OUTLINE FOR EXAMINATION OF BORDER TAX PRACTICES

Replies of Delegations

Addendum

At its fifth meeting, held from 11 to 14 November 1968, the Working Party agreed that it was necessary to settle as soon as possible the questions not dealt with at earlier meetings, that it would therefore be desirable for brief replies to be drafted, and that delegations which so wished could send in these replies in writing before the next meeting of the Working Party.

The delegation of Yugoslavia has submitted a further reply which is reproduced below.

Any other replies will be circulated as addenda to this document.
B. SELECTIVE EXCISE TAXES

1. Yugoslavia has 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 subject to excise taxes (manufactured tobacco, beer, spirits and hydrocarbons) are simply specific items in the system of taxes on sales.

There are still a few commodities subject to specific taxes (touring cars, jewellery), but the traditional ones account for 92 per cent of the total income from specific taxes.

2. Selective taxes do not apply to goods which are not produced in economically meaningful quantities domestically.

3. Specific taxes are 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 is fully observed as regards specific taxes - is that no tax is 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 is the case of the specific taxes on hydrocarbons. These are paid by all purchasers, with the single exception of the petro-chemical industry.

4. Border adjustments in specific taxes are made only when the goods are imported directly by the ultimate consumer. The tax bases and the rates are the same for imported goods as for similar home-produced goods.

5. Yes, except in cases where the goods are purchased with a view to resale or to be used in the manufacture of other products.

6. Exported commodities are exempt from tax. The tax is never refunded.

7. Adjustments are made at the time of sale to the final consumer (generally speaking, the retailer).
8. Theoretically, there are no regional differences in specific indirect taxes. In the case of the two most important ones (manufactured tobacco and hydrocarbons, which together provide 80 per cent of the total yield of all specific taxes) the selling price is fixed uniformly for the whole country. Tax rates are prescribed by Federal legislation, and the local authorities are not empowered to tax these products.

9. Purchases made by foreign tourists in shops operating under special supervision enjoy a rebate of 10 per cent on retail prices.

C. OVERLAPPING INDIRECT TAX SYSTEMS

1. Under the Yugoslav system there is no possibility of indirect taxes being superimposed on each other. There is only a single sales tax. It is true that, in addition to the Federal tax, there is a local sales tax, but this (in so far as the economic consequences of the taxes are concerned) is really a tax divided into two fractions rather than two taxes. The basis of calculation is the same for the Federal and the local tax - always the retail selling price (not including tax).

II. CHANGES IN BORDER TAX ADJUSTMENTS

The present system of indirect taxes on sales for ultimate consumption has remained unchanged since 1965.

III. MISCELLANEOUS

General

1. Social security is 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 is 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 represent about 6 per cent of the total expenditure on social security.

2. Of all the taxes mentioned under this head, stamp tax is the only one which is not mentioned in Chapter I and which is not a tax on income or capital but which nevertheless affects production and distribution costs. The total revenue from these taxes is relatively small (300 million dinars in 1967).

3. Road transport of goods in transit is subject to a tax of 10 centimes per kilometre and per ton of useful load, unless such transport is exempt by treaty. So far, Yugoslavia has treaties with twenty countries, so that in fact most road transport in transit is tax-free.

4. No.
5. The taxes which may be the subject of border tax adjustment amount 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

6. - 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 are inapplicable in Yugoslavia, where profits are not taxed. There is thus no possibility of granting credits or deductions relative to increases in export sales or for export sales promotion expenses. The same is 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 leaves undertakings free to go above these rates.

15. Undertakings in the socialist sector pay interest (which in effect amounts to a tax) on the value of the invested (fixed or circulating) capital. The average rate is about 3 per cent. This interest must be guaranteed by incorporating it in the price, i.e., before calculating profits.

16. No.

17. No.

18. There are no tax-related border adjustments other than those mentioned. Nor are there any other tax credits relative to exports or imports.