

# GENERAL AGREEMENT ON TARIFFS AND TRADE

RESTRICTED

L/3125

23 November 1968

Limited Distribution

---

CONTRACTING PARTIES  
Twenty-Fifth Session

## WORKING PARTY ON BORDER TAX ADJUSTMENTS

Meeting of 8 to 11 October 1968

### Note by Secretariat

The Working Party held its fourth meeting from 8 to 11 October 1968. This note on the meeting has been prepared by the secretariat for the convenience of delegations.

#### General statements

The representative of the United States made a general statement, the text of which is reproduced in Annex A to this note.

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.

Examination of practices of contracting parties in relation to border tax adjustments

The Working Party noted that a questionnaire, Spec(68)97 and Add.1, asking for information on a short list of products of interest to developing countries had been sent to developed members of the Working Party and that the information should be supplied by the time of the next meeting.

The Working Party also noted that information supplied by contracting parties on their practices in relation to border tax adjustments had been circulated in Spec(68)88 and Add.1.<sup>1</sup> In the case of contracting parties which were members of the OECD this information supplemented that contained in the OECD documentation; information in respect of other contracting parties had been supplied in response to a questionnaire (Spec(68)56) based on that used by the OECD.

The Working Party considered how it should organize its examination of border tax practices. It recalled that at its last meeting it had instructed a Technical Group to draw up a list of questions to serve as a basis for a country-by-country examination (L/3048, paragraphs 3 and 4). The Working Party had before it an Outline for the Examination of Border Tax Practices which had been agreed by the Technical Group.

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".

---

<sup>1</sup>Since the meeting a second addendum has been circulated.

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 rôle 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.

The Working Party adopted the Outline as proposed by the Technical Group. At the proposal of the representative of India, a question was added relating to the treatment of goods not domestically produced. The Outline as adopted is reproduced in Annex B.

The Working Party then considered how it should use the Outline. After discussion, it agreed that it would go through it section by section, and that members of the Working Party would give short oral answers to the questions. It was understood that in many cases answers could be made by reference to documentation already before the Working Party. It was also understood that, while at that stage the examination would be limited to members of the Working Party, it would be open to the Working Party to examine the practices of contracting parties not members of the Working Party at a later stage.

It was suggested that the examination, which would be a process of mutual education, would throw light on the equity of the GATT rules, the arbitrariness of the present system and the need for change. It would also show that the present GATT rules left an area of discretion to individual contracting parties, that there was wide scope for administrative judgment and that, leaving aside the question of changes in the rules, the present rules should be codified. The Working Party should go through the questions in the Outline leaving aside intricate detail and should shortly press on to consider their broad implications including their trade implications. It could come back to the details later in a cleaning-up operation.

Other representatives agreed that the examination of border tax practices would be a process of mutual education. They emphasized the importance of allowing contracting parties an adequate opportunity to explain and justify their systems. They referred to points made in the general statements and said that it was important that conclusions should not be drawn on the basis of inadequate data and that the Working Party should not move on to point 1(c) of its terms of reference before it had a full understanding of fiscal matters.

#### Cascade taxes

Section IA(a) of the Outline deals with cascade taxes. 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.

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  $\frac{1}{8}$ th 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  $\frac{1}{2}$  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.

### 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 on 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 these 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 of a tax at a previous 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) <u>Tax burden on the Belgian producer:</u>	1.036 per cent
(B) <u>Tax burden on the Belgian purchaser of the domestic product:</u>	
(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	<u>0.700 per cent</u>
Total	<u>1.736 per cent</u>

(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

	1.036 per cent
and the invoice tax	<u>0.700 per cent</u>
Total	<u>1.736 per cent</u>

Under the rounding-off rule, the rate of compensatory tax was reduced from 1.736 per cent 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 products, 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.

#### Other

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.

#### 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 10. 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 Ptas 4,200 and came under the tourist or postal despatch régime.

#### Single-stage taxes

Section I A(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

##### 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 a 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 tax 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.

#### Single-stage taxes - wholesale

##### 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. Tax-payers 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 3.6 per cent rate on retail delivery in Switzerland, the importer was entitled to claim reimbursement. There was no repayment of the hidden tax, 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

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 Colombia. 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).

#### 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 taxes 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.

Date of next meeting and report to CONTRACTING PARTIES

The Working Party agreed to hold its next meeting during the first week of the session. At that meeting, it would continue to go through the Outline section by section, starting with added-value taxes.

It also agreed that the Chairman should present his interim report to the CONTRACTING PARTIES on the work so far done by the Working Party.

ANNEX A

SUMMARY OF STATEMENT BY THE REPRESENTATIVE OF THE  
UNITED STATES

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 these 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.

ANNEX B

OUTLINE FOR EXAMINATION OF  
BORDER TAX PRACTICES

I. TAX SYSTEMS

A. General consumption taxes

(a) Cascade taxes

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?

(b) Single-stage taxes

Manufacturing, wholesale

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?

#### Retail

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?

(c) Tax on value added

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?

B. Selective excise taxes

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?

C. Overlapping indirect tax systems

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?

II. CHANGES IN BORDER TAX ADJUSTMENTS

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?

### III. MISCELLANEOUS

#### 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 for 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?