steuern auf Einkommensverwendung), not including customs duties, amounted to 29.9 per cent of the total revenue from taxes and social security charges (43.1 per cent of tax revenue).

Reference: Finanzbericht 1967 des BMF.

Other tax-related border adjustments and export rebate schemes

Question 6. None.

Question 7. None.

Question 8. No such facilities were available.

Question 9. The tax rate did not vary in this respect.

Question 10. No tax rebate was allowed in respect of exported goods.

Question 11. Investments abroad by German firms were encouraged by means of incentives, if the investments were made in developing countries. As a rule, no incentives were provided for investments in Germany. The only exceptions were those in respect of "special areas" (Berlin, areas adjoining the zonal border, coal-mining industry).

Question 12. Tax was based on profits only. Losses could be set off in the following five years.

Question 13. The appreciation of assets was based on the cost of their acquisition or production, less depreciation for wear and tear.
Question 14. Under German tax legislation, credit against German corporate income tax could be allowed in respect of comparable taxes paid abroad. Most of the existing double taxation conventions provided for tax exemption of (a) the profits derived by a legally non-independent permanent establishment located abroad, and (b) of the dividends received by a German parent company from its foreign subsidiaries. The offsetting of losses when establishing taxable profits was permissible only where the losses concerned were those incurred by a legally non-independent permanent establishment in a country which had not concluded an applicable double taxation convention with Germany.

The problem of taxes paid abroad had been regulated in cases where double taxation conventions existed. Independent establishments located abroad were subject to the rules of the country where they were located. In cases where no double taxation conventions existed and non-independent establishments were concerned, the taxes paid abroad had to be taken into consideration for the fixation of the taxes paid in Germany.

Question 15. Net worth tax. The rate of tax was ordinarily 1 per cent of the current market value. Corporations were not permitted to deduct from their profits the amounts of net worth tax paid or payable. Individuals could claim no more than an allowance for "special expenditures" in respect of net worth tax paid.

Company tax (tax on transactions between a corporation and a shareholder which had the effect of strengthening the capital position of the corporation). The rate of tax was 2.5 per cent of the consideration made for the acquisition of membership rights in corporations, or of the nominal amount of loans which were in effect a substitute for needed equity capital. Partly deductible.

Question 16. None.

Question 17. No.

Question 18. None.

ITALY

General

Question 1. No.

Question 2. Only stamp duties which represented about 3 per cent of total tax revenue.

Question 3. No.

Question 4. No.

Question 5. In 1967, the proportion was about 30 per cent.
Other tax-related border adjustments and export rebate schemes

Question 6. None.

Question 7. None.

Question 8. There were no special provisions with respect to exports.

Question 9. No differentiation was made in the corporate income tax rate in respect of profits on exports and profits on domestic sales.

Question 10. Not applicable.

Question 11. Measures of this kind had been applied only temporarily in Italy in the period 1965/67 and provided for a 75 per cent reduction in the tax rate. For certain less-developed areas of Italy (Mezzogiorno d'Italia), temporary facilities were provided for the installation, extension, transformation or reactivation of industries in these areas. These facilities also applied to newly-established small- and medium-sized undertakings in certain areas of Central and Northern Italy that were recognized as being economically under-developed. These facilities comprised a ten-year exemption from tax on movable wealth and corporate income tax.

Question 12. With respect to the tax on movable wealth, losses could be spread over the ensuing financial periods, subject to a maximum of five years.

Question 13. Appreciation of assets was added to taxable income for the year in which it was achieved, distributed or included in the balance-sheet.

Question 14. The income of establishments or subsidiaries in other countries was not taken into account for determining the corporate income tax of the principal establishment in Italy. In determining the tax base for the principal establishment, however, no allowance was made for losses or taxes in respect of activities in other countries.

Losses incurred abroad could be offset against overall income only where the activities abroad were the direct responsibility of the undertaking established in Italy, i.e. when the latter had no permanent establishment abroad with its own administration and accounting system.

In this case also, the actual amount of ordinary tax paid abroad was deductible from the taxable income, provided the corresponding profits had been taken into account for determining the total taxable income and the gross amount thereof had been declared.

Question 15. There were no taxes on business capital. However, the corporation tax, which should be considered as being a tax on profits, had a double tax base - the taxable capital and the firm's profits.
This tax was applied at the rate of 0.75 per cent of the capital (comprising registered capital plus reserves) and 15 per cent of that part of the profits which exceeded 6 per cent of the capital.

The corporation tax determined in this way was not deductible from the tax on movable wealth, and that part of it which was in respect of capital was not deductible from total taxable income.

Question 16. None.

Question 17. No.

Question 18. None.

NETHERLANDS

General

Question 1. No.


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<th>Taxes on income, profits and capital</th>
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<tr>
<td>Indirect taxes:</td>
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<td>Import duties</td>
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<td>Turnover tax</td>
<td>5,450</td>
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<td>Excise taxes</td>
<td>3,490</td>
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<tr>
<td>Stamp duty</td>
<td>110</td>
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<tr>
<td>Registration fee</td>
<td>175</td>
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<tr>
<td>Motor vehicles tax</td>
<td>58C</td>
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<tr>
<td>Real estate tax</td>
<td>51</td>
</tr>
<tr>
<td>Total</td>
<td>10,716</td>
</tr>
</tbody>
</table>

| Total 24,320                        |       |

Question 3. Did not apply.

Question 4. No.


| Total State taxes                   | 24,320|
| Total local taxes                   | 760   |
| Social security charges             | 13,570|
| Total 38,650                        |       |

Subject to border tax adjustments were turnover tax and excise taxes. The revenue of these taxes was f. 8,940 million.
Other tax-related border adjustments and export rebate schemes

Question 6. Did not apply.

Question 7. Did not apply.

Question 8. Did not apply.

Question 9. Did not apply.

Question 10. Did not apply.


Question 12. One year carry back and six years carry-forward. There was an unlimited carry-forward for losses incurred by a company in the course of the first six years after its establishment.

Question 13. In general: sound business practice.


Losses incurred by permanent establishments: foreign losses were set off against Netherlands profits: if in later years there was a foreign profit the exemption for tax paid abroad was only granted for the foreign profit after deduction of the earlier foreign losses.

Subsidiaries: intercorporate dividends were not taxable in the hands of the parent company provided that the subsidiary was subject to foreign corporate income tax.

Question 15. Yes, but only for individuals, not for companies. The rate was 6 per cent. The tax was not deductible from profits.

Question 16. Did not apply.

Question 17. Did not apply.

Question 18. Did not apply.
CANADA

General

Question 1. The revenue obtained from border tax adjustment at both the Federal and provincial levels generally entered into the consolidated revenue funds from which Government expenditures, including those on social security programmes, were made. In some instances a portion of the sales tax was earmarked for a particular fund or purpose. For example, three percentage points of the Federal manufacturers' sales tax (or approximately 25 per cent of the yield) were destined for the Old Age Security Fund. Some of the provincial sales tax statutes provided that revenues were to be used in whole or in part for social security, welfare, health and/or education.

Question 2. The relative importance of property taxes and licence fees in Canadian tax revenues was shown in Schedule 1, page 62 of Spec(63)88. In 1966, the latest year for which consolidated figures for all levels of Government were available, the revenues were as follows:

<table>
<thead>
<tr>
<th></th>
<th>$ million</th>
<th>Percentage total taxes</th>
<th>Percentage GNP</th>
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</thead>
<tbody>
<tr>
<td>Property taxes</td>
<td>1,904</td>
<td>11.8</td>
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<tr>
<td>Taxes on natural resources, licences, fees and permits</td>
<td>999</td>
<td>6.2</td>
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<tr>
<td>Stamp taxes and inventory taxes</td>
<td>N/A</td>
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<tr>
<td>Total</td>
<td>16,121</td>
<td>100.0</td>
<td>27.9</td>
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</tbody>
</table>

Question 3. There were no border tax adjustments for transportation costs on goods in transit.

Goods in transit were not subject to the tax as these did not enter into Canadian commerce.

Question 4. There was no special basis for valuation depending on whether or not the buyer was the final consumer.

In answer to questions, the representative of Canada said that the water pollution problem was an acute one in Canada. As a solution to this problem, it was thought appropriate to give a special incentive, in the way of rapid
write-off or accelerated depreciation allowances for those companies which put in the necessary equipment. The incentives for scientific research had been in operation for many years in one form or another, as it was in the interest of Canada to encourage increased scientific research within the country.

The problem of development areas was also a critical one and top priority had to be given to encouraging the location of industries in these areas of outstanding potential growth. As regards shipbuilding and natural resource incentives, these were granted to encourage exploitation and development as most of the minerals were in remote areas. These incentives were also necessary to keep Canada in line with the tax systems in other countries that competed for resource capital. However, it was not the motivation underlying any of these incentives to be export orientated.

Question 5. See Schedule 1, page 62 of Spec(68)88.

Other tax-related border adjustments and export rebate schemes

Question 6. No tax credits were given to exporters relative to increases in export sales.

Question 7. Export sales promotion expenses were treated in the same manner as other ordinary business expenses - provided they were current (as opposed to capital), reasonable and meet the other general tests of deductibility, such expenses could be deducted in calculating income for tax purposes.

Question 8. Not applicable.

Question 9. Not applicable.

Question 10. Not applicable.

Question 11. A number of investment incentives were provided in the corporate income tax system. The basic provisions governing capital cost allowances (depreciation) permit taxpayers to deduct over a period of years the actual cost of depreciable property at write-off rates which were generally considered to be generous. There were, in addition, special selective accelerated depreciation allowances for certain purposes such as water pollution control equipment, scientific research expenditures and new manufacturing investment in development areas. There were, in addition, special provisions designed to stimulate investment in certain industries such as shipbuilding and natural resources. These included depletion allowances for mines and oil and gas, a three-year exemption for income from new mines and provision for the rapid write-off of exploration and development expenses.
Question 12. For tax purposes business losses could be carried back one year and forward five years and applied as a deduction against business income earned in those other years.

Question 13. Not applicable.

Question 14. Income taxes paid by a foreign establishment of a Canadian taxpayer qualify for a tax credit equal to the lesser of (a) the foreign tax paid, and (b) an amount equal to the effective rate of Canadian tax applicable to the foreign income. Losses of such foreign establishments were deductible in calculating income subject to tax. The income of foreign subsidiaries of Canadian companies was not taxable in Canada, nor were dividends received from such subsidiaries taxable when received by a Canadian parent company. Thus no tax credit was permitted in respect of foreign taxes levied on such income.

Question 15. Not applicable federally. Two provinces imposed taxes on capital and places of business.

In Ontario the ordinary rate was one twentieth of 1 per cent of taxable paid-up capital used in Ontario plus $50 for each permanent establishment in the province. These taxes were payable only to the extent they exceeded the provincial corporate income tax payable for the year.

Quebec also imposed taxes on paid-up capital and places of business. The ordinary rate of tax on capital was one fifth of 1 per cent of taxable paid-up capital used in the province and the rate for each place of business was $50 (reduced to $25 if the paid-up capital was less than $25,000).

The provincial capital and place of business taxes were deductible as ordinary expenses for corporate income tax purposes.

Question 16. No border tax adjustments were made for property taxes or for inventory taxes.

Question 17. Social security and wage taxes in Canada did not vary depending on the level of exports or imports.

Question 18. None.

Other

In answer to questions concerning the mark-ups in certain provinces on imported spirits, particularly whisky, the representative of Canada said that an investigation had been made in this respect but no clear image had emerged. It was found difficult to make a case of any discrimination that had been practised.
DENMARK

General

Question 1. There were no such provisions in the tax laws.

Question 2. The yield of property taxes and stamp taxes was about DKr 2,000 million (1968/69). The effect on production and distribution costs of these taxes, paid by private persons as well as enterprises was insignificant.

Question 3. There were no border tax adjustments for taxes on transportation costs on goods in transit.

Question 4. In general, there was no special basis for valuation of goods when the buyer (importer) was the final consumer. In a few cases, however, the law prescribed an uplift in order to offset the normal mark-up of the importer, which should be included in the valuation basis.

Question 5. Of the total taxation including local taxes and social security contribution, about 35 per cent was collected through taxes which were subject to border tax adjustments.

Other tax-related border adjustments and export rebate schemes

Questions 6-10. No credits or deductions were introduced in the tax laws.

Question 11. There were no special investment incentives with respect to exports.

Question 12. Losses in one year could be offset against profits in the two following years.

Question 13. There were no special regulations with respect to exports.

Question 14. Taxes paid abroad and losses incurred by establishments in other countries could be offset against corporate income tax.

Questions 15-18. Not applicable to Denmark.

FINLAND

General

Question 1. The revenue was not bound to be used for a specified purpose.

Question 2. Import licence fees were charged on the issue of import licences for a limited range of goods. In addition, import permits were required for the import of certain categories of goods. In connexion with the issue of these permits a stamp tax was levied.
In theory, but in practice extremely seldom, the Finnish stamp tax could be applied differently on foreigners and Finnish citizens. In addition Finland had concluded trade agreements in which such practices were prohibited with a great number of countries.

The amount (about Fmk 500,000) collected through import licence fees and stamp duties constituted 0.007 per cent of the value of the Finnish import in 1968.

Stamp duties are collected only in exceptional cases when a special permission for importation is needed e.g. for importation of drugs, poison or pharmacy products. The amount of stamp duties is insignificant.

Question 3. No.

Question 4. No.

Question 5. If the collection of these taxes within the country and at the borders was taken into account, they made approximately 31 per cent of the revenue of the State.

Other tax-related border adjustments and export rebate schemes

Question 6. According to the legislation (445/56) regarding promoting of the production and export of the metal and shipbuilding industry the interest on sales credits up to 4 per cent was not regarded as income, provided the claim originated from a contract concluded before the end of 1970 by an enterprise engaged in metal manufacture or shipbuilding and including stipulations whereby the buyer was accorded a credit of a duration of more than twelve months for the payment of the contracted metal industry or shipbuilding products. This benefit was accorded to exporters and home market producer alike.

According to the Act on Export Reserve Funds (162/66), a joint stock company and co-operative liable to taxation as well as every other public or private body liable to taxation, has the right to transfer in connexion with the closing of accounts for the years 1968-1973 a maximum of 20 per cent of the annual profit to a special fund and to deduct this amount from the taxable profits in the governmental and municipal taxation for the year in question.

The amount transferred to the fund must be used in the course of three years of taxation after the transfer for covering costs incurred in connexion with the acquisition of fixed assets abroad or basic improvement or repair of such assets, foreign advertising of export goods and market surveys concerning possibilities for export, maintenance of a sales network abroad as well as other costs arising from export promotion and development, which costs are defined in detail by decree.
When using the fund in the above manner, the body liable to taxation must not burden its profit and loss account with the amount used. When acquisition or basic improvement of fixed assets is in question, the value of the acquired property must in the accounts be reduced with the amount taken from the fund to be used for the purpose. As the profit and loss account must not be burdened, the result is that the taxable income of the body liable to taxation is similarly higher in the year of these costs (i.e. the year the fund is being used), or that the earlier tax advantage (provided the tax level remains the same) will be forfeited. In the case of an acquisition of fixed assets, debiting or the forfeiture of the tax advantage will be realized gradually with depreciations from a smaller amount than the actual cost of acquisition.

