1. At its sixth meeting from 10 to 15 February 1969, the Working Party agreed that the secretariat should draw up, for circulation before Easter, a consolidated document summarizing the information acquired during the examination of practices of contracting parties in relation to border tax adjustments under point 1(b) of its terms of reference (L/3183, paragraph 3).

2. This document summarizes the material submitted as well as the discussion on border tax practices which took place in the Working Party, during its fourth, fifth and sixth meetings, on the basis of the Outline drawn up for this purpose.

3. It was understood that in many cases answers to questions in the Outline could be made by referring to documentation already before the Working Party. Hence the Organisation for Economic Co-operation and Development documentation, which has been made available to the Working Party, and the factual information supplied by contracting parties, which has been circulated in Spec(68)88 and Addenda, are of relevance, but are not reproduced in this document. The information collected on a short list of products of interest to developing countries, members of the Working Party, has been circulated in Spec(68)134 and Addenda. Delegations which have not yet submitted such information to the secretariat for circulation before the next meeting were requested to do so.

4. It was also understood that while the examination of border tax practices was limited to members of the Working Party and some observers, it would be open to the Working Party to examine at a later stage the practices of other contracting parties, not members of the Working Party, particularly those which have moved towards the TVA or contemplate doing so.

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1 The relevant questions in the Outline drawn up by the Working Party are set out in this document at the beginning of each section. Clarification on the meaning of certain questions in the Outline is given in Annex A to this document.

2 Reports on Consultations on Changes in Border Tax Adjustments in the Netherlands (document TC(68)21) and in Belgium (document TC(68)22).
5. Summaries of the following replies and comments on questions in the Outline made by members of the Working Party and observers during the meetings are attached:

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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 OEGD 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:

Standard rate 5.5 per cent
Non-exempt wholesale deliveries (if the goods were not processed by the taxpayer) 2.0 per cent
Certain foodstuffs and the sale of products of domestic agricultural and forestry enterprises 1.7 per cent
Certain sales of small enterprises (restaurants, inns, food retailers) 3.75 per cent
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 6.1 per cent

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
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 analysed 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 those 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 on 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 at a 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 or invoice tax 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>
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<tr>
<th>Description</th>
<th>Rate</th>
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<tbody>
<tr>
<td>Tax burden on the Belgian purchaser</td>
<td>1.036%</td>
</tr>
<tr>
<td>Invoice tax</td>
<td>0.700%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>1.736%</td>
</tr>
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</table>

Under the rounding-off rule, the rate of compensatory tax was reduced from 1.736% 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 tantum* 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. At 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 base 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.
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 20. 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 Pes 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 1/8 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.
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.

Manufacturing, Wholesale

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 declarations

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 taking 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 as tax was payable on the finished goods, it was necessary to avoid double taxation. Use of Sales Tax Certificates and quoting of same was essential in these cases.

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 who sold similar goods wholesale was the amount for which he would sell those goods if sold wholesale.

Capital goods 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. Yes, for sales tax purposes on exports, but only to visitors (non-residents) to Australia and in no circumstances to Australian citizens.

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 calculations 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 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 whole-
sale 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. These 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

Ten per cent wholesale tax (increased from 5 per cent to 10 per cent with effect from 1 January 1969).

Question 1. Registered wholesalers and manufacturers are exempt from tax on imports and are liable at the rate of 10 per cent 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 per cent 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 on imports by unregistered persons. Sales within the State by registered persons are liable at 10 per cent 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 B apply also to the wholesale tax. In addition, parcel post importations not exceeding £10 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 2.6 per cent rate on retail delivery in Switzerland, the importer was entitled to claim reimbursement. There was no repayment of the hidden tax on goods, 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.

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 not 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
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.
Single-stage Taxes, Retail

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 3. 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 not 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 expert 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.
NORWAY

The Norwegian tax is a single-stage tax levied at the retail stage and applies to most movable goods.

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

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

Question 3. At present the rate of tax is 12 per cent of the price paid including the amount of the tax. In the case of imports the tax is imposed on the basis of the rules for evaluation of goods for customs duty purposes.

Question 4. Yes.

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

Question 6. See paragraph 2 above.

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

Question 8. Tourists may bring articles for personal use up to Nkr 350 - duty and tax free. Furthermore there are 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 become part of a final product were, however, generally exempted. Some States exempted fuels and machinery,
but others 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. 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 petrochemicals 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 from 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)83/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 catastrophes; 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.
TAX ON VALUE ADDED

Section IA(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 gradually increased the taxation normally leviable 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 1968, 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 i.c.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 1968), to the Report on tax adjustments applied to exports and imports in OECD member countries, and to GATT document Spec(68)98/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 connection 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 1966 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 ("Steuor 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 2. 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 newspapers 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 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 bonded warehouses, 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 £ 10,000 a year. Entrepreneurs who bought from these 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 £ 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.
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.

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.
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 if payable per unit of quantity.

2. Excise duty if 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, custom 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 and were exported under Government supervision. 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, had been examined prior to exportation and, if re-packed, had been re-packed under supervision and placed on the ship or aircraft under supervision. 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 quantity
   (b) tax on tobacco products retail price
   (c) (local) tax on beverages (except milk and beer) retail price
   (d) beer tax quantity
   (e) wine tax quantity
   (f) sparkling wine tax quantity
   (g) spirits tax (monopoly equalization levy) quantity
   (h) special tax on alcoholic drinks retail price

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

†The 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 $2\frac{1}{2}$ 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)(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 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 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

Asked what percentage of total consumer expenditure was covered by selective excise taxes, the representative of Canada said that this information was not available.

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>
</tbody>
</table>

| Petrol | 71 øre per litre |
| Chocolate and confectionery as from 1 February 1969 | DKr 6 per kg. |
| Certain imported raw materials for production of chocolate etc. | Various rates per kg. |
| Radios, televisions and gramophones | 16 2/3 per cent of wholesale price including tax |
| Perfumes and toilet preparations | 37.5 per cent of retail price including tax |
| Gramophone records | One sixth of retail price including tax |
| Ice-cream | DKr 1.45 per litre |
| Mineral waters | 60 øre per litre |
| Paperboard, lamps and fuses, matches, cigarette lighters, playing cards | Various specific rates |

As 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 1. There were a number of excise taxes levied on specified products (alcoholic beverages, including beer; tobacco products, hydrocarbon oils; salt; sugar; tea; coffee; matches; illuminants\(^1\); 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.

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\(^1\)See 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.

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 indirect 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 component varied for each group of products, was the figure resulting from the specific incidence of customs and border taxes, manufacturing taxes and consumption 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.
NETHERLANDS

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 hectolitre grades. At importation the duty was levied from the importer on the quantity of the beer imported taking into account the hectolitre grades 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. 3.34 for petrol, f. 2.30 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, fueling, 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.
FINLAND

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 confectionery, sweets, and licorice products</td>
<td>Kgs. (net)</td>
</tr>
<tr>
<td>Excise tax on medium-strong and strong beer</td>
<td>Medium-strong and strong beer</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</td>
</tr>
<tr>
<td></td>
<td>(b) Diesel oil</td>
<td>(= at + 15° C)</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></td>
</tr>
<tr>
<td></td>
<td>(c) Motor cycles</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>Tax is not levied on special service cars such as fire engines and ambulances, or on lorries.</td>
<td></td>
</tr>
</tbody>
</table>
**Name of tax**  
**Subject**  
**Unit**  

| Excise tax on certain foodstuffs | Rusks, dry cakes, "Danish bakery", biscuits, chocolate ice-cream, pastes, ice-cream and pudding powder, and some dressings and soups | Kgs. (net) |

**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.
IRELAND

**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>Excise tax on home-produced products</th>
<th>&quot;Excise tax&quot; on corresponding imported products chargeable at importation or on delivery from warehouse for home use</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Description of goods</strong></td>
<td><strong>Tariff ref. No.</strong></td>
</tr>
<tr>
<td>Beer</td>
<td>400/1</td>
</tr>
<tr>
<td>Spirits</td>
<td>405/1</td>
</tr>
<tr>
<td>Hydrocarbon oils:</td>
<td></td>
</tr>
<tr>
<td>(a) mineral hydrocarbon light oil (petrol)</td>
<td>403/2</td>
</tr>
<tr>
<td>(b) hydrocarbon oils, other sorts (diesel etc.)</td>
<td>404/2</td>
</tr>
<tr>
<td>Description of goods</td>
<td>Tariff ref. No.</td>
</tr>
<tr>
<td>----------------------</td>
<td>-----------------</td>
</tr>
<tr>
<td>Tobacco, unmanufactured</td>
<td>411/8</td>
</tr>
<tr>
<td>Manufactured</td>
<td>-</td>
</tr>
</tbody>
</table>

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.

