OUTLINE FOR EXAMINATION OF BORDER TAX PRACTICES

Replies by Delegations

The Working Party agreed at its fifth meeting from 11 to 14 November 1968 that there was a need to dispose, as quickly as possible, of those questions not already discussed at previous meetings; short answers should therefore be prepared and, if delegations so wished, these could be submitted in writing in advance of its next meeting.

Replies\(^1\) which are attached hereto have been received from the following delegations:

<table>
<thead>
<tr>
<th>Delegation</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Austria</td>
<td>2</td>
</tr>
<tr>
<td>Canada</td>
<td>6</td>
</tr>
<tr>
<td>Spain</td>
<td>13</td>
</tr>
<tr>
<td>Switzerland</td>
<td>16</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>18</td>
</tr>
</tbody>
</table>

Further replies will be circulated in addenda to this document.

\(^1\) Similar replies which have been supplied by the delegations of New Zealand and Norway are reproduced in documents Spec(68)123 and Spec(68)124 respectively.
B. **Selective excise taxes**

1. Selective excise taxes are imposed on hydrocarbon oil, tobacco products and beverages except milk. Alcoholic drinks are 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

<table>
<thead>
<tr>
<th>No.</th>
<th>Tax Base</th>
<th>Quantity</th>
<th>Retail Price</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>tax on hydrocarbon oil</td>
<td>quantity</td>
<td></td>
</tr>
<tr>
<td>2</td>
<td>tax on tobacco products</td>
<td>retail price</td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>(local) tax on beverages (except milk and beer)</td>
<td>retail price</td>
<td></td>
</tr>
<tr>
<td>4</td>
<td>beer tax</td>
<td>quantity</td>
<td></td>
</tr>
<tr>
<td>5</td>
<td>wine tax</td>
<td>quantity</td>
<td></td>
</tr>
<tr>
<td>6</td>
<td>sparkling wine tax</td>
<td>quantity</td>
<td></td>
</tr>
<tr>
<td>7</td>
<td>spirits tax (monopoly equalization levy)</td>
<td>quantity</td>
<td></td>
</tr>
<tr>
<td>8</td>
<td>special tax on alcoholic drinks</td>
<td>retail price</td>
<td></td>
</tr>
</tbody>
</table>

2. No.

3. No.

4. Normally no valuation for border adjustments. The bases and rates on imported goods do 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.

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

2 The special tax on alcoholic drinks, introduced by Federal Law of 27 June 1968, is also charged on imports. The tax base is 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, is 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.
5. Yes. If the goods are used for purposes expressly mentioned in the laws concerned permits for tax-free purchases are given upon application. This mechanism also applies at the import stage.

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

7. The adjustment for imported goods can be deferred if the goods are retained in a warehouse for excisable goods under special fiscal control. The same applies for refineries in the case of imported hydrocarbon oil. The adjustment is made when the goods are 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.

C. Overlapping indirect tax systems

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

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

III. Miscellaneous

General

1. The revenue in question is not earmarked for social security schemes.


3. No.

4. No.

5. See table in OECD fact-finding report.

Other tax-related border adjustments and export rebate schemes

6 to

10. Not applicable.
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 must be set off against the amounts of accelerated depreciation allowance for purchased or self-produced capital assets. Otherwise an increased taxation is applied.

These two investment incentives result in a tax deferral and not in a tax exemption. Furthermore, they are applicable irrespective of whether a company is engaged in export activities or not.

12. Losses of domestic companies may be carried forward five years.

13. Gains from the alienation of assets are included in the taxable income. However, capital gains may 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).

14. (a) Permanent establishment abroad: in the absence of a convention for the avoidance of double taxation the profit or loss is included in the taxable income. Foreign tax is deducted from the income. The Ministry of Finance is authorized to grant tax exemption or tax credit. For cases falling under a double taxation convention the rules of the convention apply.

(b) Subsidiary abroad: not the profits or losses of the subsidiary but only the distributed profits (dividends) are taken into account when assessing the income of the parent company. Foreign tax paid on dividends is 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 is deducted from the income.

