Working Party on Border Tax Adjustments

DETAILLED OUTLINE FOR EXAMINATION OF BORDER TAX PRACTICES

Paper by United States Delegation

I. Tax Systems

A. Selective excise taxes or varying rate purchase taxes

1. Are there selective excise taxes which apply to goods also subject to a general broad-based indirect tax?

2. Are there selective excises imposed on products not produced in economically meaningful quantities domestically, i.e., are they primarily import taxes?

3. Where excise taxes are imposed on goods used in further production, 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?

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

6. If adjustments are not made at the border, but subsequent or prior to the border transaction, how can the Government police this? How does the Government regulate a system of registered dealers?

B. Broad-based single stage taxes levied at nearly uniform rates

Manufacturing, wholesale

1. What is the basis for valuation of tax adjustments both on imports and exports (c.i.f., f.o.b., including duty)? How does this differ when adjustment is made at the border or when the adjustment is made at transactions after the good has been in the hands of a domestic wholesaler?
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 a system of single stage general rate taxes handle the occult element that enters into the production of taxed goods?

4. Is it always possible to limit a single stage tax to one particular stage? How, for example, are retail transactions by wholesalers or manufacturers handled? How are capital goods treated?

5. Are border adjustments made for goods not produced domestically?

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?

Retail

1. Does the system of retail sales taxes completely avoid 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 basis for evaluation of the retail sales tax or the tax obligation of retailers?

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

5. Do firms pay retail sales taxes on their purchases? What efforts are made to allow border adjustments to compensate for such transactions?

C. Cascade taxes

1. How general is the tax, i.e., to what extent does it provide for exemptions, different techniques of taxation or differential rates of tax for certain classes of goods or individual products or for transactions at certain levels in the production process? Do the border adjustments reflect these differences?
2. Are there products not covered by the domestic tax 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 there cases where purchases by business of goods and services for use in further production are exempt from tax or subject to tax at reduced rates?

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

7. To what extent do border adjustments reflect taxes paid in the course of production on such things as machinery, fuels and general overhead items?

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

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

10. 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?

D. Tax on value added

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

2. How general is the tax? On what portion of the commercial transactions of the economy is it collected? Are there sectors of the economy or classes of goods which are not taxed in the normal way? Are such differences reflected in the border adjustments?
3. Besides the TVA, which other taxes are subject to border adjustments? What is their relative volume compared to that of the TVA on traded goods?

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

5. 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?

E. Other tax related border adjustments and export rebate schemes

1. What tax credits are given to exporters relative to increases in export sales?

2. Which tax credits or deductions are given for export sales promotion expenses?

3. By what computation do export sales result in more rapid depreciation of capital equipment, temporary accumulation of untaxed company reserves, or other forms of tax deferral?

4. How does the corporate income tax rate vary for export profits and domestic profits?

5. How is the corporate income tax averaged to allow a given amount of tax rebate per unit of exported good?

6. What border adjustments are made for property taxes or inventory taxes?

7. Are social security or wage taxes assessed differently depending upon a firm's export volume?

8. What adjustments are made for other taxes? What other tax credits are given relative to exports?

9. What border adjustments are made on imports similar to the above?

F. Overlapping indirect tax systems

1. To what extent are final products which are subject to selective excises also subject to a general broad-based indirect tax? Are border adjustments made for both?

2. To what extent are there selective excises in addition to a general tax imposed on business purchases of such things as machinery, fuel or general overhead items? Are border adjustments made for both?
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

1. What is the budgetary cost of border adjustments on exports?

2. How much revenue is collected from import border adjustments?

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