Table waters
- 410
- 1s.5 5/6d. per gal.
- 20.07(a), 22.01(a), 22.02(a) (additional duty only), 22.02(B) and 22.07(D)(2)

Matches
- 402/2
- 11s.4d. per 7,200 matches
- 36.06

Cider and perry
- 401/2
- 1s. per gal.
- 22.07(C)

Tyres and tubes for vehicles and certain machines
- 412/1
- 7½% of the retail price
- 40.11(a)

(1) 5s. per gal. if of a strength of less that 9° of proof spirit and not containing added spirit or spirit derived from the addition of sugar
(2) Cider and perry not falling in (1) above - £15.14s.10d. per proof gal.

(1) Tyres and tyre cases - 45% or £3 each
(2) Tubes etc. - 45%
<table>
<thead>
<tr>
<th>Description of goods</th>
<th>Tariff ref. No.</th>
<th>Rate of tax (1.10.1968)</th>
<th>Tariff heading No.</th>
<th>Rate of tax (m.f.n. on 1.10.1968)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Wine</strong></td>
<td>401/5</td>
<td>(a) Not exceeding 25° of proof spirit - 7s.11.5d. per gal.</td>
<td>22.05, 22.06, 22.07(B), 23.05(B) and 30.03(B)</td>
<td>(A) Still £ s. d.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(b) Exceeding 25° but not exceeding 30° of proof spirit - 8s.8.5d. 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 - 11s.10d. per proof gal.</td>
<td></td>
<td>(a) not in bottle 0.17.8.</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>(b) in bottle 1.1.8.</td>
</tr>
<tr>
<td></td>
<td></td>
<td></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>(a) not in bottle 1.1.8.</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>(b) in bottle 1.9.8.</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>(a) not in bottle 1.15.8.</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>(b) in bottle 2.3.8.</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>(B) Sparkling 2.10.5.</td>
</tr>
</tbody>
</table>

An additional duty of 2s. 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 1.10.68)</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></td>
</tr>
<tr>
<td></td>
<td>08.04(B)(1)</td>
<td>7s. per cwt. plus 10% ad valorem</td>
</tr>
<tr>
<td></td>
<td>08.04(B)(2)</td>
<td>2s. per cwt.</td>
</tr>
<tr>
<td></td>
<td>08.10(B)</td>
<td>10s. 6d. per cwt. plus 10% ad valorem</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)(c)</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 1.10.68)</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)</td>
<td>18% ad valorem</td>
</tr>
<tr>
<td></td>
<td>37.03(a)(2)</td>
<td>22% ad valorem</td>
</tr>
<tr>
<td></td>
<td>37.03(B)(2)</td>
<td>18% ad valorem</td>
</tr>
<tr>
<td>Starch and dextrin</td>
<td>11.06(a)</td>
<td>3s. per cwt.</td>
</tr>
<tr>
<td></td>
<td>19.04(a)</td>
<td>2s. 4.8d. per cwt.</td>
</tr>
<tr>
<td></td>
<td>19.06(B)</td>
<td>2s. 4.8d. per cwt.</td>
</tr>
<tr>
<td>Propelling and sliding pencils</td>
<td>98.03(D)</td>
<td>36% ad valorem</td>
</tr>
<tr>
<td></td>
<td>98.05(B)</td>
<td></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></td>
<td></td>
<td>Other newspapers .8d. per copy</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Other periodicals and the like 1.6d. per copy</td>
</tr>
<tr>
<td>Sugar, etc., articles</td>
<td>09.01(B)(1)<em>, 19.02(C)(1)(a) (ii), 19.05(a)(1)(a), 19.05(B)(1), 21.01(a)(1)</em>, 21.02(a)(1)*, 21.04(B)(1), 21.07(H)(1)</td>
<td>2d. per lb.</td>
</tr>
<tr>
<td></td>
<td>20.01(C)(1)(a)(ii)</td>
<td>2.5d. per lb.</td>
</tr>
<tr>
<td></td>
<td>20.01(C)(1)(b)(ii)</td>
<td>2s. 1d. per gallon</td>
</tr>
<tr>
<td></td>
<td>22.04(a)</td>
<td>2s. 1d. per gallon</td>
</tr>
<tr>
<td></td>
<td>30.03(G)(2)(a)</td>
<td>2d. per lb. or 1s. 8d. per gallon</td>
</tr>
<tr>
<td></td>
<td>33.04(a)(1)*</td>
<td>2d. per lb. or 1s. 8d. per gallon</td>
</tr>
<tr>
<td></td>
<td>33.04(b)(1)</td>
<td>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 1.10.68)</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(C)</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>
<tr>
<td>Description of goods</td>
<td>Tariff heading No.</td>
<td>Rate of tax (m.f.n. on 1.10.68)</td>
</tr>
<tr>
<td>-------------------------------------------------------------------------------------</td>
<td>-----------------------------------------------------------------------------------</td>
<td>---------------------------------</td>
</tr>
<tr>
<td>(3) Parts and accessories</td>
<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), 73.35(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), 84.22(d), 84.59(C)(2), 84.61(B), 84.63(B)(2), 84.64(a), 85.01(A)(1), 85.01(D)(1a), 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>(imported otherwise than as aggregates of vehicles, chassis or bodies)</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>70.09(B)(1)(b), 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(B)(1)</td>
<td>50%</td>
</tr>
<tr>
<td></td>
<td>87.06(E)(1)(a), 87.06(E)(1)(b)(i), 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 rates 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., 1/4 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 wore 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:

<table>
<thead>
<tr>
<th>Item</th>
<th>Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>33.06.01</td>
<td>24.02.29</td>
</tr>
<tr>
<td>33.04.05</td>
<td>24.02.31</td>
</tr>
<tr>
<td>30.03.04</td>
<td>24.02.32</td>
</tr>
<tr>
<td>48.10.99</td>
<td>22.03.01</td>
</tr>
<tr>
<td>17.01.20</td>
<td>22.03.02</td>
</tr>
<tr>
<td>17.02.50</td>
<td>22.09.33</td>
</tr>
<tr>
<td>24.02.10</td>
<td>22.09.39</td>
</tr>
<tr>
<td>24.02.21</td>
<td>22.09.43</td>
</tr>
<tr>
<td></td>
<td>22.09.49</td>
</tr>
</tbody>
</table>

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 were levied on alcohol (spirits, wine, beer etc.), tobacco manufactures, motor vehicles, petrol, certain non-alcoholic beverages, cosmetics, jewellery of precious metal and imitation jewellery. The tax base varied according to the product. In principle, however, the taxes were non-discriminatory in such a way that the effect of the taxation on home produced and imported goods should be identical.