15. The taxes imposed on the business capital of a company are:

(a) the capital tax including surcharges (rate for 1969 and 1970 0.765 per cent);

(b) the tax on property eluding death 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) are not deductible from profits.
16. Not applicable.
17. No.
18. Not applicable.
Selective excise taxes are imposed on a narrow range of goods. These consist of specific taxes and ad valorem taxes. The base for the ad valorem taxes is 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 are also subject to the general manufacturers' sales tax which is calculated by reference to the same base. Thus, for example, the total tax on jewellery is 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 are 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>Item</th>
<th>Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cigarettes</td>
<td>3 cents per 5 cigarettes</td>
</tr>
<tr>
<td>Cigars</td>
<td>17½ per cent</td>
</tr>
<tr>
<td>Jewellery including clocks, watches, articles</td>
<td></td>
</tr>
<tr>
<td>of ivory, shell, precious or semi-precious</td>
<td></td>
</tr>
<tr>
<td>stones, goldsmiths' and silversmiths' products</td>
<td></td>
</tr>
<tr>
<td>Lighters</td>
<td>10 per cent</td>
</tr>
<tr>
<td>Playing cards</td>
<td>10 cents</td>
</tr>
<tr>
<td>Radios</td>
<td>20 cents per pack</td>
</tr>
<tr>
<td>Phonographs</td>
<td>the greater of $2 per radio</td>
</tr>
<tr>
<td></td>
<td>or 15 per cent</td>
</tr>
<tr>
<td>Tubes for radios, phonographs and television</td>
<td>10 cents per tube</td>
</tr>
<tr>
<td>sets (not including television picture tubes)</td>
<td>15 per cent</td>
</tr>
<tr>
<td>priced 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 or</td>
<td></td>
</tr>
<tr>
<td>amusement devices</td>
<td></td>
</tr>
<tr>
<td>Matches</td>
<td>10 per cent</td>
</tr>
<tr>
<td>Tobacco - pipe tobacco, cut tobacco and snuff</td>
<td>10 per cent</td>
</tr>
<tr>
<td>Tobacco pipes, cigar and cigarette holders</td>
<td></td>
</tr>
<tr>
<td>and cigarette rolling devices</td>
<td></td>
</tr>
<tr>
<td>Toilet articles, including cosmetics, perfumes,</td>
<td></td>
</tr>
<tr>
<td>shaving creams, antiseptics, etc.</td>
<td>10 per cent</td>
</tr>
</tbody>
</table>
Wines - domestic only

Wines of all kinds containing not more than 7 per cent absolute alcohol by volume 25 cents per gallon
Non-sparkling wines containing more than 7 per cent absolute alcohol by volume, but not more than 40 per cent proof spirit 50 cents per gallon
Champagne and all other sparkling wines $2.50 per gallon

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

(b) Federal selective excise duties

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

Spirits

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

(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, is subject to a duty of $12.25 per gallon.

1The basic selective excises on wines apply only to those manufactured in Canada. The customs tariff includes a levy on imported wines to correspond to those excise taxes imposed on domestic production.
Beer

All beer and other malt liquor is 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 levy selective excises on gasoline and diesel fuel and tobacco products, as follows:

(A) Motor Fuels

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

(B) Tobacco

Eight of the ten provinces impose 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 are not imposed on products not produced in economically meaningful quantities domestically.

Question 3

There is 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 is duty-paid value which is defined in Section 29(1)(a) 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 is, in general, the f.o.b. market value in the country of origin or the actual selling price, whichever is the greater. The customs value generally includes charges for advertising, servicing, warranty, packaging, etc., but ordinarily excludes insurance and freight.

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

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

Question 5

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

Question 6

Goods exported from Canada by a manufacturer licensed under the regulations are exempt from tax. In addition when tax-paid goods are exported, a refund may be granted provided the goods were not sold and used in Canada.

Question 7

Imported goods are subject to tax at the same stage whether or not the border adjustment is made at the time of importation. A wholesaler, for example, must pay tax on importation, whereas a licensed manufacturer may defer tax until
such time as the goods are resold. But the basis of the tax - that is, duty-paid value - remains the same whether or not the importer is licensed.