If the body liable to taxation does not use a sum corresponding to the amount transferred to the Fund in the course of three years and in the manner explained above, a regressive tax will be levied in which the unused portion of the fund will be added to the income of the year for which the transfer has been made.

It can be seen on the basis of the above that the advantage received by the body liable to taxation lies in that he will be taxed later for the income transferred to the fund. If the use of the fund for covering costs incurred in connexion with export development and promotion is in question, taxation will however be effected at the latest in the third year after the transfer was made. If, on the other hand the acquisition of value-deductible fixed assets is in question, taxation will be effected synchronically with depreciations from the value of the acquisition of fixed assets. Postponement of taxation means an advantage in interests (three years) to the body liable to taxation, in addition to which also a final tax advantage may be calculated through the possibility of later years of loss. In this case, however, the taxation of estimated income which is possible in municipal taxation must be taken into consideration.

Example

Joint stock company; profit Fmk 10,000; taxable income Fmk 20,000

Transfer to export reserve fund 20 per cent of Fmk 10,000 = Fmk 2,000

Tax level 50 per cent

Taxable income Fmk 20,000 - Fmk 2,000

Taxable income = Fmk 18,000

Tax = Fmk 9,000 (Fmk 10,000 - Fmk 1,000)

Tax advantage = postponement of the payment of Fmk 1,000

In the course of the third year at the latest, the body liable to taxation must use Fmk 2,000 for covering costs of export promotion or acquisition of fixed assets. If this does not happen, a regressive tax is levied on Fmk 2,000. The amount of the regressive tax is Fmk 1,000, i.e. the amount of earlier tax advantage.
If the body liable to taxation uses the Fmk 2,000 corresponding to the transferred amount in a manner as described in the law, the amount will be entered, in case of export costs, as a debiting of the reserve fund account without burdening the profit and loss account:

<table>
<thead>
<tr>
<th>Cash account</th>
<th>Reserve fund account</th>
</tr>
</thead>
<tbody>
<tr>
<td>2,000</td>
<td>2,000</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Profit and loss account</th>
<th>Gain of profit and loss account Fmk 8,000, not Fmk 10,000 as it legally should be</th>
</tr>
</thead>
<tbody>
<tr>
<td>2,000</td>
<td>10,000</td>
</tr>
<tr>
<td>8,000</td>
<td></td>
</tr>
</tbody>
</table>

In case of a normal entry the account with an effect on the profits would be debited, which would mean a lowering of the profit and simultaneously a lowering of the taxable income by the debited amount (see chart). Again, would the body liable to taxation acquire an object belonging to fixed assets worth Fmk 5,000, the Fmk 2,000 must be deducted from the Fmk 5,000. After this, depreciations may be made from Fmk 3,000 instead of Fmk 5,000. With a depreciation percentage of 20, Fmk 2,000 will be debited in five years in a system of linear depreciation. In a system of degressive depreciation, debiting will be somewhat slower.

In regard to the question, what portion of the price the income tax rebate represents and whether this represents a difference in price between home and export goods, the observer from Finland said that no examinations about the effect of income tax rebates on prices have been carried out.

The export goods and home market goods are treated similarly.

**Question 8.** No.

**Question 9.** No.

**Question 10.** No.
Question 11. Joint stock companies among others had the possibility to spur their investments during a short transfer period according to a system of tax relief, provided for in the law on income from economic activities (360/68). The tax relief system had been made necessary by the tightening of the stock valuation rules and provided a possibility to add liberated stock assets to the capital proper without having to pay income tax on these capital gains, on the condition, that a corresponding amount was used for investment.

Question 12. Under certain conditions the losses incurred during one fiscal year could be deducted from the profit during later years (Law 362/68).

Question 13. Due to the comprehensiveness of the field covered by the question it could not be answered in this connexion.

Question 14. The internal legislation did not provide possibilities for compensating for taxes paid abroad. In theory this should however have been possible under the agreements to avoid double taxation which Finland had concluded with several countries, though these agreements mostly were based on the exemption method. The losses made by a Finnish subsidiary (not being an independent firm) abroad could be deducted from the enterprise's total taxable income in Finland, though certain tax agreements included rules excluding this possibility. (This bears upon State taxation only; municipal taxation could not be extended to business or real estate income from abroad.)

Question 15. The capital assets of joint stock companies were free from capital tax and stamp tax. Private business owners, however, paid capital tax on their fixed assets in conformity with the legislation on income and capital taxation.

Question 16. None.

Question 17. No.

Question 18. The fact that a motor vehicle was driven by some other kind of energy or fuel than unblended petrol made the vehicle liable to a particular "tax on motor vehicles". This tax was subject to border tax adjustments in cases where the vehicle, registered abroad, was not exempt from the payment thereof by virtue of an international agreement, reciprocity, or special regulations concerning such taxation.

The tax on alcoholic beverages could not be regarded as an excise tax proper; it is a special tax levied by the alcohol company which is a State monopoly. This tax replaced mainly the income and property taxes of the alcohol company. The name "tax on alcoholic beverages" did in this sense not give a completely correct picture of the matter. The tax base was the total of gross income obtained from the retail sale of alcoholic beverages and the sale for consumption in restaurants. The tax constitutes 55 per cent of the taxable value. Beer was not considered an alcoholic beverage in the sense of the tax on alcoholic beverages.

The taxable value included the retail sale and sale for restaurant consumption of both domestic and foreign alcoholic beverages.
INDIA

General

Question 1. No.

Question 2. A number of taxes like property tax, licence fees, stamp tax, octroi duties etc. which had an effect on production and distribution costs, were being levied by the Central Government, State Governments and the local authorities. It was not possible to assess precisely in the case of each product the incidence which such taxes had on production costs. By and large, no border tax adjustments were made in regard to such taxes.

Question 3. No.

Question 4. No.

Question 5. Excise duties accounted for about 30 per cent to 32 per cent of total tax revenue of both the Central and State Governments.

Other tax-related border adjustments and export rebate schemes

Question 6. No tax credits were given.

Question 7. An amount equivalent to one and one third times the expenditure incurred by enterprises on export promotion, known as "export market development allowance" was allowed to be deducted from the taxable income. The expenditure to be qualified for such deduction must be incurred outside India for the development of export markets for Indian goods on a long-term basis. The eligible expenditure for this purpose included advertisement and publicity abroad, foreign market information, maintenance of branch office or agency in a foreign country, preparation and submission of tenders abroad, travelling expenditure outside India and cost of supply of samples.

Asked what was the budgetary cost of the tax credits referred to above, the representative of India said that the tax incentive for foreign market development was introduced in March 1968 and that there was no such estimate. He offered, however, to collect the relevant data.

Question 8. No.

Question 9. The nominal rates on corporation tax were the same for all enterprises irrespective of the nature of activities in which they might be engaged.

Question 10. Did not apply in view of the reply to question 9.

Question 11. Tax policy was an integral part of economic planning designed to accelerate economic development and it played a significant rôle in comparison with other forms of economic policy. As the essence of developmental planning
was determination and implementation of priorities, the taxation policy was
designed to channel the scarce resources to priority sectors. Consequently, the
thrust of tax incentives in India was to encourage flc. of resources to priority
activities besides stimulating the overall level of corporate investment. The
important tax incentives were:

(i) Development rebate: The most important tax incentive to corporations
was the development rebate which was in addition to normal
depreciation allowance. The rates of development rebate varied from
industry to industry according to the priority attached to it in the
development plan. For instance, for any new machinery and plant
installed in specific priority industries, the rate of development
rebate was 35 per cent while for other industries, it was 20 per cent.

(ii) Tax holiday: Corporations establishing new industries in the priority
sector were given exemption from payment of corporate tax up to 6 per
cent of the capital employed for a period of five years from the year
in which they commenced production.

(iii) Special 8 per cent deduction from profits: Domestic companies engaged
in certain priority activities like generation or distribution of
electricity or those manufacturing certain products considered
essential for economic development were entitled to deduction in the
computation of their taxable income of an amount equal to 8 per cent
of the profits derived from their priority activities. This incentive
was available to those domestic companies in which the public were
substantially interested and whose total income exceeded Rs 50,000.

(iv) Tax credit certificates in relation to increased production: Any
person engaged in "specified industries" (at present cement,
newsprint, caustic soda, soda ash and paper except newsprint and
boards) was entitled to tax credits calculated at the rate of
15 to 25 per cent of the amount of central excise duty payable on
excess of goods cleared during any of the five financial years (from
1 April to 31 March) from 1965-66 to 1969-70 over goods cleared
during the "base" years. The base year was the financial year
1964-65 or a later financial year in which an enterprise began to
manufacture goods.

(v) Tax credit certificates in relation to tax liability: This tax
concession was available for any of the assessment years in the
five-year period 1966-67 to 1970-71 to any company which was engaged
in the manufacture of articles mentioned in the First Schedule to the
Industries (Development & Regulations) Act 1961. The tax credit was
calculated at 20 per cent of the amount by which the income tax and
surtax payable by the company in respect of its manufacturing profit
for any assessment year in the above-mentioned five-year period,
exceeded the income tax and surtax liability for the base year. The
base year would be the assessment year 1965-66 or the next one of
succeeding assessment years up to the assessment year 1969-70 in
which a company would become liable to pay tax. The maximum amount of tax credit, however, would not exceed 10 per cent of the income tax and surtax payable by the company on its manufacturing profits for the assessment year for which tax credit certificates were to be issued.

**Question 12.** A loss under any head of income was set off (subject to certain conditions relating to set off of losses arising from transfer of capital assets, and a speculation business) against the income under any other head. Unabsorbed loss relating to any business or profession for any assessment year was carried forward and set off against the profits of succeeding years, but not beyond a period of eight years, subject to the condition that the business or profession in respect of which the loss was computed continued to be carried on in the year for which the set off was claimed.

**Question 13.** In the case of a company, capital gains on transfer of a short-term capital asset (i.e. capital asset held for not more than twelve months immediately preceding the date of its transfer) were taxed in the same manner as income other than capital gains. The rates of tax in respect of long-term capital gains arising on transfer of capital assets other than short-term capital assets were as follows:

(i) Capital gains relating to buildings or lands or any rights in building or lands  40 per cent
(ii) Other capital gains  30 per cent

When a business asset in respect of which depreciation had been allowed was sold and the sale proceeds exceeded the written down value of the asset, such excess was taxable as business income to the extent of depreciation allowed in earlier years.

**Question 14.** In the case of a taxpayer who was resident in India, relief was provided in respect of double taxation of income which accrued or arose to him outside India and was charged to tax in a foreign country. Where there was an agreement between India and foreign country concerned for avoidance or relief in respect of double taxation of income, double taxation was avoided or relieved in accordance with such agreement. Where there was no such agreement, relief from double taxation was provided unilaterally by allowing a deduction to the taxpayer from the tax chargeable on the doubly taxed foreign income of an amount equal to the Indian tax or the foreign tax thereon, whichever was less.

Losses incurred by establishments of residents of India in other countries were allowed to be set off against Indian income. As regards losses incurred by "subsidiaries" of Indian companies in other countries, these were not allowed to be set off against the income of the parent company in India.

**Question 15.** Nil.

**Question 16.** There was no inventory tax. No border tax adjustment was made in respect of taxes on property.
Question 17. Did not apply.

Question 18. None.

IRELAND

General

Question 1. The social insurance scheme currently in operation in Ireland was instituted under the Social Welfare Act, 1952. Under the terms of this Act, a Social Insurance Fund was set up into which contributions were paid by the Government and by employers and employees. The Exchequer contribution represented about one third of total payments into the Fund.

Although revenue from taxes which were the subject of border tax adjustments represented a large proportion of total tax revenue, no direct assignment to the Social Insurance Fund of any portion of revenue from these taxes took place - nor were increases in the amount of the State contribution to the Fund automatically reflected in corresponding increases in the rates of these taxes. Tax revenue from all sources was paid directly into the Exchequer from which issues were made for Central Fund and Supply Services.

Question 2. The following taxes presumably came within the scope of this question, to the extent that they had an effect on production and distribution costs:

<table>
<thead>
<tr>
<th>Tax</th>
<th>Yield 1968/69 (£ million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rates (local)</td>
<td>39.7</td>
</tr>
<tr>
<td>Stamp duties (including fee stamps)</td>
<td>6.1</td>
</tr>
<tr>
<td>Motor vehicles licence duties</td>
<td>12.7</td>
</tr>
<tr>
<td>Harbour tolls, dues, etc.</td>
<td>2.2</td>
</tr>
<tr>
<td>Excise licences, etc.</td>
<td>0.4</td>
</tr>
<tr>
<td>Total</td>
<td>61.1</td>
</tr>
</tbody>
</table>

The 1964 input/output table prepared by the Central Statistics Office suggested that the following percentages of the yields of the main groups of taxes shown above were paid by business enterprises in 1964:

<table>
<thead>
<tr>
<th>Tax</th>
<th>% of yield paid by business enterprises</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rates</td>
<td>49.2</td>
</tr>
<tr>
<td>Stamp duties (including fee stamps)</td>
<td>97.3</td>
</tr>
<tr>
<td>Motor vehicle licence duties</td>
<td>75.0</td>
</tr>
</tbody>
</table>
As regards the other taxes listed above, whilst there was no information available to show to what extent they fell as a charge on business, the following broad judgments could be made:

- Harbour tolls, dues, etc.: mainly paid by business
- Excise licences, etc.: mainly paid by business

Applying these estimates to the 1968/69 yield of all these taxes gave the following figures for the amounts paid by business:

<table>
<thead>
<tr>
<th>Tax</th>
<th>Estimate of amounts paid by business in 1968/69 (£ million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rates</td>
<td>19.5</td>
</tr>
<tr>
<td>Motor vehicle duties</td>
<td>9.5</td>
</tr>
<tr>
<td>Stamp duties (including fee stamps)</td>
<td>6.0</td>
</tr>
<tr>
<td>Harbour tolls, dues, etc.</td>
<td>2.2</td>
</tr>
<tr>
<td>Excise licences, etc.</td>
<td>0.4</td>
</tr>
<tr>
<td>Total</td>
<td>37.6</td>
</tr>
</tbody>
</table>

Total business costs in 1968 were estimated at £1,053 million (= estimated gross domestic product at factor cost). Thus the taxes shown above were equivalent to approximately 3.6 per cent of business costs.

Question 3. No.

Question 4. None other than the adjustment in respect of retail sales referred to in the reply to question 4 of Section A(b).