Question 2. There was no production of motor vehicles in Norway.

Question 3. Excise taxes were not levied on exports.

Question 4. See paragraphs 1 and 3.

Question 5. The selective excise taxes were collected on sales from producer/wholesaler to retailer. Firms had to pay excise taxes provided they did not purchase the goods for distribution to retailers.

Question 6. See paragraph 3.

Question 7. Upon sale from wholesaler to retailer.

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

Question 9. See paragraph A8 (retail).
SPAIN

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</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>
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.
Other

It was pointed out that excise taxes were particularly important in the United Kingdom. Asked for the approximate portion of consumer expenditures affected by these taxes, the representative of the United Kingdom said that these figures were available and could be provided before the next meeting.

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>4¢ 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 17¢ 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
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 oleomargarine, 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, he said that he would submit further details in writing.

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>5</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-$6</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>1</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 0¢1 to 0¢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¢</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>18</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>13¢</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 wine? The United States representative undertook to look into this.

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, 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 case of automobiles which was treated somewhat differently because there was no prior certification for export (see under question 6).

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 he would find out what was the practice if such transactions were made. As to the sales price 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.
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(68)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".
FEDERAL REPUBLIC OF GERMANY

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

As 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 were not exempted from the general
consumption 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, polyethylenes, 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 taxes occultes 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.1

As to the relationship between the increases in the compensatory charges and the size of industrial firms, the representative of Belgium said that reduction might occur in certain sectors following integration. Another important factor was the change in import tariff. The common external tariff of the Community made it easier to make calculations for specific products in lieu of the calculated averages which existed before. As many computations had to be made it was expected to have many variations in the rate. Among other elements which came into play was the change in the fiscal system; as a result of this change the compensatory charge on tubes and pipes had been brought down from 7-7.5 per cent to 3 per cent.

FEDERAL REPUBLIC OF GERMANY

Question 1. As from 1 January 1968, the previous cumulative turnover tax and the transport tax (Beforderungsteuer) 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 (Bundesgesetzesblatt 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.

1OECD document TC(68)22.
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.

Other

Referring to the German tax 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. In view of the fact that these measures involved administrative problems of considerable weight they would expire at the latest on 31 March 1970. However, the Federal Government had been authorized to discontinue these measures at an earlier date or to reduce the rate if external conditions or the overall economic situation so warranted.

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.
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, records, 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 8.4 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 list of goods to which these surcharges applied is annexed.

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
1,100 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 $2/3 \times 0.6 = 0.4$ 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: $1/3 \times 2.4$ 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;
3.4 per cent \( \left( \frac{100 \text{ per cent}}{100 \text{ per cent} - 30 \text{ per cent}} \right) \times 12 \text{ per cent} \) for investments made in 1969;
4.8 per cent \( \left( \frac{100 \text{ per cent}}{100 \text{ per cent} - 60 \text{ per cent}} \right) \times 12 \text{ per cent} \) for investments made in 1970;
1.2 per cent \( \left( \frac{100 \text{ per cent}}{100 \text{ per cent} - 90 \text{ per cent}} \right) \times 12 \text{ per cent} \) 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 3 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>
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<tr>
<td>Textiles, clothes, footwear</td>
<td>6.6</td>
<td>12.0</td>
</tr>
<tr>
<td>Wood industry and furniture</td>
<td>6.9</td>
<td>12.0</td>
</tr>
<tr>
<td>Paper industry</td>
<td>9.8</td>
<td>12.0</td>
</tr>
<tr>
<td>Printing and publishing industry</td>
<td>4.8</td>
<td>4.0</td>
</tr>
<tr>
<td>Leather and rubber</td>
<td>7.1</td>
<td>12.0</td>
</tr>
<tr>
<td>Chemicals and oils</td>
<td>8.0</td>
<td>7.6</td>
</tr>
<tr>
<td>Pottery, glass, lime, stone</td>
<td>5.8</td>
<td>12.0</td>
</tr>
<tr>
<td>Metal - machine industry</td>
<td>8.8</td>
<td>12.0</td>
</tr>
<tr>
<td>Electrotechnical industry</td>
<td>10.8</td>
<td>12.0</td>
</tr>
<tr>
<td>Means of transport industry</td>
<td>15.6</td>
<td>19.9</td>
</tr>
<tr>
<td>Other industries</td>
<td>7.1</td>
<td>12.0</td>
</tr>
<tr>
<td>Building industry</td>
<td>8.3</td>
<td>12.0</td>
</tr>
<tr>
<td>Public utilities</td>
<td>5.8</td>
<td>4.0</td>
</tr>
<tr>
<td>Banks etc.</td>
<td>2.6</td>
<td>1.1</td>
</tr>
<tr>
<td>Insurances</td>
<td>3.0</td>
<td>1.5</td>
</tr>
<tr>
<td>Housing</td>
<td>2.3</td>
<td>2.4</td>
</tr>
<tr>
<td>Transport</td>
<td>6.2</td>
<td>4.4</td>
</tr>
<tr>
<td>Medical services</td>
<td>2.1</td>
<td>1.9</td>
</tr>
<tr>
<td>Professions</td>
<td>4.4</td>
<td>9.4</td>
</tr>
<tr>
<td>Entertainment</td>
<td>3.3</td>
<td>8.0</td>
</tr>
<tr>
<td>Hotels, cafés, restaurants</td>
<td>6.9</td>
<td>12.0</td>
</tr>
<tr>
<td>Other services</td>
<td>3.9</td>
<td>9.4</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>(r. million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Expected receipts</td>
<td>+ 5,280</td>
</tr>
<tr>
<td>Special regulations for agricultural and small</td>
<td>- 150</td>
</tr>
<tr>
<td>entrepreneurs</td>
<td></td>
</tr>
<tr>
<td>Special consumption tax on private vehicles</td>
<td>+ 300</td>
</tr>
<tr>
<td>Increase of excise duty on alcoholics</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>Balance</td>
<td>+ 30</td>
</tr>
</tbody>
</table>
Annex 1

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>
</tbody>
</table>
### Chapters or positions of the customs tariff

<table>
<thead>
<tr>
<th>Positions</th>
<th>Rate of the surcharge</th>
</tr>
</thead>
<tbody>
<tr>
<td>50.04 to 50.08 inclusive</td>
<td>0.6</td>
</tr>
<tr>
<td>50.09 and 50.10</td>
<td>1.2</td>
</tr>
<tr>
<td>57.05 to 57.08 inclusive</td>
<td>0.6</td>
</tr>
<tr>
<td>57.12</td>
<td>1.2</td>
</tr>
<tr>
<td>58.03</td>
<td>1.2</td>
</tr>
<tr>
<td>59.01 and 59.02</td>
<td>1.2</td>
</tr>
<tr>
<td>59.06</td>
<td>0.6</td>
</tr>
<tr>
<td>59.11 and 59.12</td>
<td>1.8</td>
</tr>
<tr>
<td>59.14</td>
<td>1.2</td>
</tr>
<tr>
<td>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>70.01-B to 70.05 inclusive</td>
<td>1.2</td>
</tr>
<tr>
<td>70.06 to 70.19 inclusive</td>
<td>2.4</td>
</tr>
<tr>
<td>70.20</td>
<td>0.6</td>
</tr>
<tr>
<td>70.21</td>
<td>2.4</td>
</tr>
<tr>
<td>71.12 to 71.16 inclusive</td>
<td>2.4</td>
</tr>
<tr>
<td>73.01 and 73.02</td>
<td>2.4</td>
</tr>
<tr>
<td>73.04 to 73.17 inclusive</td>
<td>2.4</td>
</tr>
<tr>
<td>73.18 to 73.32 inclusive</td>
<td>3.6</td>
</tr>
<tr>
<td>73.33 and 73.34</td>
<td>0.6</td>
</tr>
<tr>
<td>73.37 and 73.40</td>
<td>3.6</td>
</tr>
<tr>
<td>74.12 to 74.19 inclusive</td>
<td>3.6</td>
</tr>
<tr>
<td>75.06, 76.16, 78.06, 79.06 and 80.06</td>
<td>3.6</td>
</tr>
<tr>
<td>81.04-N-II-a and 31.04-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 93 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 1963 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.

