

# GENERAL AGREEMENT ON TARIFFS AND TRADE

RESTRICTED

SCM/25/Add.2

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Original: Spanish

## IMPLEMENTATION OF THE VALUE-ADDED TAX SYSTEM

### Communication from Spain

#### Addendum

The following communication dated 18 February 1986 has been received from the Permanent Representative of Spain.

Upon signing its acceptance of the Agreement on Interpretation and Application of Articles VI, XVI and XXIII of the General Agreement on Tariffs and Trade on 14 April 1982, Spain entered a reservation in respect of the application of the provisions of paragraph 5(a) of Article 19; that reservation was accepted by the signatories on 29 April 1982, on the terms indicated in document SCM/25.

At the end of the period for which the reservation had been accepted by the other signatories of the Agreement, on 28 December 1984 the Spanish authorities notified their decision to withdraw the reservation with effect from 31 December 1984; that notification was circulated in document SCM/25/Add.1.

Nevertheless, the indirect taxation system applied in Spain at that time was of the type termed cascade taxation, and for that reason the refund of indirect taxes charged on goods exported could not be exactly adjusted to the amount of taxes actually collected, so that on occasion an element of subsidization could occur which was contrary to the provisions of the Agreement, and in particular Article 9, paragraph 2, regarding the Annex to the Agreement.

Accordingly, the Spanish authorities notified the possible element of subsidization that could be involved in the tax rebate on exports (TRE), and that notification was circulated on 12 April 1985 in document L/5768/Add.4. At the same time, the Spanish authorities described certain measures already taken to limit as far as possible any element of subsidization involved in the TRE, and stated their intention to eliminate it shortly in the expectation that in the near future a system of indirect taxation based on value-added tax (VAT) would be introduced in place of the existing indirect cascade-tax system; under the VAT system, in each case the amount of TRE would correspond exactly to the amount of indirect taxes paid on the production and marketing of the product exported.

On 2 August 1985, Law 30/1985 on Value-Added Tax was promulgated; the text of this law was published in the Official Gazette on 9 August 1985, and a photocopy is attached to the present notification.<sup>1</sup>

Under this law, a single value-added tax has been established in place of a number of indirect taxes formerly applied which together made up the system of indirect cascade taxation in effect at that time.

In accordance with the first final provision of that law, the latter entered into force on 1 January 1986.

Lastly, in pursuance of sub-paragraph (e) of the second final provision of that law, as from 1 January 1986 "Decree 2155/1970, of 16 April, establishing regulations on the tax rebate on exports and supplementary provisions" has been revoked.

In view of the foregoing, the Spanish authorities consider that the refund of indirect taxes currently in effect in Spain is in general fully consistent with the provisions of the General Agreement on Tariffs and Trade, and in particular with the requirements of the Agreement on Interpretation and Application of Articles VI, XVI and XXIII of that instrument.

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<sup>1</sup>Delegations who are interested in the text of Law 30/1985 of 2 August 1985 are requested to contact Miss S. Aspinall, office 1023, Tel. Ext. 2153.