Question 5. The net receipts of taxes which were the subject of border tax adjustments in 1968/69 amounted to £168 million approximately (i.e. turnover tax, wholesale tax and customs and excise duties (excluding protective tariffs)).

Total receipts from taxation in 1968/69 were £367.8 million. Thus the relevant proportion was 45.7 per cent approximately.
Other tax-related border adjustments and export rebate schemes

Question 6. Under legislation enacted in 1956, and amended in subsequent years, a scheme of tax reliefs was introduced which provided for total or partial remission of income tax and corporation profits tax on certain profits derived by exporters. (The enclosed Official Leaflet No. 4 contains, in paragraph (9), as amended, details of the reliefs which have been provided - see Annex C.)

Question 7. In general the sales promotion expenses of a trader were allowable as a deduction in computing the profits of any trade for the purposes of income tax and corporation profits tax. There was no special relief given for export sales promotion expenses.

Question 8. There were no special corporate tax provisions which applied to export sales under the headings mentioned in the question.

Question 9. The rate of corporate income tax did not vary as between export profits and domestic profits.

Question 10. The corporate tax was not averaged for the purpose of giving a tax rebate per unit of exported goods. The amount of tax relief allowed to corporations in respect of exports depended on the ratio between the value of export sales of manufactured goods and total sales of manufactured goods.

Question 11. There were no investment tax incentives provided specifically in relation to export trading. The tax code contained various reliefs connected with investment which were given by way of depreciation and other allowances, and details of these reliefs, having special importance in relation to industrial production, are contained in Leaflet No. 4. All these reliefs were available equally to exporters and non-exporters.

Question 12. There were no special loss provisions related to exports, but, in general, trading losses were fully deductible from total income chargeable to income tax, and trading losses could be carried forward for deduction from the profits of subsequent years, until the losses were exhausted. Where a corporation ceased trading, and incurred a loss in its final year of trading, there were provisions for spreading the terminal year's loss back over the preceding three years. Losses were allowable for the purposes of income tax only.

Question 13. At present there were no provisions for taxing the appreciation of capital assets of a corporation.

Question 14. In the case of branch establishments in other countries it could be taken as a general rule that corporate taxes paid by such an establishment on its profits in the foreign country would be allowed as a credit against the Irish corporate tax payable by a corporation in respect of those profits, provided that there was a double taxation treaty in force with the foreign country concerned. At present there were treaties in force with the
United Kingdom, the United States, Canada, Sweden, Denmark, the Federal Republic of Germany, Austria and Switzerland, and treaties with many other countries were in various stages of progress. Where there was no tax treaty, the corporate taxes borne by the establishment in a foreign country were allowed as a deduction in computing the total profits of a corporation for tax purposes. Losses incurred by branch establishments in foreign countries (whether or not there is a tax treaty) were taken into account in computing the total profits of a corporation.

As regards subsidiaries, the income derived by the parent company in Ireland would normally take the form of dividends on equity capital. In general a credit was given to a parent company in respect of withholding tax imposed by the foreign country in respect of dividends from a subsidiary, and also in respect of the underlying tax paid by the subsidiary in the foreign country concerned. In cases where there was no tax treaty, the foreign withholding tax on the dividends was allowed as a deduction in computing the amount of the dividends for tax purposes. Where the dividends arose from the investment in a foreign subsidiary of profits to which exports tax relief applied, relief was allowed to the extent of the full amount of foreign tax or one half of the Irish tax, whichever was the lesser. Losses incurred by a subsidiary in a foreign country were not taken into account in computing the total income of the parent for the purposes of Irish taxation.

Question 15. There were no taxes on business capital.

Question 16. Border adjustments were not made for property taxes or inventory taxes.

Question 17. There were no wage taxes as such in this country. As regards contributions made by a corporation to the State to provide social security benefits to employees, there was no distinction made as between the corporation's import or export activities.

Question 18. As a general proposition it could be stated that all expenses wholly and necessarily laid out by a trader in order to make profits were allowed as a deduction in computing the profits for the purposes of income tax and corporation profits tax, and this principle would normally permit a deduction in respect of all taxes which it was necessary for the trader to pay in the course of earning the profits.

As regards "other. tax credits relative to exports and imports", the income tax and corporation profits tax legislation provided a scheme of relief for corporations that established approved enterprises within the confines of the customs-free area of Shannon Airport (see Official Leaflet No. 4, paragraph 18).

There were no special provisions related to imports in the corporate taxation field.
Note: Corporation profits tax

Corporation profits tax was charged, in addition to income tax, on the profits of companies at the rate of \( \frac{7}{2} \) per cent on so much of the profits of a company as did not exceed £2,500 per annum and at 23 per cent on profits in excess of that figure. The tax so charged was allowed as a deduction in computing profits for income tax purposes.

A company incorporated in Ireland was liable to the tax in respect of all its profits. A company incorporated outside Ireland was liable to the tax on any profits arising in Ireland.

Income tax

A company managed and controlled in Ireland was liable to income tax at the standard rate of 35 per cent on its entire income. A company not so managed and controlled was liable to income tax on any income arising in Ireland.

JAPAN

General

Question 1. No.

Question 2. As shown in page 76 of Spec(68)88 the relative importance of property taxes, licence fees and stamp taxes (the later two are included as "others" in the table) in Japan's tax revenue was small.

Question 3. No.

Question 4. No.

Question 5. Approximately 12 per cent of total taxation was collected in fiscal year 1966 through taxes which were subject to border tax adjustments.

Other tax-related border adjustments and export rebate schemes

Question 6. No tax credit. (Special deductions from taxable income were allowed for some overseas transactions such as transactions of technical services.)

Question 7. Specified entertainment expenses related to overseas transactions were deductible from taxable income.

Entertainment expenses were regarded as expenses for business accounting and taxation purposes; this seemed to be internationally recognized. However, those expenses exceeding certain limits were not eligible for deduction from the taxable income, with the exception of certain types of entertainment expenses relating to overseas transactions.
Question 8. There were the following tax measures.

Special depreciation for overseas transactions

(1) The ordinary depreciation allowance could be accelerated by the amount calculated by:

\[
\text{ordinary depreciation allowance} \times \frac{\text{Proceeds from overseas transactions in the same accounting period of the preceding year}}{\text{total proceeds in the same accounting period of the preceding year}}
\]

(2) The depreciation calculated by the above formula could be increased by either 30 per cent or 60 per cent under specified conditions related to performance of overseas transactions.

Overseas market development reserve

(1) An amount not exceeding specified percentages of the proceeds from overseas transactions could be set aside as non-taxable reserves for overseas market development expenses, one fifth of which was required to be restored to taxable income in each of the five succeeding years.

(2) The maximum specified percentages were 0.5 per cent, 1 per cent, 1.5 per cent according to the type of overseas transactions. These percentages could be increased by either 30 per cent or 60 per cent under specified conditions related to the performance of overseas transactions.

Question 9. No.

Question 10. No.

Question 11. Some accelerated depreciation allowances and investment reserve measures were provided for investment incentives in the corporate income tax system.

Question 12. For tax purposes business losses could be carried back one year and carried forward for five years. Such losses were deductible from income earned in those other years.

Question 13. The gain or loss incurred from the appreciation of assets was in principle not taken account of in the computing of the taxable income.
Question 14. (1) Foreign tax credit

Any foreign corporation tax on a domestic corporation was creditable against the Japanese corporation tax for the taxable year in which the foreign tax accrued, subject to the following limitation:

\[
\text{Japanese corporation income tax x Total income from sources outside Japan} = \frac{\text{entire income subject to Japanese corporation tax}}{x}
\]

(2) Deduction of losses incurred by establishments in other countries

Corporation income tax was generally levied on the entire income of a domestic corporation. Therefore their losses incurred by establishments in other countries were deductible as well as that incurred in Japan.

Question 15. No.

Question 16. None.

Question 17. No.

Question 18. None.

Other

In answer to questions regarding the different "systems of reserve", tax exemptions in connexion with trade in technology, special depreciation for overseas transactions and the overall effect of these on the national economy, the representative of Japan said the system of "Reserve Against Overseas Investment Loss" was not connected with export promotion, neither was the system applied with the objective of improving the balance-of-payments situation. The system providing for deduction from taxable income of certain overseas transactions such as technical services rendered was in no way related to export incentives. In Japan there was no system as "Medium-Term Credit Reserve". The overseas market development reserve for small and medium undertakings was a variant of the system referred to above. It was extremely difficult to evaluate or quantify the overall effect of these measures on the national economy because of the complexity of the problems involved. However, during the fiscal year 1968 (ending 31 March 1969) the total amount of additional accelerated depreciation allowances for undertakings with overseas transactions was estimated at approximately $200 million, while the estimated total of new private investments for the same year was about $25,000 million; this would give some idea as to the incidence of these fiscal measures on the economy.
NEW ZEALAND

General

Question 1. No.

Question 2. The following taxes would affect production and distribution:

- Customs duty $NZ 48.8 million
- Property taxes $NZ 58.9 million
- Duty or legal instruments and choques $NZ 4.4 million

Question 3. No.

Question 4. No. See Spec(63)88, page 158, paragraphs 4(i) and (ii).

Question 5. The taxes subjected to border tax adjustments from approximately 21 per cent of total taxation.

Other tax-related border adjustments and export rebate schemes

Question 6. Increases in export sales of manufactured goods and some animal products qualified for an additional 15 per cent deduction for tax purposes in the hands of the final exporter. The increase was arrived at by comparing the export sales in the first three years of the five years immediately preceding the income year.

Question 7. Export sales promotional expenditure qualified for a 150 per cent deduction for tax purposes.

Question 8. No provisions for this.

Question 9. New Zealand corporate tax was levied on the overall profits which included export profits and local profits. In arriving at the amount of taxable income a deduction was allowed for increases in export sales as outlined in 6 above.

Question 10. Did not apply.

Question 11. (a) A non-resident investment company was exempt from social security tax on interest derived from New Zealand provided it derived no income except interest and had no investments or other assets in New Zealand except the principal money from which the interest was derived.

(b) Where the company had other assets in New Zealand e.g. shares, but provided the total assets consist principally of principal money from which the interest was derived it would qualify for exemption from social security tax if it was approved as a development project important to the development of New Zealand. Non-resident investment companies declared development projects are entitled to a rebate for income tax purposes of the excess of New Zealand tax over the tax payable in the home country on the New Zealand income.
Question 12. Back year losses could be offset against future profits within a six-year period.

Question 13. Profits on sale of assets (not buildings) in excess of written down values were recoverable for tax purposes.

Question 14. Provision existed for credit allowances for tax paid overseas by New Zealand residents including New Zealand companies on overseas incomes. The credit was limited to the amount of overseas tax or the New Zealand tax on the overseas income, whichever was the less. This meant the credit could not exceed the New Zealand tax rate on the overseas income. Losses incurred by overseas establishments of New Zealand companies were allowable in assessing the taxable income for the year. In other words overseas losses were available against New Zealand profits. This rule did not apply to overseas companies operating in New Zealand in respect of their New Zealand branch profits.

Question 15. Did not apply.

Question 16. Did not apply.

Question 17. Did not apply.

Question 18. Customs duties were refunded (drawback) in full on imported goods subsequently exported in their original state or incorporated in exported goods.

Other

In answer to questions concerning the taxation concession contained in current New Zealand legislation relating to export market development and increases in export sales, the following replies were transmitted by the Government of New Zealand:

"The New Zealand Government has recognized the need to expand and diversify exports of manufactured goods, from a comparatively limited base. This need has been made more urgent by the extensive subsidizing of agricultural production and exports in major industrialized countries. The New Zealand export market development scheme and the taxation export incentive scheme acknowledge that under New Zealand conditions there are initially certain disincentives to entering the export field and that profitability is likely to be uncertain. The schemes are designed to provide a limited and selective incentive to exporters. The purpose and effect of the incentive is to encourage export activity but there is no evidence that it provides product subsidy that "results in the sale of such product for export at a price lower than the comparable price charged for the like product to buyers in the domestic market."
Nor has the New Zealand Government any evidence that exported goods have enjoyed special price advantage by virtue of the concessions over similar exports by other contracting parties in the markets of third countries. It maintains, therefore, that the two schemes cannot in any circumstances be construed as "subsidization seriously prejudicial to the trade or interests of contracting parties" (Article XVI:5).

Export market development expenditure

Under Section 129A of the Land and Income Tax Act 1954 (as amended) a taxpayer may claim a special deduction from assessable income of an additional 50 per cent of export market development expenditure (which must fall within the definition of "prescribed outgoings" as set out in the Act) over and above the 100 per cent deduction ordinarily available. This special deduction cannot be classed as a subsidy because it is not related to the export of specific goods and is claimable whether or not export sales result. The present scheme is operative until 31 March 1972.

Export taxation incentive

Section 129B of the Land and Income Tax Act provides that a taxpayer may claim a deduction from his assessable income of an amount equivalent to 15 per cent of the value of exports of qualifying goods over and above the annual average level of export sales made in the base period. The base period comprises the first three of the five years immediately preceding the income year in respect of which a deduction is claimed. The deduction does not apply to animals, animal products and by-products, including dairy produce, meat, meat products, wool, and their respective by-products (with limited exceptions), newsprint, minerals and certain other goods. As these items constitute the bulk of New Zealand's export trade, only a minor proportion of exports (mainly manufactured goods, timber, logs, seeds, fruit and vegetables) is covered by the concession.

In the New Zealand Government's view there are three salient features of the scheme that distinguish it from a product subsidy. First, the allowance can be claimed only at the end of the fiscal year in which the export sale is made. Secondly, the deduction applies only to incremental rather than total exports. These two factors mean the deduction is of contingent rather than actual benefit and can have little influence on present pricing policy. Thirdly, although the deduction is calculated in relation to an increase in exports, it is a deduction from total assessable income. Its value to the taxpayer will depend on the overall net profit performance (which varies considerably), and it cannot be assigned to any particular export transaction. The value of the concession is not related directly to the profit earned on any export order, or to the taxpayer's total profit from export sales. The extent of a taxpayer's tax reduction depends partly on his total net profit for the year and partly on the value of the increase in export sales related to those in the base period.
The estimated revenue cost of both schemes, based on total exports of qualifying manufactured goods in 1967, would not exceed 3 per cent of their total export value.

In the light of developments since Article XVI was formulated by the Working Party, the New Zealand Government believes that the present classification of subsidies is incomplete and subject to varying interpretations. The New Zealand Government is prepared to co-operate in studies aimed at clarifying the different viewpoints that prevail, but maintains, nevertheless, that its export incentive schemes do not conflict with the provisions of Article XVI:4 embodied in the 1960 Declaration.

NORWAY

Revenue from the Norwegian general consumption tax and selective excise taxes were not earmarked for particular purposes. The system of indirect taxes did not provide for border tax adjustments, nor did the system of direct taxes (income and capital tax).

