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HARMONIZATION OF TURNOVER TAXES IN THE COMMUNITY

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Introduction

On 5 November 1962 the Commission of the European Economic Community submitted to the Council of Ministers a proposal for a "directive on the harmonization of Member States' laws concerning turnover taxes".

The directive provides that the cumulative multi-stage tax systems at present in force in most Member States shall be replaced by non-cumulative systems. The Member States would remain free to adopt a system of their choice.

This would be the first stage of an operation to render turnover tax in the Member States neutral from the point of view of competition and thereby to introduce equal starting conditions by imposing equal charges on goods irrespective of the number of processes through which they have passed; at the end of this stage flat-rate compensatory measures in intra-Community trade would no longer be admissible.

A second stage is planned, in which each Member State should evolve its chosen system in the direction of a common added-value tax system, without however being obliged at this stage to align rates of duties and conditions of exemption.

In a third and last stage, the details of which are to be settled later, the final goal of harmonized turnover taxes is to be reached: it is the abolition of tax frontiers in trade amongst Member States through elimination of taxes on imports and tax reliefs on exports.

On 2 July 1963 the Economic and Social Committee and on 17 October 1963 the European Parliament gave their opinions on the proposal of the Commission. The Parliament's resolution was based on a report submitted by M. Deringer on behalf of the Internal Market Committee (Doc. 56).

During the parliamentary debate M. von der Groeben, a member of the Commission of the European Economic Community, made a statement on the principles of the Commission's policy in the field of tax harmonization, which is given below in slightly abridged form.

'We had two objectives in mind in putting forward these proposals : to eliminate distortion of competition and to abolish tax frontiers at or about the end of the transition period.

The first of these should be seen in the context of the Commission's policy on competition, the main features of which I explained in detail to this House two years ago. We must prevent the advantages gained by dismantling tariff barriers and quotas from being nullified by the manipulation of drawbacks and countervailing charges in respect of turnover taxes. We must ensure that distortion of competition is eliminated; in merchandise trade fair competition must prevail.

But that is only the short-term objective. The long-term and more important one is the removal of tax frontiers. I would like to go more deeply into this point, because it was very fully discussed in the Economic and Social Committee, whose formal opinion you have before you, and because divergent views have been expressed on the subject here today.

I note that Mrs. Elsner regretted that the Commission had not yet set a date for the attainment of this objective and said that the project had no economic or political significance unless it really led to the ultimate goal of creating a genuine Common Market.

Other speakers have also raised objections or expressed misgivings. M. Armengaud rightly pointed out that the Commission in its proposal had not yet decided on a date for the abolition of tax

frontiers. But the Commission, which I have represented at these sittings, has left no doubt about its own views; it has simply put them forward for discussion. I believe that tax frontiers must be broken down if we are to create the conditions for a true Common Market, which means a better division of labour, a better utilization of the factors of production in Europe. In this sense there is still no Common Market today, and we shall not get one merely by doing away with tariffs and quotas.

Let me explain briefly. What is it that stands in the way of the free movement of goods today? The remaining tariffs and quotas do, of course. But by the automatic process set in motion under the Treaty, these will disappear in a few years - three or four, we hope. But the removal of other obstacles is much more difficult.

As you know from our Action Programme, we are busily engaged in dealing with these other obstacles. It is not at all the case that these problems are not being tackled. The Commission and the Council will have to give special attention to precisely these obstacles in the coming years.

I will mention a few of them: the licensing system as it now exists; the certificates of origin required for goods from non-member countries, which naturally obstruct the free movement of goods within the Community; the remnants of exchange control, which is almost non-existent today, it is true, but which could be revived; the divergencies among health and technical regulations, particularly as regards foodstuffs; certain provisions of government monopolies and similar semi-governmental organizations; statistical frontiers, political frontiers, patent frontiers and - not least - tax frontiers.

This list sounds rather disquieting. But, as I have said, we are actively engaged in dealing with all these matters and are in touch with the Governments in order to find solutions. In my own field I would remind you of the draft European Patent Convention and the attempts to abolish discrimination on the part of government monopolies.

In tackling all these problems we must also get down to tax legislation. To use graphic image, the Common Market today consists of six streams or ponds whose water level varies to some extent and which are linked by a smoothly operating system of canals and locks - a system that is lubricated, if I may put it that way, by the current economic boom. This is certainly a great step forward from what we had before. But we still have to create from these six streams, from these six ponds, the great lake of the Common Market on which ships - which is to say goods and services - can move about freely and on which trade can be carried on without hindrance. So in all these spheres our task is to widen the canals, remove the locks and break down the dams.

Clearly, this can only be done if - to keep to the same metaphor - the various streams are brought to the same level beforehand. Fortunately, considerable progress has been made in this direction during the last six years in the economic and social spheres. But we also need a common co-ordinated economic and monetary policy. We must see to it that these are not empty words but that the Member States, together with the Commission, really get on with the job.