NORWAY

General

The observer from Norway informed the Working Party that his Government had submitted proposals to the Norwegian Parliament suggesting changes in the present tax system and the introduction of an added-value tax as a part of these changes. The aim of his Government was to undertake a major tax reform by reducing the direct taxation and compensating reductions in State revenue through increases in indirect taxation in the form of a value-added tax. It was the intention of the Government, subject to parliamentary approval, to introduce the tax reform as from 1 January 1970.

The proposals which would constitute a new legislative framework for taxation in Norway would be presented to the Parliament in connexion with the Government's proposal for the State budget for 1970. According to the Norwegian law, the Parliament must take a stand each year to the tax rates to be applied. However, the Government had indicated the rates which would be applied if the Parliament adopted the proposed legislation.

It was the intention to propose a rate of 20 per cent for the value-added tax. The present single-stage retail tax was 13.64 per cent of the value for customs' duty purposes, including the customs duty and the tax itself. The proposed legislation also implied changes in the national income tax as well as national capital tax. Furthermore, changes were suggested in the taxation of joint stock companies involving national income tax, municipal tax as well as the present arrangement of contribution to the Tax Equalisation Fund.
The proposed legislation concerning, specifically, the value-added tax was on the whole based on the principles being applied by other European countries which had introduced this tax system. The added-value tax of 20 per cent would be calculated on the sales value, the tax not included, and would be applied to all commodities and services which according to the proposal were subject to the TVA. The proposal implied an extension of the area to be covered, from the present approximate 65 per cent, to 72 per cent of the total consumption of goods and services. The added-value tax would be levied on the turnover of all commodities and services to be covered whether home-produced or imported.

The present single-stage retail tax of 13.64 per cent covered capital goods and investment commodities. For fiscal reasons it had not been found possible to do away completely with this State revenue. The present proposals contained, therefore, rules concerning a special tax on certain goods and commodities for investment purposes. It was suggested that this special tax should be levied at a rate of 11 per cent. However, this special tax would not be subject to adjustment at the border. According to calculation made, the introduction of an added-value tax of 20 per cent from 1 January 1970, would lead to a general increase of the level of consumption prices to 5.8 per cent.

The Working Party welcomed the offer of the Norwegian delegation to circulate an informative note giving the necessary details concerning the proposals of his Government to the Norwegian Parliament.

SPAIN

The representative of Spain said that changes in the rates were notified in Spec(68)88. He would submit in writing changes in border tax adjustments before the next meeting.

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 7.5.

Questions 2-4. Not applicable to Sweden.

SWITZERLAND

Not applicable.
UNITED KINGDOM

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 been certain changes in the levels of taxes both on the purchase tax side and on the excise duty side. However, these were not relevant to the discussion under this point which was more a question of changes in the general system or switch between excises and turnover tax systems.

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 was used for sales generally and was not earmarked for any specific 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. No.
Question 12. No.

Question 13. Reply pending.

Question 14. No.

Question 15. No.

Question 16. No.

Question 17. No.

Question 18. No.

AUSTRALIA

General

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 the following formula:

\[ \text{Rebate} = 10.5 \text{ per cent of: the total value of exports in the year of export minus the average value of exports in the base period.} \]

The base period was the average of the first three of the eight years immediately preceding the year of export. That is, the base period was a three-year moving average "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:

\[ \text{Rebate} = 10.5 \text{ per cent of: value of exports in 1968/69 minus average value of exports in the three years 1960/61 to 1962/63.} \]

In 1969/70, the base period would be the three-year average 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.

Question 7. A special rebate of income tax, the export market development allowance, is allowed in respect of certain prescribed expenditures aimed at developing export markets. This rebate was allowed at the rate of 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 certain goods 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, equal to 20 per cent of the cost of new plant, available to manufacturers and primary producers as deductions, 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 those latter assets. These provisions applied to companies and to individuals.

Question 14. Under the existing Australian income tax law, income (other than dividends) 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.

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 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. Australia has not signed the 1960 Declaration relating to export subsidies. 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. 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. All firms were eligible and there was no discrimination between Australian firms and foreign firms.

The rebate for the export market development allowance 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 to 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 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) 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 $\frac{TE}{T}$ (before tax). This system was 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 not 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

As 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
\[\text{(customs duties)} = 27.5 \text{ per cent}\]
- Income taxes 32.7 per cent
- Taxes on capital etc. 3.5 per cent
- Property taxes 1.4 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.


Taxes on income, profits and capital 13,604

Indirect taxes:

- Import duties 860
- Turnover tax 5,450
- Excise taxes 3,490
- Stamp duty 110
- Registration fee 175
- Motor vehicles tax 580
- Real estate tax 51 10,716

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 11. Investment allowances for the year 1969: 5 per cent for investments made in 1968 and 2\(\frac{1}{2}\) per cent for investments made in 1969. There would probably be no allowances in the year 1970.

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>Tax Category</th>
<th>$ million</th>
<th>Percentage of total taxes</th>
<th>Percentage of GNP</th>
</tr>
</thead>
<tbody>
<tr>
<td>Property taxes</td>
<td>1,904</td>
<td>11.8</td>
<td>3.3</td>
</tr>
<tr>
<td>Taxes on natural resources, licences, fees and permits</td>
<td>999</td>
<td>6.2</td>
<td>1.7</td>
</tr>
<tr>
<td>Stamp taxes and inventory taxes</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td>All other taxes</td>
<td>2,903</td>
<td>13.0</td>
<td>5.0</td>
</tr>
<tr>
<td>All taxes</td>
<td>13,218</td>
<td>82.0</td>
<td>22.9</td>
</tr>
<tr>
<td>Total</td>
<td>16,121</td>
<td>100.0</td>
<td>27.9</td>
</tr>
</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 met 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 1,500 million (1965/66). 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.

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.

Question 7. The law on export reserve funds of 1966 (162/66), provided industrial enterprises with an opportunity to accumulate funds for the purpose of promoting the enterprise's export sales. A maximum of 20 per cent of the annual profit in the years 1969-1973 could be transferred to such funds and these amounts could be deducted from the taxable income for the respective year. This arrangement did not provide for a definite tax exemption in that the funds should be used in a specified period for the transfer of fixed assets abroad or for the financing of export promotion, the amount being later added to the taxable income in the form of deductions from the depreciation allowance.

In answer to questions concerning the remission of tax on export credit and the Export Reserve Fund, the observer from Finland said that this arrangement was for a specified period and its effect was rather small since these funds would be taxed at a later stage. It was premature to pronounce himself on the question of the duration of this arrangement. As to the question concerning the portion of price represented by rebates, he would communicate a reply before the next meeting.