The direct taxes did not differentiate between production for export and for the domestic market. The Norwegian tax system contained no provisions aimed at furthering investment apart from the regulations concerning ordinary and accelerated depreciation and tax-free reserves.

A number of double taxation conventions had been concluded between Norway and foreign countries. Furthermore unilateral relief from double taxation was possible in special cases.

Other

The observer from Norway offered to provide figures showing the proportion of taxes subject to border adjustments.

SPAIN

General

Question 1. No.

Question 2. The following were important:

(i) the tax on transfers of inheritances, which was assimilated to dealings in property and non-trading operations;

(ii) the tax on legal documents, formerly the stamp tax, which applied to officially stamped certificates and contracts;

(iii) semi-fiscal taxes and dues.
Question 3. There were no adjustments in this case.

Question 4. No.

Question 5. In 1966 the proportion was 31 per cent.

Other tax-related border adjustments and export rebate schemes

Question 6. No tax credit was given for export sales increases.

Question 7. There was no special fiscal treatment for export sales promotion expenses.

Question 8. An export investment reserve could be constituted free of tax up to 30 per cent of the profit earned. This rule was a concrete application of the general rule laid down by law which permitted deduction from the tax base of that part of profits which was allocated to investment.

The fund of investment for exports was established recently in Spain as a consequence of the deficit in the balance of payments and lack of efficiency in protecting the exporting activities. The investments for exports were considered as business expenses and, consequently, they gave rise to a reduction of the taxable base up to a maximum of 30 per cent and not a deduction of the amount of tax.

Question 9. There was no difference in rate.

Question 10. No rebate of corporation tax was allowed for exports.

Question 11. See answer to No. 3.

Question 12. Losses incurred in one financial year could be spread over the results of the five following years.

Question 13. Appreciations in value were taxed when they appeared in accounts or when they arose as a consequence of a sale or transfer of assets.

Question 14. If the company was domiciled in Spain, profits and losses were all lumped together irrespective of the territory concerned. Subsidiary companies were treated as independent companies. The rule for avoiding international double taxation was that credit was allowed for sums paid abroad by way of taxes on profits or income, identical with or similar to Spanish corporation tax.

Question 15. There were no such taxes.

Question 16. There were no tax adjustments in such cases.

Question 17. No.

Question 18. There were no adjustments other than those listed in the questionnaire.
SWEDEN

General

Question 1. No taxes in Sweden subjected to border tax adjustments were intended for any special type of Government expenditure.

Question 2. Taxes of the kind mentioned in the question had no significant effect on production and distribution costs.

Question 3. No. Direct transports to or from other countries were exempt from tax on value added.

Question 4. No.

Question 5. Of total taxation in Sweden including local taxation and social security contributions about 27 per cent were collected through taxes that could be subject to border tax adjustments.

Other tax-related border adjustments and export rebate schemes

Question 6. None.

Question 7. No special deductions existed for export sales promotion expenses.

Question 8. No.

Question 9. No.

Question 10. No.

Question 11. The following investment incentives can be mentioned

(a) Accelerated depreciation

An initial allowance of 30 per cent and a special investment allowance of 10 per cent could be obtained at the assessment for income tax for the purchase of new plant and machinery.

Those allowances could be given only in special at the discretion of the Government, depending on the state of unemployment. This legislation had not yet been used in practice.
(b) **Allocations to special requirement funds**

Business operating taxpayers, corporations included, could when selling their enterprise allocate the profits from the selling to a special acquisition fund. The allocation could in some cases be deducted for income tax purposes on permission by the Government.

(c) **Allocations to special funds for the re-acquisition of buildings**

Business operating enterprises selling their real property could — in order to postpone the income tax on the capital gain derived from the selling — allocate the amount of the capital gain to a special fund. The allocation could be deducted only if a guarantee by bank or a similar institution for the income tax corresponding to the allocation had been procured.

(d) **Investment reserves for economic stabilization**

In order to encounter the changes of the business cycles in such a way that the economic balance in public economy was maintained as far as possible Swedish corporations having income from agriculture or business were on certain conditions entitled to deductions for income tax purposes for allocations to investment reserves for forestry respectively for business activities.

The sum allocated could be deducted only if an amount equivalent to the tax payable on the allocated sum had been paid into an account in the National Bank.

**Question 12. Losses**

Losses could be carried forward for six years; they could not be carried back.

**Question 13. Appreciation of assets**

The provisions applying to appreciation of assets were applicable to all business enterprises whether corporations or not.

The starting point for the valuation of such assets as buildings, plant and machinery, etc. was normally the historic cost.

The rate for **depreciation of buildings** varied from 0.6 per cent to 3 per cent per annum.

For the **depreciation of plant and machinery** there were two recognized methods:

(a) plant and machinery could be written off according to a plan on a straight line basis over the estimated working life of the asset.
(b) Plant and machinery could also, after special permission, be written off on a book-keeping basis according to the accounts.

**Question 14. Foreign taxes and losses**

A foreign tax paid by a Swedish corporation, whether an income tax or an indirect tax, was generally deductible by the corporation. If foreign operations were carried on by a Swedish corporation directly or through a foreign branch of the Swedish corporation, the Swedish corporation would be taxed on its earnings from those foreign operations. Any foreign taxes paid on the foreign income were deductible either by tax credit against the Swedish tax or in determining to amount of foreign income subject to Swedish tax, unless otherwise prescribed in a tax treaty. It had, however, to be observed that several Swedish tax treaties provided that business profits earned through a foreign permanent establishment were taxable only in the country where the permanent establishment was located.

If a Swedish corporation chose to carry on its foreign operation through the medium of a subsidiary incorporated abroad, the profits of such a subsidiary were not taxed by Sweden.

**Question 15. Taxes on business capital**

Swedish corporations and Swedish economic associations were not subject to the Swedish net wealth tax. Foreign entities were subject to the tax unless a tax treaty gives exemption.

**Question 16.** None.

**Question 17.** None.

**Question 18.** None.

**SWITZERLAND**

**General**

**Question 1.** No.

**Question 2.**

<table>
<thead>
<tr>
<th>Tax Type</th>
<th>Amount (Sw F million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Property tax</td>
<td>86</td>
</tr>
<tr>
<td>Capital gains tax</td>
<td>233</td>
</tr>
<tr>
<td>Stamp taxes</td>
<td>306</td>
</tr>
<tr>
<td>Transfer taxes</td>
<td>71</td>
</tr>
<tr>
<td>(Total taxes)</td>
<td>(10,733)</td>
</tr>
</tbody>
</table>

It was not possible to specify the share paid by private persons and that paid by undertakings.
Question 3. Not applicable.

Question 4. No. (See L/3125 of 23 November 1968, page 15; rate of tax for retail deliveries in connexion with turnover tax.)

Question 5. Sw F 1,407 million (1965), i.e. 12.4 per cent of the total taxation (2.35 per cent of gross national product).

Other tax-related border adjustments and export rebate schemes

Questions 6/7. No deductions.

Questions 8/18. No differentiation was made in taxation (profits, depreciation, etc.) or in social security contributions with respect to exports.

Other

In answer to questions regarding the bad debt reserve, negotiated rates and depreciation allowance, the following replies were transmitted by the Swiss Government:

"(1) In general, bad debt reserves are admitted in an amount of
   - 5 per cent with respect to domestic debtors,
   - 10 per cent with respect to debtors resident outside Switzerland.

(2) In Switzerland, the tax liability depends on the law; therefore, there is no negotiation of tax liability with Swiss tax authorities.

(3) If a Swiss enterprise shows proof that with respect to plant of machinery utilized for a limited fabrication, whether for exports or for the home market, additional depreciation is necessary, tax authority will admit such higher depreciation."

UNITED KINGDOM

General

Question 1. No.

Question 2.  

<table>
<thead>
<tr>
<th>Incidence on government and business expenditure (£ million 1967)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Local tax on property (rates)</td>
</tr>
<tr>
<td>Stamp duties</td>
</tr>
</tbody>
</table>
Question 2. No.

Question 4. No. For the basis of valuation for purchase tax see page 55, second paragraph of C(66)47 Part III attached to Spec(65)57.

Question 5. Taxes subject to border tax adjustment formed approximately 28 per cent of total taxation in 1967.

**Other tax-related border adjustments and export rebate schemes**

Question 6. None.

Question 7. Entertainment for foreign traders incurred in respect of commercial sales abroad was deductible from liability to corporation tax. Other normal current trading expenses, such as the cost of advertising abroad, were deductible in the ordinary way.

It was pointed out that restrictions were imposed on facilities of entertainment for businessmen incurred in respect of commercial domestic sales. Asked whether this treatment was to be regarded as an export bias, the representative of the United Kingdom confirmed that entertainment for foreign traders was deductible and that no deduction was made for certain business entertaining. He would provide more precise information at a later stage.

In the discussion of country practices the question was raised about the treatment of entertainment expenses in computing liability to corporation tax in the United Kingdom and further information was requested.

The representative of the United Kingdom answered that before 1965 it was the general rule in the United Kingdom, as in other countries, that expenditure on the entertainment of a potential customer was in principle allowable as a deduction when computing business profits for the purposes of direct taxation.

The operation of the arrangements in practice in the United Kingdom was however the subject of criticism.

In his budget speech of 6 April 1965, the Chancellor of the Exchequer (Mr. Callaghan) said that, although many firms were very scrupulous about business entertainment, there had been widespread criticism for some years of lavish entertainment by businessmen of one another. He said that something, which originally began as the hospitable offering of a modest meal to a customer had grown into a problem which was not only a fiscal but also a social one.

Under changes in the law made in the Finance Act 1965, business entertainment expenses accordingly ceased to be an allowable deduction in computing taxable profits, except for reasonable expenses incurred in the entertainment of an overseas customer. For this purpose, an overseas customer means a person who is neither ordinarily resident nor carrying on trade in the United Kingdom and who is or is acting on behalf of a trader or Government or public authority outside the
United Kingdom. The exception is necessary in order that United Kingdom exporters may continue to be treated no less favourably than their competitors in other countries as regards the taxation treatment of expenditure on the entertainment of potential customers. The exception does not offend against any of the provisions of the GATT, and it is not an export incentive or export aid.

Question 5. No.

Question 9. No.

Question 10. Corporation tax and entertainment expenses - No.

Question 11. None. In 1966 the investment allowances which firms had been able to offset against tax liability were replaced by a system of investment cash grants quite outside the tax system.

Question 12. A trading loss could be carried forward indefinitely for relief against future profits in the same trade. Alternatively a trading loss in an accounts period could be offset against any kind of profits of that period and also against any such profits in a corresponding preceding accounting period. It could also be offset against any kind of profits (not merely trading profits) arising in the same group of companies in the same period.

Question 13. If an asset on which a depreciation allowance had been allowed was sold at a price above its written down value, the tax on the difference was clawed back. If a firm sold a capital asset at a profit it could in certain circumstances be liable to corporation tax or income tax on the capital gain.

Question 14. A company could offset the corporate income tax paid abroad on trading profits abroad against United Kingdom corporation tax up to the United Kingdom rates. Where the overseas rate of tax exceeded the United Kingdom rate of corporation tax the excess ("overspill") would go unrelieved. Where a company resident in the United Kingdom incurred losses in trading through a branch abroad, those losses could be offset against that company's liability to corporation tax in the United Kingdom. But if the trading was carried on through a subsidiary company not resident in the United Kingdom, the losses of the subsidiary could not be offset.

Question 15. No.

Question 16. The United Kingdom had no inventory tax. Taxes on property (i.e. local authority rates) were not adjusted.

Question 17. No.

Question 18. None.
UNITED STATES

General

Question 1. No.

Question 2. There were very few taxes of the type noted in the question imposed at the Federal level. Including customs duties they amounted to 1.4 per cent of Federal revenues. Excluding customs duties, they amounted to less than 0.1 per cent.

At the State level these taxes accounted for 9 per cent of total revenues and 17 per cent of tax revenues. Licence taxes were about two thirds of this amount but property taxes and severance taxes were also of some significance.

At the local level, these taxes were 3.7 per cent of total revenues and 6.1 per cent of tax revenues. Eighty-five per cent of these taxes were property taxes.

For the three levels of Government taken together, these taxes, including customs duties, accounted for 6.7 per cent of total revenues and 8.3 per cent of tax revenues. Excluding customs duties the figures were 5.8 per cent and 7.3 per cent respectively. The total revenue figure included some double counting since a substantial portion of State and local revenues come from intergovernmental grants.

Question 3. There were no border adjustments for transportation taxes in the United States. There were no Federal taxes on the transportation of goods. Most States tax highway carriers and, in some cases, air carriers as well. These taxes could be flat rate, they could be based on weight, or on mileage or on some combination. These taxes generally applied to intra-State carriers and to inter-State carriers using the State roads. The source or destination of the goods being carried had no bearing on the tax liability of the carrier.

Question 4. Under the Federal manufacturers' excise taxes, when a manufacturer or an importer sold directly at retail the tax was imposed on the established selling price reduced by 25 per cent. Available information did not indicate that there were similar rules for State excise taxes.

Question 5. Revenues from taxes on which border adjustments were made, at all levels of Government, were 17.3 per cent of total tax revenues. These included general sales taxes of 4.9 per cent, selective excise taxes of 11.4 per cent and customs duties of 1 per cent.

Other tax-related border adjustments and export rebate schemes

Questions 6 through 10. Not applicable to the United States.
Question 11. A credit against tax was allowed equal to 7 per cent of the value of machinery and equipment put into place in the United States by the taxpayer. It applied to imported as well as domestic property. Where the property had a useful life of eight years or more, the full value of the property was used as the basis for computing the credit. Where the useful life was from six to eight years, two thirds of the value was used. One third was used where the useful life was four to six years and no credit was allowed for property with a useful life of less than four years.

The investment credit allowed could not exceed $25,000 plus 50 per cent of any tax liability in excess of $25,000, nor could it exceed the tax liability if that is less than $25,000. Any credits in excess of this limitation could be carried back for three years and carried forward for seven years.

The credit did not reduce the basis for depreciation of the property, i.e. 100 per cent depreciation could be taken in addition to the investment credit.

In answer to questions regarding the "investment credit system", "useful life" of newly purchased capital goods and the economic repercussions of these favourable special measures, the representative of the United States said that investment tax credit was designed to improve productivity of the economy by increasing the incentive to invest. It had been pointed out that it was stated at the time of it being introduced that it would improve the trading position of the United States. In 1961, there was a situation of substantial unemployment and a desire on the part of the administration to improve productivity with a view to improving both domestic economic performance and the trading position. The United States, at that time, was concerned about its balance-of-payments position and recognized that the economic performance, particularly in the field of productivity, was a crucial factor. The investment credit applied only to investments put in place in the United States. A foreign enterprise established in the United States could benefit from the investment credit system. Therefore, imported and home-produced machinery benefited while exported ones did not. In 1962, the law provided that the company was required to reduce the depreciation basis of capital assets by 7 per cent. However, this was altered in 1964 and the basis did not have to be reduced. Therefore companies got both the 7 per cent plus 100 per cent depreciation. If a company had to use equipment with a shorter than standard life, it had to prove that it was justified in some way to use a shorter life basis for computing the credit. The internal revenue services were diligent in examining such claims. It was strictly a matter of the life of the equipment in terms of what it produced and not whether it was for home use or for export. Thus, there was no trade element involved. In the case of the 7 per cent credit, if the actual life was not sufficiently long the credit granted at the time of purchase might be recaptured.