Question 8

There are differences in the rates of the provincial excises and the appropriate rate is that in effect in the province in which delivery is taken. The procedure applies alike to foreign and domestic goods.

Question 9

There is 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 is no exemption for shipments through the post.

C. Overlapping indirect tax systems

1. Commodities subject to the selective federal excises are generally subject also to the federal manufacturers' sales tax and the provincial retail sales taxes.

2. Border tax adjustments are 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(68)47, Part III at page 10. In the same way border tax adjustments are 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 are restricted to domestic products; however, such products when imported are subject to import duties under the customs tariff.

III. Miscellaneous

General

1. The revenue obtained from border tax adjustment at both the federal and provincial levels generally enters into the consolidated revenue funds from which government expenditures, including those on social security programmes, are made. In some instances a portion of the sales tax is 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) is destined for the Old Age Security Fund. Some of the provincial sales tax statutes provide that revenues are to be used in whole or in part for social security, welfare, health and/or education.
2. The relative importance of property taxes and licence fees in Canadian tax revenues is shown in Schedule 1, page 62 of Spec(68)88. In 1966, the latest year for which consolidated figures for all levels of government are available, the revenues were as follows:

<table>
<thead>
<tr>
<th></th>
<th>$ million</th>
<th>Percentage total taxes</th>
<th>Percentage GNP</th>
</tr>
</thead>
<tbody>
<tr>
<td>Property taxes</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Taxes on natural resources, licences, fees and permits</td>
<td>1,904</td>
<td>11.8</td>
<td>3.3</td>
</tr>
<tr>
<td>Stamp taxes and inventory taxes</td>
<td>999</td>
<td>6.2</td>
<td>1.7</td>
</tr>
<tr>
<td>All other taxes</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>16,121</td>
<td>100.0</td>
<td>27.9</td>
</tr>
</tbody>
</table>

3. There are no border tax adjustments for transportation costs on goods in transit.

4. There is no special basis for valuation depending on whether or not the buyer is the final consumer.

5. See Schedule 1, page 62 of Spec(68)88.

Other tax-related border adjustments and export rebate schemes

6. No tax credits are given to exporters relative to increases in export sales.

7. Export sales promotion expenses are treated in the same manner as other ordinary business expenses - provided they are current (as opposed to capital), reasonable and meet the other general tests of deductibility, such expenses may be deducted in calculating income for tax purposes.

8. Not applicable.

9. Not applicable.

10. Not applicable.

11. A number of investment incentives are 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 are generally considered to be generous. There are, 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 are, in addition, special provisions designed to stimulate investment in
certain industries such as shipbuilding and natural resources. These include 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.

12. For tax purposes business losses may be carried back one year and forward five years and applied as a deduction against business income earned in those other years.

13. Not applicable.

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 are deductible in calculating income subject to tax. The income of foreign subsidiaries of Canadian companies is not taxable in Canada, nor are dividends received from such subsidiaries taxable when received by a Canadian parent company. Thus no tax credit is permitted in respect of foreign taxes levied on such income.

15. Not applicable federally. Two provinces impose taxes on capital and places of business.

In Ontario the ordinary rate is 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 are payable only to the extent they exceed the provincial corporate income tax payable for the year.

Quebec also imposes taxes on paid-up capital and places of business. The ordinary rate of tax on capital is one fifth of 1 per cent of taxable paid-up capital used in the province and the rate for each place of business is $50 (reduced to $25 if the paid-up capital is less than $25,000).

The provincial capital and place of business taxes are deductible as ordinary expenses for corporate income tax purposes.

16. No border tax adjustments are made for property taxes or for inventory taxes.

17. Social security and wage taxes in Canada do not vary depending on the level of exports or imports.

18. None.
SPAIN

B. Selective excise taxes

1. There are 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 is: 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 is: 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.

2. No.

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

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

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

5. All purchases of products subject to these taxes are taxed, even in the case of purchases by commercial and industrial undertakings.
6. All goods have to pay the tax, so when they are exported the tax already paid is refunded as described in paragraph 4.

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

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

(b) if the articles have been taxed, in which case the tax is refunded.