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 flow 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:

1. Capital gains relating to buildings or lands or any rights in building or lands - 40 per cent
2. 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 1967/68 (£ million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rates (local)</td>
<td>34.7</td>
</tr>
<tr>
<td>Stamp duties (including fee stamps)</td>
<td>5.1</td>
</tr>
<tr>
<td>Motor vehicles licence duties</td>
<td>11.6</td>
</tr>
<tr>
<td>Harbour tolls, dues, etc.</td>
<td>1.7</td>
</tr>
<tr>
<td>Broadcasting licence fees (net)</td>
<td>0.3</td>
</tr>
<tr>
<td>Excise licences, etc.</td>
<td>0.4</td>
</tr>
<tr>
<td>Total</td>
<td>53.7</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
- Broadcasting licence fees (net): mainly paid by households
- Excise licences, etc.: mainly paid by business

Applying these estimates to the 1967/68 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 1967/68 (£ million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rates</td>
<td>17.1</td>
</tr>
<tr>
<td>Motor vehicle duties</td>
<td>8.7</td>
</tr>
<tr>
<td>Stamp duties (including fee stamps)</td>
<td>5.0</td>
</tr>
<tr>
<td>Harbour tolls, dues, etc.</td>
<td>1.7</td>
</tr>
<tr>
<td>Broadcasting licence fees (net)</td>
<td>1.7</td>
</tr>
<tr>
<td>Excise licences, etc.</td>
<td>0.3</td>
</tr>
<tr>
<td>Total</td>
<td>32.8</td>
</tr>
</tbody>
</table>

Total business costs in 1967 were estimated at £943 million (= estimated gross domestic product at factor cost). Thus the taxes shown above were equivalent to approximately 3.5 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 1967/68 amounted to £148 million approximately (i.e. turnover tax, wholesale tax and customs and excise duties (excluding protective tariffs)).

Total receipts from taxation in 1967/68 were £322.5 million. Thus the relevant proportion was 45.9 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 7½ 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:

\[
\frac{\text{Japanese corporation income tax \times \text{Total income from sources outside Japan}}}{\text{entire income subject to Japanese corporation tax}}
\]

(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 cheques: $NZ 4.4 million

Question 3. No.

Question 4. No. See Spec(68)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. 8.

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.

These 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 the 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>1966</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 8/13. 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 utilised 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. Incidence on government and business expenditure (£ million 1967)

- Local tax on property (rates) 367
- Stamp duties 37
Question 3. No.

Question 4. 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.

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.

Question 8. No.

Question 9. No.

Question 10. 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 unrelied. 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 originally the Western Hemisphere trade corporations provisions related to companies in manufacturing and processing only and not in trading. At a later date, it was provided that companies established abroad for the purpose of trading could also benefit from these provisions. The special income tax deduction was only available according to the conclusions set out in the reply to this question. Essentially then, such business must have almost all of its activities outside the United States. In practice about 78 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. Thus, this situation was not related to domestic exports. 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, page 4 of the General Agreement, the representative of the United States said that he would send a written answer at a later stage.
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 14. 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

CLARIFICATION OF 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 I A(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 I A(a)4.** A comparison was intended between the full export border adjustment, making allowance for any exemptions at the final stage.

**Question I A(a)5.** This question was intended to make clear how much tax occulte 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 I A(a)6.** The term "related" was understood to mean "affiliated".

**Question I A(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 I A(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 I A(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 I A(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 QUESTION IA(c)5 OF THE OUTLINE

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, 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 is 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 affected by entrepreneurs. Taxes paid on imports can therefore not be regarded as actual tax revenue in the budget.
Note: It will be appreciated that the following information is in a necessarily condensed form. It does not purport to set out, under any head, an exhaustive statement of the relevant law. Persons requiring further information should communicate with the Secretary, Revenue Commissioners, Dublin Castle.

1. Machinery and plant - (a)

For tax purposes deductions, usually based upon "written-down" value, are allowable annually against profits in respect of wear and tear of machinery and plant used in a trade (including a manufacturing enterprise). Subject to exceptions - the principal exception concerns road vehicles - the basic deductions in respect of wear and tear have been increased as from 6 April 1958, by one fourth.

As respects new machinery or plant (excluding road vehicles) provided on or after 1 April 1967, for use in any "undeveloped area" (within the meaning of the Undeveloped Areas Act, 1952) for the purposes of a trade or profession, a form of "free depreciation" has been introduced under which the writing off of such machinery or plant may be accelerated by increasing the deductions for wear and tear allowable under the general law by such an amount as the taxpayer may specify. Where, in the case of any item of machinery or plant, free depreciation is allowed for any year of assessment, no initial allowance (see paragraph 2) may be given for that or any subsequent year of assessment.
2. **Machinery and plant - (b)**

An "initial allowance" may normally be claimed in respect of capital expenditure incurred by a trader on or after 6 April 1956, on the provision of new machinery or new plant (excluding road vehicles) or of ships whether new or second-hand for the purpose of his trade. The amount of the allowance is one fifth of the expenditure and it is treated as diminishing the value of the machine, etc. on which subsequent wear and tear deductions are computed. In the case of such capital expenditure incurred between 14 December 1961, and 31 March 1967, the amount of the allowance is one half.

3. **Machinery and plant - (c)**

The sum of the annual deductions for tax purposes in respect of wear and tear plus the initial allowance (see paragraphs 1 and 2) may not exceed the cost to the trader of the machinery or plant less its scrap value when discarded. The annual deduction normally takes account of the expected "life" of the machine, etc. Where, however, the machinery or plant is owned by a trader and used by him in the working of a mine or quarry or the smelting of ore the trader may elect to have the annual wear deduction in respect of it computed by reference to the estimated "life" of the mine or quarry, or the estimated duration of the smelting activity, and the probable value to the trader of the machinery or plant concerned at the end of the estimated period. The increase of one fourth in the basic rates of deduction as from 6 April 1958 (see paragraph 1), does not apply where such an election is made.

4. **Machinery and plant - (d)**

Where, on or after 15 April 1959, machinery or plant which has been used for the purposes of a trade ceases to belong to the trader, or permanently ceases to be used for the purposes of the trade, an allowance, called a "balancing allowance", may be made equal to the amount which has not been allowed for tax purposes of the capital expenditure incurred by the trader on the provision of the machinery or plant less any proceeds of sale, insurance, salvage or compensation moneys received in respect of the machinery or plant. If the proceeds of sale, etc. exceed the unallowed capital expenditure a "balancing charge" is made equal to the excess, or to the total amount of the tax allowances made to the trader, whichever is the less.

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1 An initial allowance of 50 per cent which is currently allowed in respect of capital expenditure incurred on new machinery and plant (excluding road vehicles) or on ships (whether new or second-hand) has been increased to 60 per cent.

2 The annual deductions have, with certain exceptions, been reduced to three statutory rates viz. 10 per cent, 12½ per cent and 25 per cent.
5. Machinery and plant - (e)

For the years up to and including 1959-60 a deduction called an "obsolescence allowance" could be claimed, for the purpose of computing trade profits, of so much of any amount expended in a year in replacing obsolete plant or machinery as was equivalent to the cost of the plant or machinery replaced after deducting from that cost (a) the total amount of any allowance in respect of wear and tear and any initial allowance (see paragraphs 1 and 2) made in respect of the plant or machinery replaced and (b) any sum realized by its sale.

As from the year 1960-61 the obsolescence allowance was superseded by the balancing allowances (see paragraph 4) but where machinery or plant provided before 15 April 1959, is replaced after that date, obsolescence allowance may still be claimed in lieu of balancing allowance, if the trader so elects.

6. Shipping investment allowance

Where capital expenditure is incurred by a trader, on or after 6 April 1957, on the purchase of a new (as distinct from a second-hand) ship for the purposes of his trade, an allowance of two fifths of the expenditure so incurred may be claimed - subject to withdrawal if the ship is sold before being used in the trade or within five years from the time when it begins to be so used. This allowance - the "shipping investment allowance" - is in substitution for, and not in addition to, the "initial allowance" already described (see paragraph 2) but, unlike the initial allowance, it is not treated as diminishing the cost of the ship for the purpose of wear and tear deductions nor is it taken into account in computing a balancing allowance or balancing charge. The wear and tear deductions in respect of the new ship would be at the basic rate, increased, as from 6 April 1958, by one fourth (see paragraph 1).