Another more specialized investment incentive was found in the Western Hemisphere trade corporation provisions. These rules allowed a special income tax deduction to domestic corporations all of whose business (other than incidental purchases) was done in the Western Hemisphere, if (1) 95 per cent of its gross income was from sources outside the United States and (2) 90 per cent of
its income was from the active conduct of a trade or business (as distinguished from passive investment income). The special deduction had the effect of reducing the rate of tax on the income of such a corporation by 14 percentage points.

In answer to questions concerning the Western Hemisphere trade corporations, the representative of the United States said that the special income tax deduction was available only to firms which met the criteria described in the reply to this question. Essentially then, such business must have almost all of its activities outside the United States. In practice about 70 per cent of the reported taxable income was attributable to a small number of firms whose major activity was in mineral or raw material processing such as petroleum extraction and refining certain ores. About 10 per cent of this taxable base related to trading companies activities as opposed to basically mineral and extraction processing. These trading companies were established for the purpose of business outside the United States. In these cases there was a reduction of 14 percentage points which gave substantial preferences in relation to the corporate tax. The export performance of these firms had in practice, however, been weakening. However, this was a special situation which provided for a discriminatory tax rate for a trading company, a small number of which operated primarily outside the United States and almost all of whose income came from outside. As long as the corporation was an independent business and was established in a way in which its income was derived from foreign sources then it might physically be located in the United States. As to the relationship between the special income tax deduction to the Western Hemisphere trade corporation and Article XVI, paragraph 4 of the General Agreement, the representative of the United States submitted that Section 921 of the Internal Revenue Code provides a special deduction for any domestic corporation qualifying as a Western Hemisphere Trade Corporation (WHTC). To qualify the corporation must: (1) conduct all of its business in the Western Hemisphere, (2) derive at least 95 per cent of its gross income from sources outside the United States, (3) derive at least 90 per cent of its gross income from the active conduct of a trade or business.

Section 922 provides the method of computation for the special deduction which amounts to a 14 percentage point reduction in the corporate income tax rate otherwise applicable to domestic corporations.

The origin of the WHTC provision was the Revenue Act of 1942 which exempted such corporations from the income surtax imposed by that Act. In 1950 and 1954, there were certain minor amendments made to the WHTC provision.

This Act antedates the GATT and is covered by the Protocol of Provisional Application. While the availability of the special deduction is not dependent upon the existence of a branch in another country, the bulk of the deductions are taken by firms which actively conduct their business in Western Hemisphere countries through branch operations.
It was further pointed out by some delegations that United States corporations derived certain advantages from favourable depreciation allowances. Whether or not this had been directly linked to export performance, it would certainly seem to improve the competitive position of these corporations. Commenting on this point as well as other points made in this respect, the representative of the United States said that there were a variety of measures applied in other European countries as opposed to a simple set in the United States. Studies prepared by the United States office of tax analysis indicated that the capital allowances in the United States were not substantially different from most European countries and in many cases treatment in the United States was less favourable than in Europe.

He further stated that there was no additional depreciation in the first year in the form of initial allowances. However, companies were allowed alternatively to use a method which provided for a larger amount of depreciation early and a small amount later; no change in the method was permitted.

The oil and special mineral special tax allowances for depreciation of basic resources on the ground had continued to exist. This was designed to encourage mineral resource findings.

**Question 12.** Net operating losses from a trade or business (i.e., the excess of allowable deductions over gross income) could be carried back for three years as a deduction against income for those years or carried forward for five years as a deduction from the succeeding years' income. The loss had first to be carried back and any unabsorbed loss could then be carried forward.

In answer to questions, the representative of the United States said that the provisions for spreading losses in the corporate income tax might be more liberal in the United States than some other countries. No distinction was made between export, import or domestic business. He thought it possible from time to time to review tax accounts with a view to obtaining tax rebate under certain circumstances. He was willing to have prepared a short analytical description of the mechanism of this system.

**Question 13.** Gains accruing on capital assets were taxed only when realized through the sale or exchange of the property. Short-term gains (those realized on the sale or exchange of capital assets held less than six months) less short-term losses were treated as ordinary income and are fully taxable. Net long-term gains (the excess of gains over losses realized on property held more than six months) in excess of net short-term losses for the same year were taxed at a maximum rate of 25 per cent or, in the case of individuals, at one half of the normal rate, whichever was lower.

The excess of capital losses over gains for a taxable year could, in the case of a corporation, be carried forward for up to five years as a short-term capital loss. In the case of non-corporate taxpayers, excess capital losses could be carried forward indefinitely, and set off against capital gains and up to $1,000 of ordinary income, but they retained their character as short- or long-term losses.
Question 1A. United States taxpayers could claim either a credit against tax or a deduction from income for foreign income taxes paid with respect to foreign source income. The credit generally gave a more favourable result. The credit could be claimed in an amount not exceeding the United States tax on the income.

In addition to a credit for foreign taxes actually paid by the United States taxpayer, a United States corporation receiving dividends from a foreign corporation in which the recipient owned a 10 per cent or more interest may credit a pro rata share of the foreign corporate tax paid on the income out of which the dividends had been paid.

The income of a foreign branch of a United States corporation was lumped together with the United States income of the corporation for United States tax purposes. Any losses in overseas branches would reduce income of the company for United States tax purposes. The United States did not generally tax the income of foreign subsidiaries, except as this income was remitted to the parent. Losses of these foreign corporations, therefore, were not allowed as an offset against United States income or tax of the parent.

The limit referred to in the first paragraph of the answer to this question applied also in the second case.

Questions 15 through 18. Not applicable to the United States.

YUGOSLAVIA

General

Question 1. Social security was financed from outside the budget, by means of a special contribution based on the gross amount of wages and salaries.

On the other hand, the State was responsible for the expenditure involved in the payment of so-called "ex-gratia" pensions to ex-service men, the entire amount being paid out of the Federal budget. They represented about 6 per cent of the total expenditure on social security.

Question 2. Of all the taxes mentioned under this head, stamp tax was the only one which was not mentioned in Chapter I and which was not a tax on income or capital but which nevertheless affects production and distribution costs. The total revenue from these taxes was relatively small (Din 300 million in 1967).

Question 3. Road transport of goods in transit was subject to a tax of 10 centimes per kilometre and per ton of useful load, unless such transport was exempt by treaty. So far, Yugoslavia had treaties with twenty countries, so that in fact most road transport in transit was tax-free.

Question 4. No.
Question 5. The taxes which may be the subject of border tax adjustment amounted to approximately 26 per cent of the total taxation collected (including local taxes and social security contributions).

Other tax-related border adjustments and export rebate schemes

Questions 6 through 14. In order to promote self-sufficiency in financing, Yugoslavia completely abolished in 1965 the taxes on the profits of undertakings in the socialist sector. Consequently the practices mentioned in the questions (6–14) concerning corporate income taxes were inapplicable in Yugoslavia, where profits were not taxed. There was thus no possibility of granting credits or deductions relative to increases in export sales or for export sales promotion expenses. The same was true of the more rapid depreciation of capital equipment, temporary accumulation of untaxed company reserves and other forms of tax deferral. For depreciation, for instance, the legislation fixes minimum rates to prevent disinvestment, but it left undertakings free to go above these rates.

Question 15. Undertakings in the socialist sector paid interest (which in effect amounts to a tax) on the value of the invested (fixed or circulating) capital. The average rate was about 3 per cent. This interest had to be guaranteed by incorporating it in the price, i.e. before calculating profits.

Question 16. No.

Question 17. No.

Question 18. There were no tax-related border adjustments other than those mentioned. Nor were there any other tax credits relative to exports or imports.
Annex A

OUTLINE FOR EXAMINATION OF 
BORDER TAX ADJUSTMENT PRACTICES

I. TAX SYSTEMS

A. General consumption taxes

(a) Cascade taxes

1. How general is the tax? Does it cover services as well as goods? To what extent does it provide for exemptions, different techniques of taxation or differential rates of tax for certain classes of goods or services or individual products or for transactions at certain levels in the production process? Do the border adjustments on both exports and imports reflect these differences?

2. Are there products not covered by the domestic tax which are, nevertheless, subject to an import border tax? Are there products, which are not produced domestically, which are nevertheless subject to an import border tax?

3. Are there cases of products for which adjustments are made at the border at a rate different from the rate of domestic tax on comparable products? How is this practice justified?

4. To what extent does the treatment of exports at the border differ from the treatment of imports for similar goods? For example, might an export rebate be granted at a rate different from the corresponding import compensating tax? How are these differences explained?

5. Are goods or services purchased by businesses for their own use subject to tax? Is there a distinction in this respect between raw materials and components on the one hand, and capital equipment, auxiliary materials and services used in connexion with the production or transportation of goods on the other hand? Are border adjustments made on the exports of products produced by firms paying such taxes? Are there comparable import charges?

6. Are purchases by businesses from a related company treated differently from purchases from an unrelated company? How are intra-company transactions handled? Are these differences reflected in the border adjustments?
7. What general rules are used in determining the appropriate levels of border adjustments? If averages are used, how are these averages calculated?

8. Is it possible to identify and measure cases of over and under-compensation in the system of border adjustments?

9. How are goods valued for border adjustment purposes? Are export rebates calculated on a c.i.f. or f.o.b. basis? Are import compensating taxes imposed on a c.i.f.-duty paid value? What is the rationale for this treatment?

10. Is there a system of minimum exemptions from the adjustment for tourist purchases, small mail shipments, etc., on exports and imports?

(b) Single-stage taxes

Manufacturing, wholesale

1. For imports, if adjustments are not made at the border but subsequently, what is then the valuation basis? For exports in what circumstances are goods relieved from tax and in what circumstances is tax repaid?

2. When adjustments are not made at the border but subsequent to importation through a system of registered dealers, how is the list of registered dealers drawn up and changed? What are the qualifications for registration?

3. How does your system handle the tax on the raw materials and components forming part of specific goods and how does it handle the tax on the goods used in connexion with the production or transport of other goods, both with regard to home-produced goods sold on the home market and with regard to exports and imports?

4. Is it always possible to limit your single-stage tax to one particular stage? How are retail transactions by wholesalers or manufacturers handled? How are capital goods and services treated?

5. Are there products not covered by the domestic tax which are, nevertheless, subject to an import border tax? Are there products, which are not produced domestically, which are nevertheless subject to an import border tax?

6. To what extent do the rates of border adjustments on imports and exports differ from each other or from the rates on domestic transactions? If capital goods and services are taxed, are the taxes subject to border adjustments and how are any adjustments operated?
7. Where regional differences exist in such taxation, is special compensation afforded in respect of them at the inter-regional borders? What mechanisms are provided for this purpose? In this respect, is there any difference in the tax treatment of foreign products, on the one hand, and domestic products, on the other hand? If there is no inter-regional border compensation, how is equal treatment ensured for domestic and foreign products?

8. Is there a system of minimum exemptions from the adjustment for tourist purchases, small mail shipments etc., on exports and imports?

Retail

1. Does the system of retail sales taxes completely avoid physical adjustments at the border? How are purchases across the border by final consumer handled?

2. What differentiation in sales tax liability exists between foreign and domestic goods once the foreign goods have entered the economy?

3. What is the evaluation basis for the imposition of a retail tax?

4. Does the government maintain an effective control on what constitutes a retail sales transaction?

5. Are goods or services purchased by businesses for their own use subject to retail taxation? Is there a distinction in this respect between raw materials and components on the one hand, and capital equipment, auxiliary materials and services used in connexion with the production or transportation of goods on the other hand? Are border adjustments made on the exports of products produced by firms paying such taxes? Are there comparable import charges?

6. Are there products not covered by the domestic tax which are, nevertheless, subject to an import border tax? Are there products, which are not produced domestically, which are nevertheless subject to an import border tax?

7. Where regional differences exist in such taxation, is special compensation afforded in respect of them at the inter-regional borders? What mechanisms are provided for this purpose? In this respect, is there any difference in the tax treatment of foreign products, on the one hand, and domestic products, on the other hand? If there is no inter-regional border compensation, how is equal treatment ensured for domestic and foreign products?

8. Is there a system of minimum exemptions from the adjustment for tourist purchases, small mail shipments, etc., on exports and imports?
(c) Tax on value added

1. How general is the tax? Is it charged on all deliveries of goods and on all services? If not, which transactions are not subject to the tax? Are there other specific taxes on these transactions, and, are they deductible in the TVA system? If there are any sectors of the economy or classes of goods on which the TVA is not charged in the normal way, are these differences reflected in the border adjustments?

2. Are there any important exemptions from the right to deduction within the TVA system resulting in an accumulation of taxes? If so, is such accumulation compensated at the border?

3. What is the basis for valuation? F.o.b., c.i.f.-duty paid?

4. Is there a system of minimum exemptions from the adjustment for tourist purchases, small mail shipments, etc., on exports and imports?

5. What are the consequences of the technical application of a tax on value added? Which is the relevant feature in the context of border tax adjustments?

6. In view of the fact that unpaid taxes at one stage are collected at subsequent stages, what need exists for a border adjustment on imports other than for sales across the border to final consumers?

7. Are there products, which are not produced domestically, which are nevertheless subject to an import border tax?

**B. Selective excise taxes**

1. Are there any selective excise taxes? To which goods do they apply? What is the tax base?

2. Are there selective excises imposed on products not produced in economically meaningful quantities domestically? Are there products, which are not produced domestically, which are nevertheless subject to an import border tax?

3. Where excise taxes are imposed on goods used in connexion with the production or transport of other goods, or are imposed on goods used as raw materials or components of other goods, is there any adjustment at the border for these taxes with respect to final products which may or may not, themselves, be subject to these taxes?

4. What is the valuation used for border adjustments on imports and on exports? Does the valuation for imports include the insurance, freight and duty? Do the bases and rate applicable to specific duties on imported goods differ from those applicable to similar home-produced goods and if so, in what circumstances and to what extent?
5. Are the selective excises collected in the case of purchases by firms? By what mechanism can the firm avoid payment of these taxes? Does the mechanism exist at the import stage?

6. In what circumstances are exported goods relieved from tax and in what circumstances is tax repaid?

7. If adjustments for imported goods are not made at the border but subsequently, at what stage are they made?

8. Where regional differences exist in such taxation, is special compensation afforded in respect of them at the inter-regional borders? What mechanisms are provided for this purpose? In this respect, is there any difference in the tax treatment of foreign products, on the one hand, and domestic products, on the other hand? If there is no inter-regional border compensation, how is equal treatment ensured for domestic and foreign products?

