EXAMINATION OF PRACTICES OF CONTRACTING PARTIES
IN RELATION TO BORDER TAX ADJUSTMENTS

Addendum

The following replies, supplementing the information contained in Spec(69)49, have been received from the Governments of Norway and Finland.
The Government of Norway has submitted proposals to the Norwegian Parliament suggesting basic changes in the present tax system and as a part of these changes, the introduction of a new turnover taxation system i.e. the added valued taxation system. The aim of the Government is to undertake a major tax reform by reducing the direct taxation and compensating these reductions in State revenue through increases in indirect taxation in the form of an added value tax. Subject to parliamentary approval, the tax reform will be introduced as from 1 January 1971.

The present proposals before the Parliament constitute a new legislative framework for the new tax rules. The proposals to change the national tax rates as well as the rate for the added value tax will 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 as to the tax rates to be applied. However, the Government has in the present submission to the Parliament indicated the new rates which it will propose to be applied if the Parliament adopts the proposed legislation.

It is the intention of the Norwegian Government to propose a rate of 20 per cent for the value added tax, calculated on the selling price of the taxable goods and services excluding the amount of the tax itself. With certain exceptions (e.g. newspapers, books and periodicals) the value added tax of 20 per cent will be applied to all goods and services. The system of the new Norwegian value added tax is in general based on the same principles as added value tax systems introduced in other European countries. The value added tax will be collected at every stage of production and distribution as well as for imported goods. The tax rate is the same at every stage. Exports of goods and services will in general be exempted from value added tax.

All manufacturers and traders who have an annual gross turnover of more than Nkr 6,000 are to be registered as taxable firms.

The value added tax levied is as a rule limited to the value added through the production and distribution process. The value added tax as such will as a consequence be borne by the final consumers.

The present retail sales tax of 13.64 per cent is principally a consumer tax, but the tax is also levied on investment goods purchased by the industry. For fiscal reasons it would for the time being present certain difficulties to do away with the tax on investment goods in connexion with the proposed tax reform. Thus, the present draft law for the value added tax contains provisions for a special tax of 11 per cent on certain goods and services (investment goods etc. and services).
The special tax on certain goods and services is intended to be introduced at the same time as the value added tax and will be collected from enterprises liable to value added tax. The tax base shall be the purchase price for goods and services excluding the value added tax charged by the seller of the goods and services. This special tax shall with some exceptions be calculated for all purchases of goods and services where according to the provisions of the law, credit is given for value added tax on purchases. Purchases which consist of goods and services which are intended to be sold by the firms in question or which are intended to be used as raw materials or semi-manufactures in the production of goods to be sold, should, however, be exempted from this special tax.

The special tax on certain goods and services is not deductible or refundable as is the case for the value added tax on purchases under the system envisaged. There is no border tax adjustments envisaged for this tax either at the importation or at the exportation. The tax is to be regarded as a cost element for Norwegian manufacturers and distributors in the same way as the existing general sales tax on investment goods. The rate will be reduced from 13.64 per cent to 11 per cent, but the scope of the tax will at the same time be much wider. For those branches which fall outside the value added tax system the tax on investments and other goods will be increased from 13.64 per cent to 20 per cent. The most important branches within this category are the passenger transport, banking, insurance activities and the liberal professions.
Question: How does one deduct from the depreciation allowance funds spent for the financing of export promotion?

Answer: According to the Act on Export Reserve Funds (162/66), a joint stock company and co-operative liable to taxation as well as every other public or private body liable to taxation, has the right to transfer in connexion with the closing of accounts for the years 1968-1973 a maximum of 20 per cent of the annual profit to a special fund and to deduct this amount from the taxable profits in the governmental and municipal taxation for the year in question.

The amount transferred to the fund must be used in the course of three years of taxation after the transfer for covering costs incurred in connexion with the acquisition of fixed assets abroad or basic improvement or repair of such assets, foreign advertising of export goods and market surveys concerning possibilities for export, maintenance of a sales network abroad as well as other costs arising from export promotion and development, which costs are defined in detail by decree.

