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INFORMATION MEMOHarmonization of turnover taxes

The Commission of the European Economic Community has submitted to the Council an amended draft of the turnover tax directive. It will be remembered that M. von der Groeben, Commission member responsible, informed the Finance Ministers of the six Member States of the proposed changes at their meeting in Luxembourg on 2 and 3 April last. Meanwhile, the heads of national revenue departments have also studied the proposal.

The draft is a new version of the draft directive of 5 November 1962 which was favourably received by the Economic and Social Committee on 2 July 1963 and the European Parliament on 17 October 1963. It incorporates certain changes suggested by the Parliament and the Committee and takes into account a number of points which emerged from the discussion of the draft with the Finance Ministers of the Six and their experts.

The changes mainly concern the following points:

- (1) According to Articles 1 and 3 of the original draft the common added-value tax system was to be introduced by the end of the transition period at the latest, i.e., by 31 December 1969. In the first stage those Member States which impose turnover tax by a multi-stage cumulative system would replace this by a non-cumulative system, which need not necessarily be an added-value system. In the second stage, any non-cumulative systems introduced in the first stage were to be converted into a common added-value system.

The European Parliament and the Economic and Social Committee preferred to have the common added-value tax system introduced in a single stage. The Commission saw no objection to adapting its original proposal to meet this wish.

- (2) This telescoping of the stages brings up the question of the time-limit for introducing the common system. In the opinion of the European Parliament the common added-value tax must be brought into operation at the latest by 31 December 1967, whereas the Economic and Social Committee favours 31 December 1969, the end of the transition period.

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For its part the Commission considers it possible to make a distinction between the passing and promulgation of the laws by which the national Parliaments introduce the common added-value tax and their entry into effect. The laws must be passed and promulgated before 31 December 1967, but entry into force could be deferred until 31 December 1969.

- (3) The final aim of the harmonization of turnover tax is to abolish tax frontiers. According to Article 4 of the original proposal, the Commission will study by what means and within what period of time the harmonization of turnover taxes shall attain its final object, namely the abolition of countervailing charges on imports and drawbacks on exports in trade between Member States, the neutral effect of turnover taxes on trade being safeguarded. In principle this provision of the draft directive has remained unchanged. It is merely specified that the Commission shall submit these proposals to the Council before the end of 1968, and that the Council shall decide before the end of the transition period.
- (4) Article 2 of the amended draft directive indicates some salient features of the common added-value tax:
 - (a) It will be in the nature of a general consumption tax,
 - (b) It will be levied according to the system of "fractional payment";
 - (c) The added value will be determined by means of the tax-on-tax deduction.

Meanwhile, the structure and implementing details of the common added-value system will be dealt with in a second directive. Article 3 of the amended version provides that the Commission shall submit a draft for this purpose to the Council before 1 April 1965.

It has, however, been thought desirable to inform the Member States forthwith of the main lines of the structure and implementing details of the common system, so that they may make their decision in principle on the amended draft directive in full knowledge of the probable basic features of the common system. The Commission also considers that those Member States which are already taking steps to introduce an added-value system should be given some indication as to the form of the future common system. For these reasons the Commission considered it useful to sum up the main principles of the future system in an opinion which it has forwarded to the Member States. As well as the three salient features already mentioned, this opinion includes the following points:

- (a) The basic concept of the added-value tax is to apply to goods and services a general consumption tax which is in exact relation to their price, irrespective of the number of transactions in the course of production and marketing prior to the charging of the tax.

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- (b) In order to attain greater simplicity and neutral effects on competition, the field of application of the added-value tax must be as wide as possible. Exceptions will therefore be kept within strict limits.
- (c) The common added-value system is applied down to the retail trade stage inclusive. However, Member States are at liberty not to take it beyond the wholesale stage. In this case the Member State concerned informs the Commission in good time of the limiting rules which it is planning to introduce into its legislation for this purpose.
- (d) Until such time as the Council unanimously decides otherwise, the proceeds of the added-value tax will accrue to the Member State in whose territory the final consumption or use of the goods or services occurs.
- (e) The following are subject to tax (turnover subject to tax):
- (i) The supply of goods and services by persons subject to tax within the country;
 - (ii) Import of goods.
- (f) All persons who regularly or occasionally exercise activity as producers, traders or suppliers of services whether or not for reward or profit are liable to taxation.
- (g) Methods of deduction:

Persons liable to added-value tax are entitled to deduct from the added-value tax calculated on their turnover:

- (i) The added-value tax reckoned against them for articles supplied to them or services performed for them;
- (ii) The added-value tax which they have paid on the import of goods,

where such articles and services are intended for the purposes of the enterprise.

Added-value tax chargeable on the acquisition of capital goods may be deducted from the added-value tax due in respect of the period in which such goods were acquired (immediate deduction).

- (h) Rates of tax and exemptions:

With certain exceptions, the normal rate of added-value tax chargeable on supplies of goods will also be applied to services. Exemptions will be strictly limited. (It is recalled that as long as tax frontiers remain, i.e., until the final aim of the harmonization of turnover tax

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has been attained, Member States are not obliged to harmonize rates and exemptions.)

(i) Services:

It will be compulsory to apply the common added-value system to any services whose cost appreciably affects the price of goods which may be the subject of intra-Community transactions. Such services will be set out in a common schedule still to be drawn up.

(j) Agriculture:

Farmers and persons treated as such are subject to added-value tax. At all stages however, the agricultural products to be set out in a future common schedule, and assimilated products, will be taxed at a reduced rate, which will be a specified fraction of the normal rate. As long as tax frontiers exist, any Member State may itself lay down the list of the above-mentioned products and the amount of the reduced rate and, if appropriate, apply simplified methods such as flat-rate payments, in taxing agriculture.

(k) Very small firms:

Where appropriate, every Member State is free to apply to very small firms, for which the normal added-value tax would involve difficulties, the special arrangements best suited to national requirements and the facilities available. Any Member State which proposes to introduce such special arrangements must contact the Commission in good time so that the latter can consult the other Member States on the matter with a view to avoiding any distortion of the terms of competition between Member States.