9. Is there a system of minimum exemptions from the adjustment for tourist purchases, small mail shipments etc., on exports and imports?

C. Overlapping indirect tax systems

1. Are there selective excise or other indirect taxes which apply to goods also subject at the same or another stage to a general broad-based indirect tax, including single-stage, cascade and value added taxes. The description should include taxes on raw materials, components and final products, on the one hand, and auxiliary materials, capital goods and services on the other hand.

2. For which of these taxes are border tax adjustments made and how are they made?

II. CHANGES IN BORDER TAX ADJUSTMENTS

1. In changing from one system of general indirect taxation to another, or in expanding the coverage of existing systems, are there types of transactions which had previously been subject to selective excises which become subject to the broad-based tax? Were border adjustments made for the excises? Are they made for the general tax on these transactions?

2. When a change is made in the level of border adjustments with no change in the level of domestic taxation in order to remove under-compensation, what criteria are used in determining the timing of such a change?

3. How are under-compensation and over-compensation determined and measured in order that they can be fully removed?

4. Are there reasons other than the elimination of under-compensation or over-compensation for making changes in border adjustments which are not associated with changes in internal taxation?
III. MISCELLANEOUS

General

1. Is the revenue obtained from border tax adjustments intended to compensate in whole, or in part for government expenditure on social security?

2. What is the importance of such taxes as property taxes, inventory taxes, licence fees, stamp taxes, not referred to in Chapter I and not being taxes on income or capital, which have an effect on production and distribution costs?

3. Are there border tax adjustments for taxes on transportation costs on goods in transit?

4. Is there a special basis for valuation of goods when the buyer is the final consumer?

5. What proportion of total taxation (including local taxes and social security contributions) is collected through taxes which are the subject of border tax adjustments?

Other tax-related border adjustments and export rebate schemes

6. What tax credits are given to exporters relative to increases in export sales?

7. Which tax credits or deductions are given for export sales promotion expenses?

8. Do export sales result in more rapid depreciation of capital equipment, temporary accumulation of untaxed company reserves, or other forms of tax deferral? If yes, by what computation?

9. Does the corporate income tax rate vary for export profits and domestic profits? If yes, how?

10. Is the corporate income tax averaged to allow a given amount of tax rebate per unit of exported goods? If yes, how?

11. What investment incentives are provided in the corporate income tax system?

12. What possibilities are provided for spreading losses in the corporate income tax system?

13. What provisions apply to appreciation of assets in the corporate income tax system?
14. What possibilities are there for offsetting against corporate income tax any taxes paid abroad and any losses incurred by establishments or subsidiaries in other countries?

15. Are there any taxes on business capital? At what rates? Are they deductible from profits?

16. What border adjustments are made for property taxes or inventory taxes?

17. Are social security or wage taxes assessed differently depending upon a firm's export or import volume?

18. What adjustments are made for other taxes? What other tax credits are given relative to exports or imports?
Annex B

CLARIFICATION ON CERTAIN QUESTIONS IN THE OUTLINE
FOR EXAMINATION OF BORDER TAX ADJUSTMENTS

The following are among the clarifications given by members of the Technical Group in answer to questions by other members of the Working Party on the meaning of certain questions in the Outline. Where questions are repeated the clarification relates to the first time the question appears in the Outline.

Question IA(a)2. It was pointed out, for example, that farmers might sell agricultural products to co-operatives and receive payment in kind, say in the form of feed grains. Tax might not be paid since the transaction involved no monetary payment: sales of the imported product for cash would, however, be subject to tax.

Question IA(a)4. A comparison was intended between the full export border adjustment, making allowance for any exemptions at the final stage.

Question IA(a)5. This question was intended to make clear how much tax occulto was present in tax systems. The purchases by business referred to in the first sentence referred to overhead items, such as office supplies, electric power and building maintenance supplies.

Question IA(a)6. The term "related" was understood to mean "affiliated".

Question IB(b)2. It was pointed out that registered dealers and non-registered dealers might be taxed differently and that such differences might have trade effects. It would therefore be of interest to note the criteria for registration and whether dealers could choose whether to register or not as it suited their purposes.

Question IB(b)4. This question was designed to point out possible valuation problems. If, for example, a manufacturer was also a retailer, was the tax based on the retail selling price? This price would contain a margin which would not normally be subject to the manufacturers' tax.

Question IB(b)7. This question was intended to ascertain the practices of regional and local governments and authorities within the territories of contracting parties where these governments and authorities have their own tax systems.

Question IB(c)1. This question was designed to determine the extent to which departures from the generality of the coverage of added-value taxes were reflected in border adjustments. A particular sector, say small businesses or agriculture, might not be taxed on the basis of value-added but, for administrative reasons, on the basis of some approximation. In such cases, were border adjustments on goods produced in that sector made in a manner different to reflect the difference in domestic taxation?
Question I B.6. This question was intended to determine, for instance, whether it was necessary, in order to receive exemption, for a manufacturer to certify prior to the sale of goods that these would be exported, i.e. whether the timing of the export decision might affect the tax results.

Section III. The relevance of some of the questions in this section to the work of the Working Party was questioned by some delegations.

Section III.1. The objective of this question was to determine whether government expenditure on social security played a role in border tax adjustments and, if so, to what extent.

Question III.2. There might be a number of taxes on production and distribution activities which did not fall within the category of direct taxes on income and capital, and which might be assimilated to indirect taxes, constituting elements of the production cost and being carried over into prices.

The Working Party noted that the Technical Group had recommended that it should adopt the OECD definition of border tax adjustments as set out in paragraph 115 of the OECD Fact-Finding Report (L/3048, paragraph 6) but that the OECD was in the process of revising its definition. The Working Party would await the outcome with interest.
STATEMENT BY THE DELEGATION OF THE FEDERAL REPUBLIC OF GERMANY ON THE APPLICATION OF THE TAX ON VALUE ADDED

The German Delegation believes that in order to answer this question it is necessary to look first on the mechanism of the added value tax and then it will be possible to show the external aspects of this tax.

1. The mechanism of the added value tax

Explaining the functioning of the added value tax is not so much a question of describing the methods of taxation. It is much more important to show what economic results are achieved by the methods of added value taxation. This is best explained by an example:

Assuming that A delivers goods worth DM 100,000 to B, A and B are assumed to be entrepreneurs. For this delivery A has to pay - if the tax rate amounts to 10 per cent - DM 10,000 as added value tax to the tax office. At the same time, the bill sent by A to B will list the price of the goods as DM 100,000 and separately the tax paid as DM 10,000. B will settle the account totalling DM 110,000 with A. Paying DM 10,000 as added value tax cannot present any difficulties to B since as an entrepreneur he has the right to deduct prior-stage tax. B may immediately deduct this amount from taxes paid on his own sales. If B is not in a position to deduct this amount, the DM 10,000 will be refunded him by the tax office. Taxation of the goods delivered by A is thus cancelled by the prior-stage tax deduction effected by B. The tax burden on the goods delivered is equal to zero for B. Neither A nor B need therefore calculate the tax.

The added value tax only becomes an actual burden to persons purchasing the goods without having the right to deduct prior-stage tax. If B were not an entrepreneur but a consumer, the goods would remain charged with added value tax of DM 10,000 because in this case B cannot deduct the prior-stage tax. In the case of such a delivery the full cost and price effect and, thus, the problem of shifting the added value tax arises.

This example shows that prior-stage tax deduction is the essential element of the added value tax mechanism. The right to deduct prior-stage tax - almost automatically - has two economically important effects. On the one hand, this right results in the fact that all sales effected by enterprises having the right to prior-stage tax deductions are in practice tax-free sales. The tax burden on goods sold by enterprises to enterprises is thus always equal to zero. For entrepreneurs having the right to prior-stage tax deductions the economic problem of shifting the added value tax will therefore not arise in the case of inter-business sales. Competition is effected on the basis of prices before taxation (net prices). On the other hand, the right to prior-stage tax deduction guarantees that goods are equally charged with taxes in those cases when they enter the...
consumption stage. It ensures the competitive neutrality of the added value tax system. The uniform and competitively neutral burden is obtained regardless of the number of stages that the products have gone through in the course of their production and distribution. Prior-stage tax deduction has cancelled - as has been shown above - the cost and price effect in the case of all transactions in goods between enterprises.

The actual tax burden which becomes effective when the goods enter the consumption stage due to the fact that the consumer does not have the right to prior-stage deductions, always corresponds to the respective nominal tax rate. As to its economic effects, the added value tax can therefore be identified with the mechanism of a retail trade tax which is meant to apply exclusively to private consumption.

In addition, it should be noted, however, that the efficiency of the added value tax mechanism depends decisively on how the essential element of the system has been designed. If the right to prior-stage tax deduction is restricted for social, political or other reasons to the effect that certain pre-stage taxes are excluded from all deductions, the mechanism can no longer function properly. Non-deductible prior-stage taxes will turn into hidden taxes on the enterprises and possibly become cost and price effective in the form of cumulative taxes. It goes without saying that under these circumstances the added value tax, from an economic point of view, can no longer function as retail trade tax and be competitively neutral. This will result in distortions of competition which will be difficult to control. The problem arising in the development of an added value tax system consists in ensuring that the right to prior-stage tax becomes effective as far as possible without restrictions.

2. Border tax adjustment under the added value tax

It is one of the advantages of the added value tax system that no special adjustment measures have to be taken for border crossing goods if the principle of taxation according to the law of the country of destination set forth in the General Agreement on Tariffs and Trade is applied. This advantage of the added value tax can be attributed to the mechanism described above. Since as a rule only those entrepreneurs export and import who have the right to prior-stage tax deduction, almost all foreign trade is effected in a sphere in which the goods are not subject to taxation. In the case of exports and imports the economic problem of calculating and shifting added value tax does not arise.

(a) Exports

The added value tax burden on export goods is avoided by the following measures: first of all, exportation is tax exempt. Secondly, exporters have the right to prior-stage tax deduction. These two measures ensure that prior-stage taxes paid in the course of the production of export goods are deducted from taxes which are imposed on domestic sales. If there is no possibility of deducting previously paid taxes because the exporter for example has not effected any
domestic sales, prior-stage taxes are as a rule immediately refunded. Thus, it
is guaranteed that export goods are not charged with added value tax as the
following example will show:

Assume that the domestic producer A delivers goods worth DM 150,000 to
the exporter B. For this delivery A has to pay a tax amounting to
DM 15,000 to the tax office. A will make out the following bill to B:
DM 150,000 for goods delivered + DM 15,000 for added value tax paid = a total
of DM 165,000. B pays this full amount. He will export these goods to the
value of DM 200,000. B need not pay any taxes for this export delivery as it
is tax exempt. Against the tax office B claims his right to deduct the
prior-stage tax that A has placed to his account in the amount of DM 15,000.
He reduces his tax liabilities for domestic sales by this prior-stage tax.
If B has not effected any domestic sales by this prior-stage tax,
the prior-stage tax in the amount
of DM 15,000 will be refunded. The tax burden on export goods therefore is
equal to zero. For this reason no problems concerning the shifting of the
added value tax will arise for A and B.

(b) Imports

In the case of imports (by entrepreneurs) the right to prior-stage tax
deductions prevents the foreign goods - just as in the case of domestic
transactions - from carrying a tax burden. Imported goods are exempt from added
value tax according to the following procedure: Formally a turnover tax on imports
is levied upon imports unless there has been an application for postponement.
This tax is, however - as in the case with taxes on domestic deliveries - merely a
regularly deductible prior-stage tax. Therefore, the importer can immediately
deduct the turnover tax on imports from the taxes to be paid on domestic sales.
If deduction should not be possible, the turnover tax on imports as a rule is
immediately refunded to the importer by the tax office. The right granted to
entrepreneurs to deduct the turnover tax on imports immediately, and if need be,
the refunding of these taxes, ensures that imported goods will not be liable to
taxation. This is again illustrated in an example:

Assume that importer A imports goods worth DM 200,000; hence he has to
pay to the customs office DM 20,000 as turnover tax on imports unless he has
applied for postponement of the payment. Assuming further that importer A
subsequently sells the goods to the domestic entrepreneur B at a price of
DM 250,000 he owes DM 25,000 to the tax office. As A has the right to
prior-stage tax deduction his tax liability amounts to (25,000 - 20,000 of
taxes already paid) = DM 5,000. At the same time, however, A will make out
the following bill for his customer B: DM 250,000 for goods delivered +
DM 25,000 for added value tax paid = a total of DM 275,000. B pays this full
amount to A, and gets a refund of the taxes paid by A amounting to
DM 25,000 by way of prior-stage tax deduction (set off against domestic tax
liability or refund). Thus, the actual tax burden on the imported goods for
entrepreneur B is equal to zero.
As foreign products on importation by entrepreneurs are not actually charged with added value tax, equal treatment of imported and domestic products within the framework of this tax is consequently effected on a tax-free basis. As in the case of domestic products, foreign and domestic goods enter into competition on the basis of net prices.

The interpretation given at times, according to which the added value tax burdens imports and domestic production alike, is misleading. It gives the impression that the added value tax could become price and cost effective with imports and domestic transactions. This interpretation fails to reveal the facts – as explained above. The added value tax actually becomes a burden only when goods are purchased by persons who are not eligible for prior-stage tax deduction.

There is a certain interdependence between the above-mentioned misleading interpretation of the effects of added value tax on imports and its effects on the budget. In some cases the added value tax levied on imports (turnover tax on imports) is treated as actual revenue in the setting up of budgets. The tax payment of importers is regarded as actual tax revenue. Such an approach is, however, not permissible. The taxes paid by importers cannot result – as has been shown in the above example – in an actual revenue due to the prior-stage tax deduction or the refunding of taxes. These taxes – just like all taxes paid by entrepreneurs (excluding mainly the retail trade) – will not remain at the disposal of the treasury. They are withdrawn, so to speak, by the entrepreneurs by way of prior-stage tax deduction and refunds. Within the framework of the added value tax the desired fiscal effect results only when goods are delivered to final consumers who cannot deduct prior-stage taxes nor apply for refunds of taxes paid at earlier stages. With reference to imports this case is an exception which is entirely without significance. Imports are as a rule effected by entrepreneurs. Taxes paid on imports can therefore not be regarded as actual tax revenue in the budget.
Annex D

STATEMENT BY THE DELEGATION OF THE FEDERAL REPUBLIC OF GERMANY
ON THE EFFECTS ON PRICES AND GERMAN FOREIGN TRADE AFTER THE
CHANGE-OVER FROM THE CUMULATIVE TURNOVER TAX SYSTEM
TO THE-TAX ON VALUE ADDED

The German delegation has been asked to comment on the effects on prices and
German foreign trade of the change-over from the cumulative turnover tax system to the
value-added tax (TVA).

