Working Party on Border Tax Adjustments

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

Addendum

The United Kingdom has submitted to the secretariat a note concerning certain additional information on practices in relation to border tax adjustments.

The information provided, covers changes in indirect taxes subject to border tax adjustments and the answers to certain outstanding points raised in the discussions of country practices such as the proportion of consumer expenditure affected by excise duties, some information about corporation tax and entertainment expenses.

UNITED KINGDOM

A. Changes in indirect taxes subject to border tax adjustments

In the April 1969 Budget the Chancellor of the Exchequer announced that:

(i) The special surcharge on purchase tax, which had been in force since 23 November 1968, would be withdrawn and the substantive rates of purchase tax would be increased to the surcharge inclusive levels viz 13 3/4 per cent, 22 per cent, 36 2/3 per cent and 55 per cent in place of the substantive rates of 12 1/2 per cent, 20 per cent, 33 1/3 per cent and 50 per cent which were in force before the imposition of the surcharge.

(ii) The following goods which were previously not chargeable with purchase tax would be brought within the scope of the tax:

   household textiles and plastic wall coverings etc. at the rate of 13 3/4 per cent;

   pet foods at the rate of 22 per cent;

   and potato crisps and similar potato products and similar savoury cereal-based products and salted or roasted nuts also at the rate of 22 per cent.
(iii) The special surcharge effective since 23 November 1968 on hydrocarbon oils, tobacco, wines and British wines, beer and potable spirits would be withdrawn and the substantive rates of duty applicable to these goods would be increased to the surcharge inclusive level (or close thereto) except in the case of light hydrocarbon oil and wine and British wine where the increase would take the rates above this level.

These measures became operative from midnight 15/16 April 1969, with the exception of the extensions in purchase tax which were effective from midnight 26/27 May 1969, and the increase in oil duty which operated from 6 p.m. on 15 April 1969.

B. Questions raised in discussions of country practices on border tax adjustments

1. Consumer expenditure affected by excise taxes (Spec(69)49, page 99)

   During discussions of country practices in respect of border tax adjustments the United Kingdom were asked if they could give the approximate proportion of consumer expenditure affected by excise taxes. The proportion is about 17.5 per cent, made up of alcoholic drink 6.2 per cent, tobacco 6 per cent, hydrocarbon oils 3.7 per cent and other excise duties (betting, motor-vehicle licence duties, matches and mechanical lighters) 1.7 per cent. (1967 figures.)

2. Corporation tax and entertainment expenses (Spec(69)49, page 182)

   In the discussion of country practices the question was raised about the treatment of entertainment expenses in computing liability to corporation tax in the United Kingdom and further information was requested. The position is as follows:

   Before 1965 it was the general rule in the United Kingdom, as in other countries, that expenditure on the entertainment of a potential customer was in principle allowable as a deduction when computing business profits for the purposes of direct taxation.

   The operation of the arrangements in practice in the United Kingdom was however the subject of criticism.

   In his Budget speech of 6 April 1965, the Chancellor of the Exchequer (Mr. Callaghan) said that, although many firms were very scrupulous about business entertainment, there had been widespread criticism for some years of lavish entertainment by businessmen of one another. He said that something which originally began as the hospitable offering of a modest meal to a customer had grown into a problem which was not only a fiscal but also a social one.
Under changes in the law made in the Finance Act 1965, business entertainment expenses accordingly ceased to be an allowable deduction in computing taxable profits, except for reasonable expenses incurred in the entertainment of an overseas customer. For this purpose, an overseas customer means a person who is neither ordinarily resident nor carrying on trade in the United Kingdom and who is or is acting on behalf of a trader or Government or public authority outside the United Kingdom. The exception is necessary in order that United Kingdom exporters may continue to be treated no less favourably than their competitors in other countries as regards the taxation treatment of expenditure on the entertainment of potential customers. The exception does not offend against any of the provisions of the GATT, and it is not an export incentive or export aid.