When using the fund in the above manner, the body liable to taxation must not burden its profit and loss account with the amount used. When acquisition or basic improvement of fixed assets is in question, the value of the acquired property must in the accounts be reduced with the amount taken from the fund to be used for the purpose. As the profit and loss account must not be burdened, the result is that the taxable income of the body liable to taxation is similarly higher in the year of these costs (i.e. the year the fund is being used), or that the earlier tax advantage (provided the tax level remains the same) will be forfeited. In the case of an acquisition of fixed assets, debiting or the forfeiture of the tax advantage will be realized gradually with depreciations from a smaller amount than the actual cost of acquisition.

If the body liable to taxation does not use a sum corresponding to the amount transferred to the fund in the course of three years and in the manner explained above, a regressive tax will be levied in which the unused portion of the fund will be added to the income of the year for which the transfer has been made.

It can be seen on the basis of the above that the advantage received by the body liable to taxation lies in that he will be taxed later for the income transferred to the fund. If the use of the fund for covering costs incurred in connexion with export development and promotion is in question, taxation will however be effected at the latest in the third year after the transfer was made. If, on the other hand the acquisition of value-deductible fixed assets is in question, taxation will be effected synchronically with depreciations from the value of the acquisition of fixed assets. Postponement of taxation means an
advantage in interests (three years) to the body liable to taxation, in addition to which also a final tax advantage may be calculated through the possibility of later years of loss. In this case, however, the taxation of estimated income which is possible in municipal taxation must be taken into consideration.

Example

Joint stock company; profit Fmk 10,000; taxable income Fmk 20,000

Transfer to export reserve fund 20 per cent of Fmk 10,000 = Fmk 2,000

Tax level 50 per cent

Taxable income Fmk 20,000 - Fmk 2,000

Taxable income = Fmk 18,000

Tax = Fmk 9,000 (Fmk 10,000 - Fmk 1,000)

Tax advantage = postponement of the payment of Fmk 1,000

In the course of the third year at the latest, the body liable to taxation must use Fmk 2,000 for covering costs of export promotion or acquisition of fixed assets. If this does not happen, a regressive tax is levied on Fmk 2,000. The amount of the regressive tax is Fmk 1,000, i.e. the amount of earlier tax advantage.

If the body liable to taxation uses the Fmk 2,000 corresponding to the transferred amount in a manner as described in the law, the amount will be entered, in case of export costs, as a debiting of the reserve fund account without burdening the profit and loss account:

<table>
<thead>
<tr>
<th>Cash account</th>
<th>Reserve fund account</th>
</tr>
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<tbody>
<tr>
<td>2,000</td>
<td>2,000</td>
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<td></td>
<td>2,000</td>
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</tbody>
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Profit and loss account

<table>
<thead>
<tr>
<th>2,000</th>
<th>10,000</th>
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</thead>
<tbody>
<tr>
<td>8,000</td>
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</tbody>
</table>

Gain of profit and loss account Fmk 8,000, not Fmk 10,000 as it legally should be

10,000

In case of a normal entry the account with an effect on the profits would be debited, which would mean a lowering of the profit and simultaneously a lowering of the taxable income by the debited amount (see chart). Again, would the body liable to taxation acquire an object belonging to fixed assets worth Fmk 5,000, the Fmk 2,000 must be deducted from the Fmk 5,000. After this, depreciations may be made from Fmk 3,000 instead of Fmk 5,000. With a depreciation
percentage of 20, Fmk 2,000 will be debited in five years in a system of linear
depreciation. In a system of degressive depreciation, debiting will be somewhat
slower.

**Question:** What rate ad valorem do import licence and stamp fees represent for
import?

**Answer:** The amount (about Fmk 300,000) collected through import licence fees
and stamp duties constituted 0.007 per cent of the value of the Finnish import
in 1968.

Stamp duties are collected only in exceptional cases when a special
permission for importation is needed e.g. for importation of drugs, poison or
pharmacy products. The amount of stamp duties is insignificant.

**Question:** What portion of the price does the income tax rebate represent? Does
this represent a difference in price between home and export goods?

**Answer:** No examinations about the effect of income tax rebates on prices have
been carried out.

The export goods and home market goods are treated similarly.