7. Industrial buildings, hotels, etc. - (a)\(^1\)

A trader may claim for tax purposes an initial allowance of one tenth of capital expenditure incurred by him on or after 30 September 1956, on the construction of an industrial building or structure (i.e. a mill, factory, or other similar premises or a hotel) to be occupied as such for the purposes of his trade. Expenditure is not regarded as incurred by the trader in so far as it is met directly or indirectly by the State, by any statutory board or by any public or local authority. In relation to allowance for 1959-60 and subsequent years, docks, wharves, piers, jetties, etc., rank as industrial buildings or structures and expenditure on the cutting and levelling of land in the course of preparing it as a site for, say, a factory, is treated as part of the cost of

\(^1\)The terminal date of the initial allowance of 20 per cent has been extended from 31 March 1968 to 31 March 1971.
constructing the factory. The definition of industrial building or structure has been further widened to embrace holiday camps, with effect as from 1960-61, and market garden buildings, with effect as from 1966-67. The rate of initial allowance is increased from one tenth to one fifth in the case of capital expenditure on industrial buildings or structures, other than hotels, holiday camps or market garden buildings, incurred within the period from 14 December 1961, to 31 March 1968.

With effect as from 1967-68, the allowance may be claimed by a person who incurs capital expenditure on the construction of a building or structure for industrial use by a trader who is a tenant of his.

8. Industrial buildings, hotels, etc. - (b)

With effect as from 1960-61 an annual allowance may be claimed in respect of capital expenditure incurred on or after 30 September 1956, on the construction of industrial buildings or structures. The allowance is normally 2 per cent of the relevant expenditure but it is 10 per cent in the case of expenditure incurred on or after 1 January 1960, on the construction of hotels or holiday camps and expenditure on the construction of market garden buildings (which became eligible for the allowance with effect as from 1966/67). In the case of a building, etc. used for industrial purposes by a tenant the allowance may be claimed by the landlord.

Where an industrial building is sold, destroyed or ceases to be used and the residue of the expenditure on construction which has not been allowed for tax purposes exceeds the amount of any proceeds of sale, insurance, salvage or compensation moneys received, a balancing allowance may be claimed equal to the excess. If the proceeds of sale, etc., exceed the residue of the expenditure a balancing charge is made.

Where a building or structure is sold on or after 15-April 1959 while in use as an industrial building or structure, the allowance to the new owner is calculated by reference to the amount of the residue, at the time of sale, of the original expenditure which has not been allowed for tax purposes. The allowance is arrived at by dividing the residue by the number of years still to run between the date of sale and the fiftieth year of the life of the building or (in the case of a hotel or holiday camp the expenditure on the construction of which was incurred on or after 1 January 1960) between the date of sale and the tenth year of the life of the building.

In the case of industrial buildings (including hotels, etc.) which are outside the scope of the annual allowance by reason of their having been erected before 30 September 1956 there is provision whereby in 1960-61 and subsequent years (1966-67 and subsequent years in the case of market garden buildings), an annual deduction is made in the computation of profits equal to one third of the annual value of the premises for the purposes of Schedule A.
9. Export profits - (a)

A company which exports goods manufactured by it in the State may claim a relief from income tax and corporation profits tax on profits attributable to any relevant increases in export sales of such goods over corresponding export sales (if any) in the standard period. The relief has been available, in the case of income tax, since 6 April 1957 and, in the case of corporation profits tax since 1 October 1956. An amendment, effective as from 6 April 1960 enables account to be taken for the purposes of the relief, of export sales by wholesale of goods manufactured in the State by a concern other than the exporting company.

There are special provisions under which certain sales of bacon to the Pigs and Bacon Commission and of milk products (other than butter) to An Bórd Bainne are treated, for the purposes of the relief, as export sales by the manufacturing company.

There are also special provisions as regards a company whose earnings consist of or include remuneration for services rendered in the State to another person by way of subjecting commodities or materials belonging to that person to any manufacturing process. The company may elect that, for purposes of the relief, any such remuneration for its services should be treated as an amount receivable from the sale of goods; and that, where the services are rendered to a non-resident person in relation to commodities or materials which have been imported into the State and, after the services have been rendered, the commodities or materials (or the products into which they have been converted) are exported out of the State while continuing to belong to the non-resident person, the remuneration should be regarded as an amount receivable from the sale of goods exported.

In all cases the standard period is the year to 30 September 1956, or, if the company so elects, the year to 30 September 1955.

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1 The Finance Act, 1968, contains provision for the extension of the exports tax relief (i) to profits arising from the rendering to non-residents of design and planning services in connexion with chemical, civil, electrical or mechanical engineering works executed outside the State and (ii) to profits arising from sales between associated companies operating in the State which, apart from such sales, do not sell goods in the home market.
The relief from income tax may be claimed in any case for not more than fifteen consecutive years of assessment within the period from 6 April 1957, to 5 April 1980. The year of assessment which may be taken as the first year of claim is determined according to statutory provisions by reference to the facts of the case. If the first year of claim is the year 1957-58, relief is allowable at the rate of 50 per cent for that year and at the rate of 100 per cent for each of the fourteen succeeding years. Where the first year of claim is any of the years 1958-59 to 1965-66 relief may be claimed for fifteen consecutive years of assessment. In such cases relief is at the rate of 100 per cent for the years up to and including 1974-75 and at a reduced rate (see next subparagraph) for 1975-76 or any subsequent year within the fifteen-year period. In a case in which the first year of claim is subsequent to the year 1965-66 relief may be claimed for all years up to and including 1979-80, the relief being at the 100 per cent rate for the first ten years of claim (or for all years of claim where there are less than ten) and at a reduced rate (see next subparagraph) for any year or years in excess of ten.

The reduced rate of relief mentioned in the previous paragraph is 80 per cent, 65 per cent, 50 per cent, 35 per cent or 15 per cent according to whether the year of assessment concerned is the first, second, third, fourth or fifth year after the end of the period during which relief at the rate of 100 per cent was allowable to the particular company. As already indicated no relief may be given for any year subsequent to 1979-80 and the total number years of assessment for which relief (whether at the 100 per cent rate or at a reduced rate) may be allowed to a given company may not exceed fifteen.

In relation to corporation profits tax the relief may be claimed for a continuous period not exceeding fifteen years within the period from 1 October 1956 to 5 April 1980. The date on which the period of relief commences in a given case is governed by statutory provisions. If that date is not later than 6 April 1965, the duration of the period of relief is fifteen years. Where a part of the fifteen-year period falls before 6 April 1958, relief is allowable at the rate of 50 per cent for that part and at the rate of 100 per cent for the remainder of the period. Where the period of relief lies wholly between 5 April 1958 and 6 April 1975, the rate of relief is 100 per cent throughout. Where the period of relief extends beyond 5 April 1975, relief is allowable up to 5 April 1975 at the rate of 100 per cent and for the remainder of the period in accordance with a reducing scale of rates similar to that which applies in relation to income tax. If the period of relief commences after 6 April 1965, it continues up to 5 April 1980. In such a case the 100 per cent rate of relief applies for the first ten years of the period (or for the whole of the period if it is less than ten years) and the reducing scale of rates already mentioned applies for any balance of the period.
For the purposes of the reliefs described in this paragraph and in paragraph 10:

(a) Where one of two companies manufactures goods and the other exports them, and one of the companies holds over 90 per cent of the ordinary shares in the other, or persons having a controlling interest in one company hold, directly or indirectly, over 90 per cent of the ordinary shares in the other, the goods manufactured by the manufacturing company are, when exported by the exporting company, deemed to have been manufactured by the exporting company.