This matter has been treated very exhaustively within the Organisation for
Economic Co-operation and Development. There the German delegation has exposed its
views first in October 1967 before the introduction of the TVA. Its memorandum has
been discussed in detail in a special ad hoc group. In the light of the experience
of the first year after the change-over to the TVA the German delegation has made a
detailed fact-finding report which has been treated in the Trade Committee of OECD
and has been distributed as OECD document TC(69)9, first revision. We would have no
objection if this report would be made available to this Working Party, if it wishes
to get it.

The main points of the German fact-finding report on the effects of the change­
over to the new tax system can be summarized as follows:

1. Effects on prices

When ascertaining the effects on prices under the aspect of the way how the
TVA works, which has already been described in detail by the German delegation
in Annex C of this document, two price movements were observed: it is the
development of prices in the entrepreneurial sector on the one hand and that in
the consumer sector on the other. In the entrepreneurial sector the TVA did
not show any effects on costs and prices because of the right to deduct any
taxes paid on preceding transaction stages. Therefore entrepreneurial prices
which are best reflected by the industrial producer price index, have declined.
This price index calculated on the basis of 1962 decreased from 104.7 in the
last quarter of 1967 to 99.7 in the first quarter of 1968, i.e. by about
5 per cent. As expected, a tax cost burden of more than 1 per cent continued
to rest on industrial products in 1968 owing to certain transitional
regulations and to difficulties in the transition to the new system.

In the consumer price sector the TVA entered fully into prices. The price
index of the cost of living of private households increased during the first
six months of 1968 by 1.5 per cent over the level of the corresponding period
of the preceding year. Of this price rise, over 1 percentage point was due to
conversion difficulties to be overcome by the entrepreneurs when the TVA was
introduced and the remaining part of the price rise was due to cyclical reasons.
When seeing both price movements together one could say that the reform of turnover taxation in the Federal Republic of Germany in 1968 has had those effects that had been expected from the TVA being an indirect tax. Prices dropped in those fields where the turnover tax had no more effects on costs and rose where the effects of the tax fully entered into prices, corresponding to the system of the tax. Therefore the conclusion may be drawn that the transition to the added value tax system in the Federal Republic of Germany was accompanied by the traditional price effects of indirect taxation, i.e. by price changes in accordance with the changes of tax burden on the goods.

2. Effects on foreign trade

Concerning the effects on German foreign trade of the turnover tax reform in 1968, the conclusion has frequently been drawn that the increase in the German trade surplus from DM 16.9 billion in 1967 to DM 18.4 billion in 1968 was directly connected with the transition to the TVA system. Mention has even been made of a devaluating effect of the change-over to the TVA. However, such a conclusion would be precipitated and has not been confirmed after a thorough analysis of the facts.

First it has to be stated that immediately upon the transition to the TVA on 1 January 1968, a tendency towards export promotion ceased to exist. This tendency was the result of the average border tax adjustment rates under the cumulative turnover tax system which favoured highly integrated companies and combines. Since statistical data relating to the actual cumulative turnover tax burden on large companies and combines are not available, it is difficult, however, to quantify this effect.

The tax costs arising during the transition phase for which no border tax adjustment measures were envisaged were estimated to 1 percentage point. Because of these costs it was expected that export prices of German industrial products would rise. However, this effect was not produced. Prices rather declined by 1 per cent from 1967 to 1968. The reason for this were factors outside the field of taxation. As a result of the productivity gains during the third quarter of 1967 until the first quarter of 1968 unit labour costs declined by 7.5 per cent in Germany. It is obvious that this reduction of unit labour costs has by far overcompensated the price rising effect of the tax reform on German exports. Moreover - due to several special influences - foreign demand expanded vigorously in 1968. Consequently an extraordinary rise of German exports was recorded. This shows that the export surplus in 1968 was due to other reasons than the tax reform. Also on the import side the reform had no devaluating effect. The price relation between imported and domestic products rather changed in favour of the imported products; before the introduction of the TVA the
ratio was 107.8 to 99.1 and thereafter 107.6 to 99.7 (1962 = 100). The high rate of increase of German imports after the tax reform - the rate of expansion came up to almost 16 per cent in 1968 as against 3.4 per cent in 1967 - reveals that the introduction of the TVA did not adversely effect foreign trade.

On balance the conclusion may be derived that the change from the cumulative turnover tax to the value-added tax has largely been neutral as regards its effect on German foreign trade. Therefore we are convinced that the concern the German tax reform could cause disturbances to the development of international trade was not justified.
STATEMENT BY THE DELEGATION OF THE FEDERAL REPUBLIC
OF GERMANY ON THE TRADE EFFECTS OF THE MEASURES TAKEN IN NOVEMBER 1968

1. The special tax on exports has had a marked effect on German export prices. The official index of export prices (1962:100) has gone up from 105.8 points in November 1968 to 109.0 in February 1969 and further to 110.3 in May 1969. The increase since November 1968 has been by 3.2 points (=3 per cent) until February and by 4.5 points (=4.2 per cent) until May 1969. This exceptional increase within a short period can be considered mainly as a result of the measures taken in November. If one takes into account that the rates of the export tax are 4 and, in some cases, 2 per cent, and that the greater part of agricultural products are excluded from the tax - so that the average rate for the whole of German exports should be around 3 per cent - then it seems to be clear that the export tax has been shifted into the prices almost completely. It is almost a classic example of a successful tax shifting. Thus, the expectations of the Government have been realized with respect to these measures, i.e. that the foreign prices for German products would rise by the tax burden introduced in November 1968 and that the competitive position of German exports would be relatively worsened by that amount.

2. The effects on the import side cannot be seen quite so easily - because the official index of import prices does not reflect the effects of the import subsidies. For technical reasons the import subsidy of 4 and 2 per cent is constructed in such a way that the special bonus is given to the importer after the imported goods have passed the customs frontier. (The technique of the import subsidy and the export tax has been explained in detail (see page 128).) Therefore, the possible price reduction resulting from the import subsidy cannot be seen in the figures of the price index for imported goods (prices at the border). Nevertheless, the expected effects on German imports seem to have been realized to a great extent. This can be seen quite clearly when looking at the development of imports for this year. In the period from January to May 1969 German imports rose by DM 6.9 billion (= +21.3 per cent) over the same period in the year 1968.

To what degree the import subsidy has been passed on to the final consumer in the form of price reductions cannot be isolated statistically. But it may be recalled that the desired effect of stimulating imports could be achieved even in the case when the subsidy was not used to reduce import prices, because then higher profit margins for the importer would stimulate imports.

3. The effects of the measures were realized. However, it cannot be denied that the desired diminution of the German trade surplus as a whole did not materialize quite to the predicted amount. By the latest figures for January to May 1969 the trade surplus has gone down by DM 1.2 billion compared with the same period in 1968. Taken as a whole year, this would mean a reduction by about DM 3 billion. This estimate is a bit lower than the total effect on German trade estimated in November (surplus -4.5 to -5 billion), but this cannot be attributed to the measures taken in Germany as such but to the fact that the expectations at the end of last year, as to the development of demand and prices in other countries, did not materialize to the full extent.
Annex F

STATEMENT BY THE EUROPEAN COMMUNITIES ON THE COMMON METHOD FOR CALCULATING COUNCERVALING CHARGES ON IMPORTS AND EXPORT REBATES

The present systems of turnover taxes are based on the principle of the country of destination. Consequently, in the context of that tax, the States have to ensure the capacity of domestic products to compete with foreign products in their own territory as well as in the countries to which those products are exported. When the turnover tax system is based on a cumulative multi-stage system, application of this principle implies the operation of two categories of measures: "countervailing charges" on imports and "rebates" on exports.

Article 97 of the Rome Treaty authorizes the member States to use "average rates" for specific products or groups of products for the purposes of such offsetting, but states that those rates must not exceed the maximum level set by Articles 95 and 96, i.e. in practice the burden on like domestic products.

In practice, the establishment of an average rate for a product or group of products must be the result of a two-fold series of investigations:

- determination of the cumulative tax burden resulting from all the commercial transactions involved directly and indirectly in the manufacture of the product concerned;
- weighting of that burden, if necessary, to take account at national level of the differing degrees of integration of undertakings that manufacture the product.

Determination of the cumulative burden implies, first of all, that the cost price of the product must be broken down into the various component elements acquired by the manufacturer for its production. Account must therefore be taken of elements that enter into the product (raw materials, etc.) as well as of those contributing to its manufacture (energy, depreciation ...) and likewise of the proportion of various overhead costs and services that are relevant.

This, however, represents only the tax burden at the final stage of production. How any product - for example, sheet iron except in the case of an integrated industry - attains that form only after a series of processing operations carried out by independent undertakings; mines, iron and steel plants, rolling mills, the tax being levied on the occasion of each transfer of the product. In order to determine the aggregate burden, account must therefore be taken of this succession of tax charges. This research to the origin of the product has further ramifications, because in the case mentioned for example the winning of the iron ore implies investments and other essential goods for the acquisition of which a tax has been paid which is indirectly included in the price of the ore purchased by the steel manufacturer.
The results thus obtained may have to be weighted when, at national level, there are two or more manufacturing circuits for the same product. Indeed the less a circuit is integrated, the more numerous the taxable transfers, hence the higher the aggregate tax burden. A weighting coefficient must then be applied in order to determine an average tax burden, hence an average rate for a rebate or countervailing charge.

This brief outline of the two-fold series of investigations that has to be carried out by States wishing to establish average rates for countervailing charges and rebates gives an idea of the difficulties that they can encounter in evaluating those rates.

Since 1960, when establishing or amending an average offsetting rate, the member States have presented calculations to the Commission of the European Communities, in order to justify the level of the rate. Experience has shown, however, that because of the different methods followed by each in determining the cumulative burden, and in particular their complexity, it was difficult to examine the justifying calculations and therefore sometimes difficult to be assured that the ceiling set by Articles 95 and 97 was being observed.

The common method adopted by the Council of the European Communities on 30 April 1968, is designed to overcome these difficulties. It is within the context of Article 97 of the Treaty, and is designed to ensure that the average rates of countervailing import charges and export rebates do not exceed the limits set by that article. To that end, it establishes a uniform system for calculating the charges and rebates, specifying the conditions in which the various component elements of the cost price of products can be taken into consideration.

From the technical aspect, the common method corresponds in broad outline to that already used by the member States; at the frail stage of manufacture the cost of the product is broken down into the various component elements, each of these in turn being broken down. The production process is therefore considered stage by stage.

This kind of breaking down can, however, present disadvantages that can make any method of calculation inapplicable: very rapidly, the retracing back through time multiplies the number of elements to infinity, the evaluation of their amount becomes ever more approximate, and their significance in the amount of the

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1 See annex.
tax burden declines to the point of becoming negligible and uncertain. That is why the common method provides that in calculating the tax burden on a product at the stages preceding the final stage, only certain components (factors and elements) can be taken into consideration.

Because of the fact that the cumulative multi-stage tax system causes the tax burden borne by a product to vary according to the degree of integration of the producing undertaking, the common method provides that, in order to determine the average offsetting rate, the results must in addition be weighted.

Although this method of analysis can in general be applied without any great difficulty, it seemed appropriate, with a view to simplification, to include the possibility of using flat-rate evaluation systems which would yield a substantially identical result.
DIRECTIVE OF THE COUNCIL
of 30 April 1968

establishing a common method for calculating the
average rates provided for in Article 97 of the Treaty

Article 1

1. When, in virtue of Article 97 of the Treaty, a member State institutes or modifies an average rate in order to compensate, either at the time of importing or at the time of exporting, the turnover taxes which it applies directly or indirectly to the manufacture of a product or of a group of products, that rate shall be calculated in accordance with the provisions of the present directive and with reference to the real conditions of production.

2. The provisions of the present directive do not apply:

- to the average rates existing at the time of the entry into force of this directive, even if they are used for calculating the previous fiscal charge, in conformity with the provisions of Article 6;

- to the adaptations of the average rates resulting purely and simply from a general modification of the rates of the turnover tax.

Article 2

1. The average fiscal charge applying to a product is equal to the weighted average of the fiscal charges applying to the product in the different representative circuits of its production, established in each circuit in conformity with the provisions of Articles 3 to 6. The weighting shall be carried out in relation to the importance of each circuit in the total production of the product.

2. The average fiscal charge applying to a group of products is equal to the weighted average of the average fiscal charges applying to the representative products of that group. The extent of the group of products determines the number of the representative products to be taken into consideration. For each representative product, the average fiscal charge is calculated in conformity with the provisions of paragraph 1. The weighting is done in relation to the importance of the products represented by each representative product in the total production of the group of products.

Article 3

For the calculation of the fiscal charge applying to a product at the final stage of its production, the fiscal charges applying, at that stage, to all the factors in the cost price can be used.
Article 4

1. For the calculation of the fiscal charge applying to the product at the penultimate stage, use may be made of the charges applying, at that stage, to the raw materials, the semi-finished products and the finished products which enter into the raw materials, the semi-finished products or the finished products which are used in the last stage, and into any other factor or element used in the last stage, if the latter represents, at that stage, at least 3 per cent of the selling price exclusive of tax at the end product.

2. For the calculation of the fiscal charge applying to the product at the other stages, use can be made of the charges applying, at each of those stages, to the raw materials, the semi-finished products and the finished products, which are to enter into the manufacture of a raw material, of a semi-finished product or of a finished product used in the last stage.

Article 5

1. If, for a factor or for an element used at any stage, the fiscal charge at the previous stages is not calculated in conformity with the rules of Article 4, the charge applying to that factor or that element can be increased by a standard charge of 50 per cent.

However, if the amount of the fiscal charge applying to that factor or that element is the result of the application of a special rate, that amount must first, for the purpose of applying the standard charge, be recalculated on the basis of the general rate of the turnover tax. If that special rate covers one or more earlier stages, the charge resulting from the application of that rate cannot be increased by the standard charge.

2. The charge thus calculated for the earlier stages cannot exceed that which would result from the application to that factor or to that element of the provisions of Articles 4 and 6.

Article 6

If, for a factor or an element used at any stage, there already exists an average rate, that rate can be used for calculating the previous fiscal charge applying to that factor or that element, to the extent to which it is in conformity with Article 97. The application of that rate is obligatory, when it is justified in accordance with the calculations submitted to the Commission in conformity with the provisions of Article 10.

Article 7

1. When a member State refrains, in respect of a product or a group of products, from calculating the average fiscal charge in conformity with Articles 2 to 6, that charge can be assessed at a standard rate at an amount corresponding to 100 per cent, 75 per cent, 50 per cent or 30 per cent of the
general rate of the turnover tax, according to whether the factors and the elements of the product or of the group of products to be used in the final stage and subjected to the normal rate or to the rate increased by the turnover tax represent respectively 65 per cent, 50 per cent, 35 per cent or less than 35 per cent of the selling price exclusive of tax of the product or of the group of products.