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

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

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

9. See answer to the question on cascade taxes.

C. Overlapping indirect tax systems

1. The luxury tax applies to goods and services which may also be subject to the cascade tax.

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

III. Miscellaneous

1. No.

2. The following are important:

   (i) the tax on transfers of inheritances, which is assimilated to dealings in property and non-trading operations;

   (ii) the tax on legal documents, formerly the stamp tax, which applies to officially stamped certificates and contracts;

   (iii) semi-fiscal taxes and dues.
3. There are no adjustments in this case.

4. No.

5. In 1966 the proportion was 31 per cent.

Other tax-related border adjustments and export rebate schemes

6. No tax credit is given for export sales increases.

7. There is no special fiscal treatment for export sales promotion expenses.

8. An export investment reserve may be constituted free of tax up to 30 per cent of the profit earned. This rule is a concrete application of the general rule laid down by law which permits deduction from the tax base of that part of profits which is allocated to investment.

9. There is no difference in rate.

10. No rebate of corporation tax is allowed for exports.

11. See answer to No. 8.

12. Losses incurred in one financial year may be spread over the results of the five following years.

13. Appreciations in value are taxed when they appear in accounts or when they arise as a consequence of a sale or transfer of assets.

14. If the company is domiciled in Spain, profits and losses are all lumped together irrespective of the territory concerned. Subsidiary companies are treated as independent companies. The rule for avoiding international double taxation is that credit is allowed for sums paid abroad by way of taxes on profits or income, identical with or similar to Spanish corporation tax.

15. There are no such taxes.

16. There are no tax adjustments in such cases.

17. No.

18. There are no adjustments other than those listed in the questionnaire.
SWITZERLAND

I. Tax Systems

A. General consumption taxes

(b) Single-stage taxes - wholesale (see L/3125 of 23 November 1968, pages 15 and 16).

B. Selective excise taxes

1. Tax on beer and tobacco tax. Revised legislation on the tobacco tax is at present being discussed in the Federal Chambers and should enter into force on 1 January 1970. The following information on the tobacco tax relates to the new draft legislation.

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

2. No.

3. Not applicable.

4. In principle, the tax on imported goods is charged according to the same criteria as the tax on goods manufactured in Switzerland.

5. The beer tax is charged at the brewery stage on the basis of output; the tobacco taxes are charged at the manufacturing stage pro rata to the quantity produced (weight, number of units).

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

7. Charged at the time of import.

8. Not applicable.

9. No refunds are made on small quantities exported by tourists; the tax is not charged on imports by individual travellers, provided that the quantities imported do not exceed the following limits:

<table>
<thead>
<tr>
<th>For travellers domiciled</th>
<th>in Europe (including Switzerland)</th>
<th>outside Europe</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cigarettes (units)</td>
<td>200</td>
<td>400</td>
</tr>
<tr>
<td>or cigars (units)</td>
<td>50</td>
<td>100</td>
</tr>
<tr>
<td>or pipe tobacco (grammes)</td>
<td>250</td>
<td>500</td>
</tr>
</tbody>
</table>
C. Overlapping indirect tax systems

1. The turnover tax is 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) are not subject to any further tax.

2. The turnover tax is charged on imports; exports of manufactured tobacco and beer are exempt from it.

II. Changes in Border Tax Adjustments

Not applicable.

III. Miscellaneous

General

1. No.

2.

<table>
<thead>
<tr>
<th>Tax</th>
<th>1966</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Sw F million</td>
</tr>
<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 is not possible to specify the share paid by private persons and that paid by undertakings.

3. Not applicable.

4. No. (See L/3125 of 23 November 1968, page 15; rate of tax for retail deliveries in connexion with turnover tax.)

5. Sw F 1,407 million (1965), i.e. 12.4 per cent of the total taxation (2.35 per cent of GNP).

Other tax-related border adjustments and export rebate schemes

6/7. No deductions.

8/18. No differentiation is made in taxation (profits, depreciation, etc.) or in social security contributions with respect to exports.
UNITED KINGDOM

I. Tax Systems

(For Part A see L/3125 pages 16-17).