(b) Exports of fish produced within the State on a fish farm, and mushrooms, cultivated within the State, are treated in the same way as manufactured goods. Special provision is made in regard to (i) exports by publishing companies of books or greeting cards which might otherwise not qualify for relief and (ii) the building or repair of ships in Irish dockyards whether on home or foreign account.

10. Export profits - (b)

As an alternative to the relief of tax on profits from increases in exports which is described in paragraph 9, a company may claim relief from the income tax referable to its profit from the sale of all goods manufactured by it in the State and exported by it. As from 6 April 1960, the relief has been extended to profits from export sales by wholesale of goods manufactured in the State by a concern other than the exporting company.

The relief may be claimed in any case for not more than ten consecutive years of assessment. For a period of five consecutive income tax years commencing with the year 1958-59 or the year 1959-60 (or four consecutive income tax years commencing with 1958-59 where the first year of claim under paragraph 9 is 1957-58) relief may be claimed at the rate of 25 per cent. Relief at gradually reducing rates may be claimed for the five income tax years immediately following the end of the period during which relief at the rate of 25 per cent, is allowable to the particular company. The rate for the first of those five years is 20 per cent; for the second year, 15 per cent; for the third year, 10 per cent; and for the fourth and fifth years, 5 per cent.

(Corresponding relief from corporation profits tax operated for the period from 6 April 1958 to 30 September 1966.)

11. Mines - (a)

Allowances may, subject to the statutory provisions, be claimed against the profits of a mine in respect of capital sums spent in the development of the mine on searching for or testing deposits or winning access thereto or on the construction of certain works. The allowances are spread over the estimated life of the deposit or over twenty years whichever is the shorter period.
12. **Mines - (b)**

Profits 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\(^1\) are exempt from tax for twenty years from the commencement of trading.

To qualify for the relief the new mine must come into production within the thirty years commencing on 6 April 1956.

13. **Mines - (c)**

In the case of "existing" coal mines in the State, i.e., mines at which commercial production was taking place at some time during the year to 20 September 1956, relief to the extent of one half tax is given in respect of profits from relevant excess output of coal over the output of a datum year (i.e., the year to 30 September 1955, or the year to 30 September 1956). This relief in respect of profits from increased output may be claimed as regards income tax for ten consecutive years of assessment the first of which may, subject to the statutory provisions, be the year 1957-58, the year 1958-59 or the year 1959-60.

The relief is confined to resident Irish companies.

(Corresponding relief from corporation profits tax operated for the ten years to 30 September 1966.)

14. **Scientific research\(^2\)**

An allowance may, subject to condition, be claimed against profits of a trade in respect of capital or non-capital expenditure by the trader on scientific research relating to the trade. Where the capital expenditure is incurred after 5 April 1965, the entire amount may be written off in one year. There is also provision for certain tax advantages in respect of covenanted annual payments to (i) an Irish university or college for research purposes and (ii) to an Irish university, college or school, or to a trust fund, where the moneys are paid to promote teaching of the natural sciences.

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\(^1\) The minerals which qualify for the relief under present law are: barytes, felspar, serpentinous marble, quartz rock, soapstone, and ores of copper, gold, iron, lead, manganese, molybdenum, silver, sulphur and zinc.

\(^2\) Expenditure incurred or sums made available by a trader for scientific research which were before the passing of the Finance Act, 1968, excluded from tax relief if the research was not related to the particular trade carried on by the trader, now qualify for relief even where the research is not related to any trade.
15. Dividends: income tax and surtax - (a)

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 in paragraphs 9, 10, 12 or 13 the rate of income tax deductible from relevant dividends is a rate reduced by reference to the relief. In this way a proportion of the relief from income tax is passed on to the shareholders. Provision is also made for a measure of relief from surtax to the recipient of the dividend.

16. Dividends: income tax and surtax - (b)

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.)

17. Double taxation agreements

Comprehensive agreements with the following countries are in force: Austria, Canada, Denmark, Germany, Sweden, Switzerland, United Kingdom and the United States. Agreements with Cyprus and France have been signed and agreements have been completed, but not yet signed, with Belgium, Finland, Italy, Luxemburg, the Netherlands, Norway and Zambia, while negotiations with Pakistan are at an advanced stage. Sea and air transport agreements with Finland, Norway and South Africa are in force.

17a. Unilateral tax credit

The Finance Act, 1968, provides that a company in the State, which is in receipt of a dividend or interest from a foreign company in which not less than one half of the voting power is controlled by the investing company, will be entitled to relief to the extent of either one half of the Irish tax or the full external tax whichever is the lesser. The relief will apply where the dividend or interest arises from the investment in the foreign company by the Irish company of profits which have benefited from exports tax relief.

1As to dividends paid out of profits from "exempted trading operations" in relation to Shannon Airport, see paragraph 18.
18. Shannon Airport

With a view, primarily, to encouraging the use of Shannon Airport as an international trading and distributing centre the law provides, subject to conditions, for complete exemption from taxation, for a period of twenty-five years from 25 November 1958 (the date of passing of the Finance (Miscellaneous Provisions) Act, 1958), of profits derived from export businesses established within the confines of the customs-free area of the airport.

The Act provides for exemption from taxation in respect of profits of a company derived from trading operations certified by the Minister for Finance to be "exempted trading operations". The operations which may be so certified must fall within one or more of six specified categories, namely:

(a) the sale for export of goods produced, manufactured or processed in the airport;

(b) the sale for export of imported goods;

(c) the repair or maintenance within the airport of aircraft;

(d) the rendering, within the airport or outside the State of services entailing the use of aircraft or air transport;

(e) other trading operations which contribute to the use and development of the airport;

(f) trading operations ancillary to trading operations qualifying under any of the categories (a) to (e).

The foregoing categories are narrowed by other provisions, the broad effect of which is to secure that exemption from tax will not extend to profits attributable to trading operations carried on in the State outside the airport or to profits from the sale of goods, or the rendering of services, to persons resident in the State even if the relevant sales, etc., are made in the airport.

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1 Profits derived from export businesses established within the customs-free area of Shannon Airport are completely exempt from taxation until November 1983. Exemption from tax does not extend to profits attributable to trading operations carried out in the State outside the airport or to profits from the sale of goods, or the rendering of services, to a person resident in the State. The Finance Act, 1968, provides, however, for the extension of "Shannon" relief to profits arising from sales between associated companies operating in the State, provided that the associated companies, apart from inter-company sales, do not sell goods on the home market.
So much of any dividend as is paid out of profits from exempted trading operations shall not be regarded as income or profits for income tax or corporation profits tax purposes.

A certificate given by the Minister for Finance is to remain in force for a period of twenty-five years from 25 November 1958, unless the company concerned ceases to trade in the airport or fails to comply with any condition subject to which the certificate was given.

19. Training of local staff before commencement of trading

In the case of any trade consisting of the production for sale of manufactured goods, a trader may claim an allowance in respect of certain expenditure incurred, before the commencement of trading, (but on or after 6 April 1959) on recruiting and training local staff. The allowance is spread equally over the first three years of trading.

20. Acquisition of patent rights

Where a trader incurs on or after 6 April 1960, capital expenditure for the purposes of acquiring patent rights (which have not been the subject of a sale before that date) he may claim an allowance, for tax purposes, in respect of the expenditure so incurred. The allowance is given by way of equal annual allowances spread 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.

21. Expenditure on dredging

An annual allowance of 2 per cent may be claimed for 1960-61 and subsequent years in respect of capital expenditure incurred on or after 30 September 1956, on the dredging of a harbour, estuary or waterway for the benefit of a dock, etc., occupied by a trader for the purposes of his trade. Where such expenditure is incurred in the year or period on the profits of which the assessment on the trade for 1960-61 or any subsequent year is based an initial allowance of 10 per cent may also be claimed. Provision is made for the granting of a balancing allowance in the year of permanent discontinuance of the trade.