2. The charge thus assessed cannot exceed the average fiscal charge which would result from the application of the provisions of Articles 2, 3, 4 and 6.

Article 8

The average rates are rounded off at the half point above or below according to whether the decimal fraction of the rate obtained amounts to or does not amount to 0.75 or 0.25.

Article 9

After consultation of the member States, the Commission, if necessary, shall establish by means of a directive the procedures for the application of Articles 1 to 8.

Article 10

1. When a member State envisages the institution or the modification of an average rate, it submits to the Commission the calculation of the average fiscal charge, established in accordance with the provisions of Articles 1 to 8.

2. When the Commission considers that a fiscal charge established at a standard rate in conformity with Article 5 or Article 7 exceeds the limits laid down in paragraph 2 of those Articles, the member State shall submit to the Commission, at the latter's request, the calculation of that charge established in conformity with Articles 2, 3, 4 and 6.

Article 11

The member States shall see to it that they communicate to the Commission the text of the essential provisions of municipal law which they adopt subsequently in the field governed by the present directive.

The present directive is addressed to the member States.

Done at Luxembourg, 30 April 1968.
Annex G

A SHORT DESCRIPTION OF THE NORWEGIAN TAX REFORM

The Norwegian tax reform which has been introduced on 1 January 1970, consists of the following three main elements:

- a reduction of the total direct taxation and an increase of the social security services,
- an increase of the indirect taxation, and
- the introduction of a general value-added tax (TVA) to replace the existing single-stage retail sales tax.

The level of the total taxation is not altered by the tax reform, but the reform implies a shift in the tax structure towards a greater part of indirect taxation based on a value-added tax. The total taxation, inclusive the social security charges, amounts to approximately one third of the market value of the gross national product. The share of direct taxation is 38 per cent, indirect taxation 38 per cent, while social security charges amount to 24 per cent. The tax reform implies a reduction of direct taxation to 31 per cent and an increase of indirect taxation to 44 per cent of the total.

A general value-added tax of 20 per cent and a tax of 13 per cent on investments, etc., has been introduced on 1 January 1970. The former retail sales tax of 13.64 per cent covered about 65 per cent of the total private consumption of goods and services while the value-added tax covers about 72 per cent.

Registered enterprises have a general right to deduct the tax on their purchases. However, they have to pay the 13 per cent tax on investments, etc., this tax not being deductible. The tax on investments, etc., applies to all goods which are consumed in business except merchandises and goods used as raw materials and semi-manufactures. On this goods enterprises under the existing system pay the general turnover tax of 13.64 per cent without any right of deduction or refund.

On an annual basis the introduction of the value-added tax and the investment tax is estimated to increase the State revenue by about Nkr 3,000 million in 1970. This increase is meant to compensate for the loss in revenue as a result of the reduction in direct taxation, increased contribution to social security services and increased expenses on governmental purchases, etc. following the introduction of the value-added tax. The increase in the consumer price level is estimated to be 5.8 per cent on the assumption that the increased taxation is fully shifted into prices.
The transfer from the existing retail tax to the value-added tax and the tax on investments, etc., is not expected to lead to significant changes in the tax burden of enterprises. The registered enterprises, exporters included, have the right to deduct the value-added tax on their purchases. The non-deductible investments, etc., are almost unchanged, i.e. 13 per cent against 13.64 per cent.

The tax reform implies a reduction of direct taxes for all the tax-payers of about NKr 1,600 million. Of this total reduction the tax reduction for corporations is calculated to be about NKr 250 million on an annual basis, on the assumption that the total income tax for corporations will not be higher than 50 per cent. The former total corporate income tax varied between 52.5 and 54.5 per cent, including State and municipal taxes.
Annex H

Leaflet No. 4 (revised)

OUTLINE OF THE PRINCIPAL INCOME TAX AND CORPORATION PROFITS TAX RELIEFS FOR YEAR 1969-70 HAVING SPECIAL IMPORTANCE IN RELATION TO INDUSTRIAL PRODUCTION

Note: The following information is for general guidance only and is necessarily in very condensed form. Industrialists and others requiring information as a basis for making decisions should communicate with the Secretary, Revenue Commissioners, Dublin Castle.

1. Machinery and plant

(a) Initial and annual allowances

Capital expenditure incurred on new machinery or plant (excluding road vehicles)

<table>
<thead>
<tr>
<th>Description</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Initial allowance</td>
<td>60%</td>
</tr>
<tr>
<td>Annual allowance</td>
<td>10% 12 1/2% 25% on reducing balance basis depending on estimated working life of asset</td>
</tr>
</tbody>
</table>

A form of "free depreciation" viz, such increase in the annual allowance as the taxpayer may specify, is allowable in respect of new machinery or plant (excluding road vehicles) provided for use in designated areas which, broadly speaking, are located in the western part of the country. Where free depreciation is allowed, initial allowance may not be claimed.

(b) Balancing allowances and balancing charges

When machinery or plant ceases to be used for the purposes of a trade, any deficiency or excess in the capital allowances granted, after account is taken of any proceeds of sale, insurance, etc., is adjusted by means of a balancing allowance or balancing charge.
2. **Industrial buildings or structures**

   (a) **Initial and annual allowances**

   Capital expenditure incurred on -
   hotels, holiday camps, registered
   holiday cottages and market garden
   buildings

<table>
<thead>
<tr>
<th></th>
<th>Initial allowance</th>
<th>Annual allowance</th>
</tr>
</thead>
<tbody>
<tr>
<td>other industrial</td>
<td>10 per cent</td>
<td>10 per cent on</td>
</tr>
<tr>
<td>buildings or</td>
<td></td>
<td>straight line</td>
</tr>
<tr>
<td>structures</td>
<td></td>
<td>basis</td>
</tr>
</tbody>
</table>

   (b) **Balancing allowances and balancing charges**

   When an industrial building is sold, destroyed or ceases to be used,
   any deficiency or excess in the capital allowances granted, after
   account is taken of any proceeds of sale, insurance, etc., is adjusted
   by means of a balancing allowance or balancing charge.

3. **Export profits**

   This relief is granted only to companies but it is not a condition of the
   relief that the company should be registered or managed or controlled in the
   State. These notes outline the position of a company which commences to trade
   and to export goods in 1969-70 or a later year.

   The profits of such a company which are attributable to exports are wholly
   relieved of Income Tax and Corporation Profits Tax for a continuous period not
   exceeding fifteen years and are relieved at gradually reducing rates for the
   succeeding period of not more than five consecutive years. The reduced rates
   are 80 per cent for the first of these five years and 65 per cent, 50 per cent,
   35 per cent and 15 per cent for the second, third, fourth and fifth years
   respectively. In no case may relief be given for any year or period ending
   after 5 April 1990.

   A company whose first year of claim is 1969-70 will be entitled to complete
   exemption from Income Tax of its export profits for fifteen years up to and
   including 1983-84 and relief at reduced rates for the five succeeding years up
   to 1988-89. It will also be accorded corresponding relief from Corporation
   Profits Tax.
The relief is, broadly speaking, confined to profits arising from the sale of goods which have been manufactured in the State and exported by the company claiming the relief. Where the company is not the manufacturer of the goods exported, relief may be claimed by it only where the goods exported are sold by wholesale. Relief may also be claimed subject to conditions in respect of profits arising from the rendering to non-residents of certain services such as design and planning services in connexion with foreign engineering projects and the processing of materials belonging to a non-resident.

A measure of unilateral relief from double taxation is granted to a company which derives dividends or interest from the investment in a foreign subsidiary of profits which have been relieved from tax under the exports relief provisions. Unilateral relief is confined to dividends or interest arising in countries with which comprehensive double taxation agreements are not in force.

4. Shannon relief

Profits derived by a company from trading operations which are carried on within the customs-free area of Shannon Airport and are certified by the Minister for Finance to be "exempted trading operations" are completely exempt from taxation up to 5 April 1990. Exempted trading operations include the sale for export of goods produced, manufactured or processed in the airport, the sale for export of imported goods, the rendering of services relating to the use of aircraft and other trading operations which contribute to the use and development of the airport.

5. Mines

Profits arising to resident Irish companies (i.e. companies incorporated and managed and controlled in the State) from the working in the State of new mines of certain non-bedded minerals† are exempt from tax for twenty years from the commencement of trading.

To qualify for the relief a new mine must come into production within the thirty years commencing on 6 April 1950.

6. Scientific research and know-how

Expenditure of a capital or non-capital nature incurred by a trader on scientific research, whether or not related to the trade, may be written off in one year.

Expenditure incurred on acquiring industrial know-how for use in a trade is, generally speaking, allowable as a deduction in computing the profits of the trade for tax purposes.

†The minerals which may qualify for the relief are: barytes, felspar, serpentinoind marble, quartz rock, soapstone, and ores of copper, gold, iron, lead, manganese, molybdenum, silver, sulphur and zinc.
7. Dividends

An Irish resident company is entitled, when paying dividends to its shareholders, to deduct income tax at the rate which is appropriate. Where relief from income tax is given in the circumstances described at 3 the rate of income tax deductible from the dividends is a rate reduced by reference to the relief. Dividends paid out of profits from exempted trading operations referred to at 4 or from mining profits referred to at 5 are not regarded as income for tax purposes and no tax is deducted by the paying company. In this way shareholders benefit from the reliefs from income tax. Provision is also made for relief from surtax to the recipient of dividends paid out of relieved profits.

An individual who is resident solely in the State and who is the beneficial owner of shares or securities in an Irish resident company which complies with certain conditions may claim to have the income tax and surtax on the income from the shares or securities abated by one fifth. (For the purpose of estate duty the value of such shares or securities may, subject to certain conditions, be reduced by one third where the deceased dies domiciled in the State.)

8. Double taxation agreements

Comprehensive agreements for the avoidance of double taxation are in force between Ireland and Britain, the United States, Canada, Sweden, the Federal Republic of Germany, Denmark, Austria and Switzerland. Comprehensive agreements with France, the Netherlands, Finland, Cyprus and Norway have been signed and will enter into force upon ratification. Agreements are also in force with Finland, Norway and South Africa for the avoidance of double taxation of profits from the business of sea or air transport. A similar agreement has been signed with Belgium and will enter into force upon ratification.

9. Miscellaneous reliefs

In the case of any trade consisting of the production for sale of manufactured goods, a trader may claim an allowance, spread equally over the first three years of trading, in respect of certain expenditure incurred before commencement of trading on recruiting and training local staff.

Capital expenditure incurred by a trader on the acquisition of patent rights may be written off in equal annual instalments over a period of seventeen years (corresponding to the normal statutory life of an Irish patent), or over the remaining life of the patent, if shorter. There is provision for balancing allowances or balancing charges where patent rights are sold, for less or more, as the case may be, than the residue of the expenditure which has not been allowed.
Annex I

LIST OF DOCUMENTS

Establishment of the Working Party

C/M/46 Council Meeting
L/3002/Rev.1 Terms of Reference

Provisions of the GATT relevant to BTA: Terms of Reference point 1(a)

1st meeting 30 April to 2 May 1968
Spec(68)31 Statement by representative of the United States on 30 April 1968
Spec(68)34 Statement by representative of Japan on 30 April 1968
L/3009 Note by the secretariat on the meeting of 30 April to 2 May 1968

2nd meeting 18 to 20 June 1968
Spec(68)65 Main points raised in discussion of point 1(a) of the Terms of Reference
L/3039 Note by the secretariat on meeting of 18 to 20 June 1968

Practices of contracting parties in relation to BTA: Terms of Reference point 1(b)

3rd meeting 16 and 17 July 1968
L/3048 Note by the secretariat on the meeting of 16 and 17 July 1968

4th meeting 8 to 11 October 1968
Spec(68)101 Summary of statement by the representative of the United States to the Working Party on 8 October 1968
L/3125 Note by the secretariat on the meeting of 8 to 11 October 1968

Twenty-fifth session 1968

L/3138 Interim report by Chairman of Working Party
SR.25/9 Summary record of the ninth meeting concerning, inter alia, the problem of border tax adjustments

5th meeting 11 to 14 November 1968
Spec(69)5 Note by the secretariat on the meeting of 11 to 14 November 1968

Effects on international trade: Terms of Reference point 1(c)

6th meeting 10 to 15 February 1969
L/3183 Note by the secretariat on the meeting of 10 to 15 February 1969
7th meeting
Spec(69)53  Statement by representative of Japan on 23 April 1969
Spec(69)54  Statement by representative of Canada on 23 April 1969
Spec(69)55  Statement by representative of the Nordic countries on 23 April 1969
Spec(69)56  Statement by representative of the Federal Republic of Germany on 23 April 1969
Spec(69)57  Statement by representative of the United Kingdom on 23 April 1969
Spec(69)58  Statement by representative of Spain on 23 April 1969
Spec(69)59  Statement by representative of India on 23 April 1969
Spec(69)67  Statement by representative of the United States on 23 April 1969

8th meeting
30 June to 3 July 1969
L/3272  Note by the secretariat on the meetings of 23 to 25 April and 30 June to 3 July 1969

Proposals and solutions: Terms of Reference point 2

8th meeting
Spec(69)89  Submission by the European Communities
Spec(69)159  Reply by the United States to the submission by the European Communities
Spec(69)98  Statement on future work by representative of the United States on 3 July 1969
Spec(69)100  Statement by representative of Switzerland on point 2 of Terms of Reference at meeting of 3 July 1969
Spec(69)161 and Corr.1 (French only)
Spec(69)162  Statement made by the Nordic countries
Spec(69)162  Statement made by representative of Yugoslavia

L/3290  Interim report 1969 by the Working Party on Border Tax Adjustments
BACKGROUND INFORMATION ON PRACTICES

This information was obtained on the basis of the following:

1. A request from the secretariat to contracting parties members of the OECD for information on any developments since the time covered by the Fact-Finding Report on "Border Tax Adjustments and Tax Structures in OECD-member Countries", drawn up by the OECD in 1968. Contracting parties were also requested to supply details of the rate or rates of tax on profits of industrial and commercial firms and a brief description of the elements used in the determination of the tax base, indicating in particular the elements which can be deducted from the gross profit.

   In this context a questionnaire was also prepared for non-members of the OECD with a view to obtaining information similar to that contained in the OECD Fact-Finding Report (document Spec(68)56).

   Replies to these requests for information are contained in documents Spec(68)88 and addenda 1-7.

2. A questionnaire on contracting parties' practices on border tax adjustments in relation to products of interest to developing countries (document Spec(68)97 and Add.1). Replies to this questionnaire are contained in document Spec(68)134 and addenda 1-13, Spec(68)134/Corr.1 and Spec(68)134/Add.13/Rev.1.

Apart from the OECD Fact-Finding Report on "Border Tax Adjustments and Tax Structures in OECD-member Countries", the Working Party has also received for its own use, information on consultations with OECD countries on changes in their border tax adjustments (Germany TC(68)6; Netherlands TC(68)21; and Belgium TC(68)22).