

INFORMATION MEMO

Common method for calculating turnover equalization taxes
on imports and refunds on exports

At its meeting of 25 March 1968, the Council of the European Communities adopted a directive on a common method for calculating the average rates of tax mentioned in Article 97 of the EEC Treaty. The proposal for this directive had been submitted by the Commission on 28 June 1967.

The turnover tax systems currently in force in the Community are based on the principle that tax is paid in the country of destination. Given this system, Member States have to make certain compensatory adjustments in order to safeguard the competitiveness of their own products on domestic and external markets. Where the turnover tax system is based on the cumulative multi-stage tax system, they apply two groups of measures : turnover equalization taxes and refunds on exports. Under Article 97 of the EEC Treaty, it is permissible to make the adjustment by applying average rates, provided that these rates do not exceed a prescribed upper limit, i.e. the charges imposed on similar domestic products (Articles 95 and 96).

In practice, the average rate fixed for one product or group of products is the result of two lines of inquiry :

- (i) Assessment of the cumulative tax burden on all transaction directly or indirectly connected with the manufacture of the product in question;
- (ii) Weighting of this tax burden in order to take into account the differences in the degree to which the domestic enterprises that manufacture the product in question are integrated.

Although since 1960 the Member States have shown on what grounds their calculations are based when a rate is introduced or altered, in practice they sometimes apply different methods to determine the cumulative tax burden. This makes it more difficult to check the bases of calculation and, moreover, is no guarantee that the maximum rate fixed in Articles 95 and 96 is not exceeded. The introduction of a common method of calculation is designed to ensure greater clarity and certainly when the rates are fixed, and current practice will largely be taken into consideration when this is done. Unification of the methods of calculation is achieved by laying down the conditions in which the various components of an item's production costs can be taken into account. The common method offers three possibilities, which range from detailed calculation to a global estimate.