22. Acquisition of industrial "know-how"

The Finance Act, 1968, provides that, where expenditure is made to acquire industrial know-how for use in a trade, the cost will, where not allowable under existing law, be allowed as a deduction in computing the profits of the trade for the purposes of income tax, surtax and corporation profits tax. The relief does not apply where the know-how is acquired together with a trade or part of a trade acquired as a going concern, or where the vendor and purchaser are closely connected, e.g. in the case of companies under common control.
Annex D

GENERAL STATEMENTS MADE IN CONNESSION WITH THE EXAMINATION OF BORDER TAX PRACTICES AT THE FOURTH MEETING FROM 8-11 NOVEMBER 1968

The representative of the United States made the following statement.

In the broad statement by the United States representative on 30 April of this year in this Working Party, we emphasized that the examination we were to embark upon would be complex. We also said at that time that fundamental policy issues regarding governmental intervention in trade would be raised. We recognized, in other words, that the Working Party's task would be difficult and would take time.

We have given this issue much thought over the last several years. Then, in the course of our preparations for each meeting of this Working Party, we have developed our ideas further. At each stage we have tried to indicate how we ourselves saw the problems, and suggested procedures that might be useful to other countries in their examination of the issues. In this spirit, we put forward informally a set of questions in June, and then in July developed a new list of questions. We explained at that time that we had developed these questions as a kind of checklist, or guide, to our own examination. We explained that it might be helpful to other countries to use as a guide for structuring their own thoughts.

Whilst we wish to explore this set of questions with you, it might be wise at this time to put the broad nature of our work into perspective.

On 1 January 1968, the President of the United States said:

"In the Kennedy Round, we climaxed three decades of intensive effort to achieve the greatest reduction in tariff barriers in all the history of trade negotiations. Trade liberalization remains the basic policy of the United States.

"We must now look beyond the great success of the Kennedy Round to the problems of non-tariff barriers that pose a continued threat to the growth of world trade and to our competitive position.

"American commerce is at a disadvantage because of the tax systems of some of our trading partners. Some nations give across-the-board tax rebates on exports which leave their ports and impose special border tax charges on our goods entering their country.

"International rules govern these special taxes under the General Agreement on Tariffs and Trade. These rules must be adjusted to expand international trade further."
With this mandate from our President, representatives of the United States requested the establishment of this Working Party, to undertake an urgent re-examination of the border tax issue.

The United States Government also undertook high-level visits to many countries at the beginning of this year, conveying, in the course of consultations concerning the President's 1 January balance-of-payments message, our concern with the border tax issue. We explained in those visits the urgent need we felt for developing a new system whereby the differences between national tax systems could be harmonized with one another, with more equity than exists with present rules and understandings, and to the advantage of expanded world trade.

In the GATT Council meeting in March, which established the terms of reference of this Working Party, the United States representative reiterated our grave and increasing concern with the continued heightening and proliferation of border tax adjustments. In our opening statement to this Working Party we called for a standstill on further changes in border adjustments, pending completion of our work. Most recently, we pointed out in July to the countries present in this Working Party that by ignoring the call for a standstill they automatically accelerated the pace of those deliberations. We believe that the further changes now contemplated in a number of countries are most serious. We are concerned that the future may bring us unwelcome surprises beyond those now foreseen - even in countries where the TVA is already established.

We have certainly made clear on several occasions in this Working Party the political importance we attach to this issue. We have emphasized that it was most important to the United States that our work proceed both effectively and expeditiously. We feel it essential now to take this opportunity to emphasize to this Working Party that our work, though complex, must be carried out rapidly, as well as productively. We do not at this time believe that our work can continue for several years. The problems are too urgent. Solutions, in our judgment, must be actively sought for, and found, at a very early date. In accordance with this economic and political judgment we must urge the group to press ahead, to give this issue very high priority in day-to-day work in capitals, and to continue to come to meetings well prepared.

We would ourselves, from an intellectual or academic point of view, prefer a more leisurely pace. But developments in a number of countries are moving too fast, and our domestic political concern with this issue is correspondingly growing too rapidly, to allow a comfortable and detached approach to be taken.

Let us then turn to the work before us at this moment. We are trying to examine the tax practices of the countries of the GATT, or at least those of the members and observers in this Working Party. We have a questionnaire before us. It is based in part on questions developed earlier by the United States. It has been reworked and altered by other countries in the technical group. Now it is the product of the work of several countries.
What is its purpose? It seems to us now, as it has seemed to us earlier, that its essential purpose is to help other countries in arranging the material they have and to help them ask questions which might throw light on whether the present GATT rules are adequate and equitable. At this point in our work the main purpose of the questionnaire is to help guide our discussion along lines which will help us educate each other about what is done, in general terms, and what the possible effects might be, in trade terms.

In our own examination of the practices of many of the countries in the Working Party, we have been struck by the wide range of differences in practices and the wide range of administrative discretion available in the application of border tax adjustments. There is, for example, the question of averaging under the cascade system. We all of us know that averaging cannot be exact. With the best computers and the best analysts in the world there is no way to be exact given the status of the economic statistics in each country. But this is an obvious example. What we have been struck by is the wide ranging variations in the not so obvious. For example, recent changes in border tax adjustments reflect not only changing economic circumstances and improved statistics and statistical techniques, but a number of other reasons as well.

What we are looking toward are the next phases of our work, the next items in our agenda. The United States already knows many of the answers to many of the questions in this guide, for many of the countries here. What we would hope is that other countries will, in this process of mutual education, come to see the arbitrariness of the present and the need for reform and change. It is important for all of us to understand this complex problem when seeking solutions. But the object of our work must not be lost sight of in the thicket of technical detail. We are aiming at a judgment about trade effects, at a judgment of how much arbitrariness exists, at a judgment of what changes we need in the rules and in the practices in the future. We are aiming at judgments about the implications of the real-world fact that indirect taxes are not fully shifted and direct taxes are partially shifted.

The United States Government believes that we must very shortly press on to these broader questions. We may come back, in due course, to filling in all of the details. Indeed we must eventually do this if we are to clean up and codify our respective practices. But once we have a common understanding of the broad pattern of practices, we shall be able to begin exploration of the remainder of our agenda. This does not mean that we must reach definitive conclusions without the facts. Rather this means that we must explore the remaining issues before us soon, and then relate our broad judgments back to the details.

The representative of the European Economic Community, making some preliminary remarks on this statement, noted the desire of the United States that the GATT rules should be amended. That desire was based on a hypothesis — that border tax adjustments were arbitrary — which in fact still remained to be proved, and that was precisely the task of the Working Party. The problem had been studied in the OECD which had not reached any conclusion that such adjustments
were arbitrary. The examination of tax systems had revealed the existence of misunderstandings that should be dispelled in order to avoid reaching any erroneous conclusions. The studies should be carefully pursued, without undue delay but without excessive haste. The Community was of the opinion that the Working Party had taken this course so far, and that it would not be wise to try to reach conclusions before having carefully studied the problem. What had been done in haste would have to "bear the whips and scorns of time".

Other delegations said that good progress had been made in the Working Party. The complexity of national tax systems created a part of the problem and it was essential that countries be given time to explain and justify their systems. The representative of the United States had referred to the arbitrary nature of some systems. While the Working Party should aim quickly to reach the stage at which conclusions could be drawn, it would not be possible to do so before it had conducted its examination of the practices of contracting parties with relation to border taxes. It was suggested that, if an important trading country was of the view that it faced an urgent problem, the GATT system required contracting parties to give this their full attention and that representation at future meetings of the Working Party should be at a high level.