B. Selective excise taxes

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

A. See pages 56-7 of C(68)47 Part III attached to Spec(68)57.

2. Q. 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?

A. Tobacco and oil are not grown or produced in economically meaningful quantities in the United Kingdom; but the United Kingdom has large tobacco manufacturing and oil refining industries and consumes large quantities of these commodities, which are traditionally taxed for revenue purposes in most countries.

3. Q. 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?

A. Full adjustment is made in respect of materials or components incorporated in exported goods. No adjustment is made in respect of goods used in the manufacture or transport of exported goods.

4. Q. What is the valuation used for border tax 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?

A. As none of the selective excises imposed in the United Kingdom is 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.
5. Q. 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?

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

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

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

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

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

8. Q. Where regional differences exist in such taxation, is special compensation afforded in respect of them at the inter-regional borders?

A. There are no regional differences.

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

A. (a) **Tourist purchases.** Visitors coming to the United Kingdom and returning residents are 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 are scheduled foreign flights there is provision for the purchase, by departing tourists, of tobacco goods, wines, spirits etc. at duty-free prices.

(b) **Small postal importations.** There is 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 are available.
C. Overlapping indirect tax systems

1. Q. 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.

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

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

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

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

A. Full adjustment is made in the normal way on imports and on exports for both the purchase tax and the excise elements.

II. Changes in Border Tax Adjustments

Q. Changes from one system of general indirect taxation to another.

A. Not applicable to the United Kingdom which has not changed from one system to another or expanded its general system to cover goods previously subject to selective excises.

III. Miscellaneous

General

1. Q. Is the revenue obtained from border tax adjustments intended to compensate in whole or in part for government expenditure on social security?

A. No.
2. Q. 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?

A. Incidence on government and business expenditure

<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>

3. Q. Are there border tax adjustments for taxes on transportation costs on goods in transit?

A. No.

4. Q. Is there a special basis for valuation of goods when the buyer is the final consumer?

A. No. For the basis of valuation for purchase tax see page 55, second paragraph of C(68)47 Part III attached to Spec(68)57.

5. Q. What proportion of total taxation (including local taxes and social security contributions) is collected through taxes which are the subject of border tax adjustments?

A. 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

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

A. None.

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

A. Entertainment for foreign traders incurred in respect of commercial sales abroad is deductible from liability to corporation tax. Other normal current trading expenses, such as the cost of advertising abroad, are deductible in the ordinary way.

8. Q. 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?

A. No.
9. Q. Does the corporate income tax rate vary for export profits and domestic profits? If so, how?
A. No.

10. Q. Is the corporate income tax averaged to allow a given amount of tax rebate per unit of exported goods? If yes, how?
A. No.

11. Q. What investment incentives are provided in the corporate income tax system?
A. 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.

12. Q. What possibilities are provided for spreading losses in the corporate income tax system?
A. A trading loss can be carried forward indefinitely for relief against future profits in the same trade. Alternatively a trading loss in an accounts period can be offset against any kind of profits of that period and also against any such profits in a corresponding preceding accounting period. It may also be offset against any kind of profits (not merely trading profits) arising in the same group of companies in the same period.

13. Q. What provisions apply to appreciation of assets in the corporate income tax system?
A. If an asset on which a depreciation allowance has been allowed is sold at a price above its written down value, the tax on the difference is clawed back. If a firm sells a capital asset at a profit it may in certain circumstances be liable to corporation tax or income tax on the capital gain.

14. Q. 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?
A. A company can 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 exceeds the United Kingdom rate of corporation tax the excess ("overspill") will go
unrelieved. Where a company resident in the United Kingdom incurs losses in trading through a branch abroad, those losses can be offset against that company's liability to corporation tax in the United Kingdom. But if the trading is carried on through a subsidiary company not resident in the United Kingdom, the losses of the subsidiary cannot be offset.

15. Q. Are there any taxes on business capital? At what rates? Are they deductible from profits?
   A. No.

16. Q. What border tax adjustments are made for property taxes or inventory taxes?
   A. The United Kingdom has no inventory tax. Taxes on property (i.e. local authority rates) are not adjusted.

17. Q. Are social security or wage taxes assessed differently depending upon a firm's export or import volume?
   A. No.

18. Q. What adjustments are made for other taxes? What other tax credits are given relative to exports or imports?
   A. None.