A second thing that is needed to bring the water levels together is progress in the harmonization of legislation - especially where there are laws that guide or else obstruct economic activity. This is particularly true, of course, of tax legislation.

Now why must this system of locks, why must these dams be removed? Why do we really need this large undivided internal market? We should reflect once more upon this matter. The question is raised particularly by people who are in favour of a genuine common market, a large market, whenever their own exports, their own sales are at stake, but who prefer the lock-gates to be kept intact when it is a matter of imports, of competition.

I will mention only four of the many reasons in favour of such a large internal market. First, the necessary adaptation and re-siting of industry, a better division of labour, the adaptation of producers and dealers to the enlarged market will only come about if the locks are opened and the dams breached. The success, the significance of the entire integration process depend upon this.

Secondly, as long as the locks and dams still exist, there is a great temptation for Governments to use them to restrict the movement of goods and services. I believe that the right thing is not locks and dams or safeguard clauses but a common economic policy that foresees difficulties, leads us in the right direction and tackles difficulties by concerted action.

Thirdly, if there is no progress in breaking up the dams, we can expect no progress in the promotion of economic and ultimately political union either.

Fourthly, the maintenance of tax frontiers and of physical controls at frontiers would be psychologically a grave handicap. Sending goods into another Common Market country would still be regarded as exportation, not as internal trade.

I should also like briefly to take issue with those who say that such an alignment of tax systems, such a removal of tax frontiers cannot succeed until further progress has been made towards economic union and even political union.

In my opinion the converse is true. I know this is a bold assertion, but I will still make it. Economic union and political union are not things that will come like some sort of miracle from on high and resolve all our difficulties. Economic union will grow out of the daily activities of the Community institutions;

it will come from people doing what is possible, everything that is done being directed towards our final objective - an economically and politically united Europe.

I will say again : by removing tax frontiers we are creating an essential condition for economic union and to some extent we are even making it a reality already. It seems to me obvious that other measures - particularly the removal of other obstacles and the co-ordination of economic and monetary policy - must be taken simultaneously; I have already brought this out in detail today.

I should also like to reject the notion that we should wait, that we should postpone a given measure because some other measure should perhaps be taken, or - and this is often said too - that only certain measures are the right ones to cap the whole scheme. I think that, if we asked, everyone would tell us that the measure that concerns him should be left to the very end to provide the coping stone. And this shows clearly why the notion is unacceptable. It is the Commission's policy to make progress in all spheres in order to ensure the organic development of the Common Market.

This has political repercussions too. In the common competition and economic policies we are partially realizing political union. From this process the need will arise to make the appropriate institutional arrangements to strengthen the organs of the Community.

M. Deringer has rightly pointed out that here too, in aligning tax legislation, we are applying the well-tried system set out in the Treaty - going ahead in especially important fields of activity, making progress, tackling any difficulties that arise and finding solutions to them. We do not want harmonization for the sake of harmonization. Rather do we want harmonization where it is essential to the Common Market.

We know that going ahead with the alignment of turnover taxes has raised other fiscal matters as well as those I have touched upon already, to mention only company taxes, double taxation, taxes on capital transactions, and taxes affecting transport. Good progress has been made in these fields.

The second objection that is raised is that technical and budgetary difficulties are so great that they cannot be overcome at present. There will certainly be technical and budgetary difficulties. But it has never yet been properly explained why they should be insurmountable. We believe, on the contrary, that they can be surmounted, even as the Common Market stands or as it will be at the end of the transition period.

As for budget matters, there can obviously be no difficulties if trade between States is balanced. But even if this is not the case, solutions will be found by way of financial clearing. May I remind this House that we already have the beginnings of this in the agricultural regulations and that we shall very soon have to decide what is to be done about customs duties. For at the end of the transition period it will no longer be possible for customs revenue to accrue to the country into which the goods happen to be imported. When internal frontiers have been removed, free movement of goods will be assured and other systems will have to be found of distributing customs revenue deriving from trade with non-member countries.

Of course, there will be serious problems when we go on to harmonize tax rates as well. It will involve a new apportionment of revenue among the various types of tax. However, many talks with the Finance Ministers of the Member States have left me with the impression that the alignment of rates is not a utopian dream, particularly if we start from the assumption - and we may well

hope it will be justified - that in the next five or six years the growth of our Community product will inevitably produce an increase in tax revenue, which will make it easier to effect these shifts among the various forms of tax.

So the Commission's plan is in line with the objectives leading to economic union and at the same time, if I see it aright, constitutes a step on the way to political unity. It is realistic and technically feasible and is well suited to pressing the integration process vigorously forward."
