OUTLINE FOR EXAMINATION OF
BORDER TAX PRACTICES

Paper by the Technical Group

NOTE

The Technical Working Group recommends that border tax adjustments be defined for the purposes of the Working Party's examination as in the first sentence of paragraph 115 of the Organisation for Economic Co-operation and Development Fact-Finding Report which reads: "... border tax adjustments are defined to cover all the fiscal adjustments which are necessary to put into effect the destination principle (i.e. to ensure that exports are relieved from the tax of the exporting country and that imported products sold to the consumer bear the same amount of tax in the importing country as similar domestic products)."

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?

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?

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 affective 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?

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?

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?

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. 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?

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

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

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?