OUTLINE FOR EXAMINATION OF BORDER TAX PRACTICES

Replies by Delegations

Addendum

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

A further reply which is attached hereto has been received from the delegation of Italy.

Further replies will be circulated in addenda to this document.
ITALY

SELECTIVE EXCISE TAXES

B.(1) - There are numerous selective excise taxes in Italy, applied in the form of taxes on production or on consumption.

The principal products subject to these taxes are: 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 are specific. An additional tax equivalent to the internal tax is applied at the border on like products imported from other countries.

B.(2) - As indicated in the reply to the preceding question, consumption taxes are also imposed on tropical products (coffee, cocoa, bananas).

B.(3) - It should be emphasized that the products subject to selective excise taxes in Italy include gas, electricity and natural gas which are means of production. These products are not exempt from the taxes when used for the production of other goods, so that the latter are undoubtedly affected by the taxes. (For example, the tax on electric power which is 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 is made at the border in respect of taxes on domestic production.

Certain other products, for example alcohol and vegetable oils, are taxed at reduced rates or are exempt when used for certain specified industrial purposes, but taxes charged on the finished products are not generally reimbursed on exports or compensated on imports.

This situation is 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 groundnut oils are the raw material.

An adjustment at the border in respect of taxes on transport is made for only two domestic production sectors, in that the incidence of those taxes on exports is reimbursed.

B.(4) - All the selective excise taxes applied in Italy are specific taxes.

In principle, the same tax base and rates are applied to domestic products and to imports.

B.(5) - Firms are also required to pay the selective excise taxes on their purchases, except where intended for certain specified uses, which are exempt.
2. Under the general regulations, products subject to selective excise taxes can in certain cases be stored under a tax suspension system until such time as they are offered for consumption.

3. The like products when imported can use the bonded warehouse system.

B.(6) - In general, products intended for export are not taxed; in cases where the tax has already been paid, it is reimbursed after the product has been exported.

B.(7) - The adjustments for imported goods are normally made at the border; in certain cases, however (for example, temporary admission or bonded warehouse), the tax is not charged until the product is offered for consumption.

B.(8) - Not applicable.

B.(9) - With the exception of purchases in the tax-free shops at airports, tourist purchases and small mail shipments are not eligible for any tax reduction or exemption.

Substantial import facilities are provided for tourists visiting Italy, and no tax is charged on articles and products brought in by them.

C. Overlapping indirect tax systems.

C.(1) - In general, all products subject to excise taxes or other selective indirect taxes are also subject to the general turnover tax.

The Italian tax system is characterized by numerous excise taxes which, while being consumption taxes, are also imposed on goods used as raw materials or auxiliary materials for the production of other goods.

The incidence of the tax system is 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 are maintained in the form of specific excise duties, it is 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 is 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 is made for imports of the above-mentioned products; the foreign producer therefore has an advantage over the Italian producer.
C.(2) - In order to answer this question in detail, it should be stated that the Italian tax system at present in force provides for a great many indirect taxes in addition to the general turnover tax, customs duties and selective excise taxes.

These indirect taxes account for 12 to 13 per cent of total tax revenue.

Some of these taxes are 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 are borne by undertakings in relation to their production and it is therefore quite logical that, like other production costs, they should be reflected in the final price of goods and services.

No adjustment is made at the Italian border for these taxes, however, except in respect of exports of engineering products and man-made textile fibres.

III. MISCELLANEOUS

Other tax-related border adjustments and export rebate schemes

(6) None.

(7) None.

(8) There are no special provisions with respect to exports.

(9) No differentiation is made in the corporate income tax rate in respect of profits on exports and profits on domestic sales.

(10) Not applicable.

(11) Measures of this kind have 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 are provided for the installation, extension, transformation or reactivation of industries in these areas. These facilities also apply to newly-established small and medium-sized undertakings in certain areas of Central and Northern Italy that are recognized as being economically under-developed. These facilities comprise a ten-year exemption from tax on movable wealth and corporate income tax.

(12) With respect to the tax on movable wealth, losses can be spread over the ensuing financial periods, subject to a maximum of five years.

(13) Appreciation of assets is added to taxable income for the year in which it was achieved, distributed or included in the balance sheet.

(14) The income of establishments or subsidiaries in other countries is 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 is made for losses or taxes in respect of activities in other countries.
Losses incurred abroad can be offset against overall income only where the activities abroad are the direct responsibility of the undertaking established in Italy, i.e. when the latter has no permanent establishment abroad with its own administration and accounting system.

In this case also, the actual amount of ordinary tax paid abroad is deductible from the taxable income, provided the corresponding profits have been taken into account for determining the total taxable income and the gross amount thereof has been declared.

15. There are no taxes on business capital. However, the corporation tax, which should be considered as being a tax on profits, has a double tax base - the taxable capital and the firm's profits.

This tax is 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 exceeds 6 per cent of the capital.

The corporation tax determined in this way is not deductible from the tax on movable wealth, and that part of it which is in respect of capital is not deductible from total taxable income.

16. None.

17. No.

18. None.