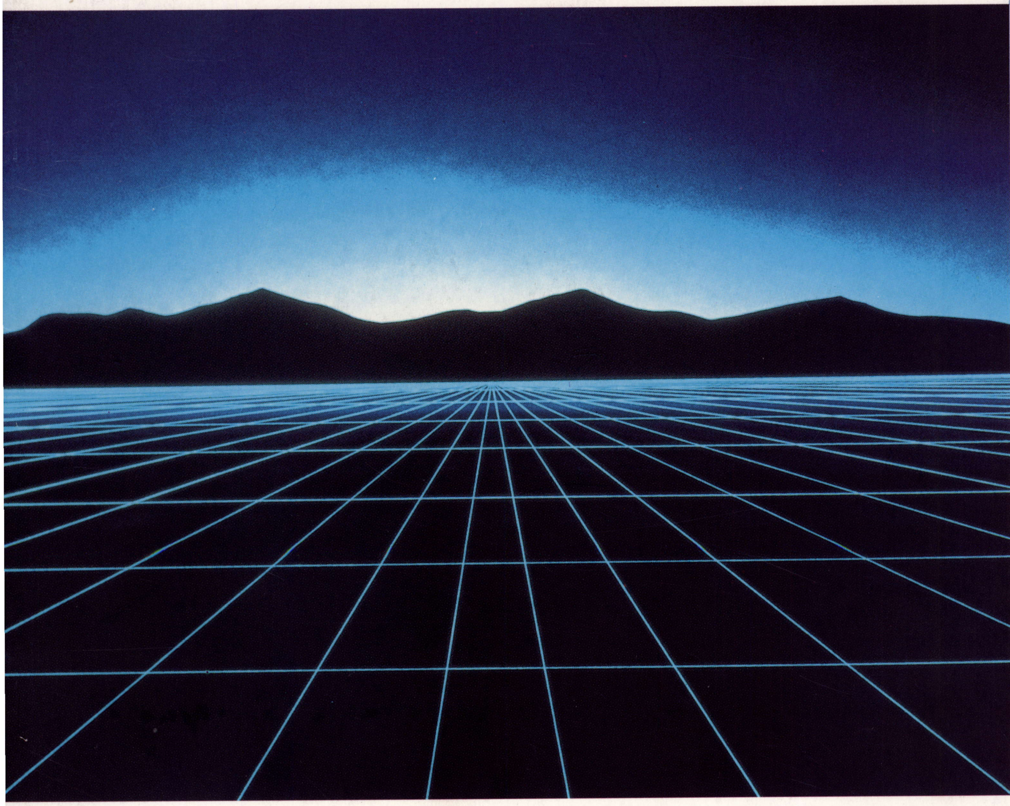
APPROXIMATION OF TAXES. WHY?



Europe on the move

ECC

One of the most difficult political tasks involved in the completion of the European Community's internal market is the removal of tax barriers between Member States. All Member States currently carry out border checks, not least because of the considerable differences in the taxation of goods. Removal of these barriers is one of the main aims of the programme for completing the internal market.

The tax harmonization sought by the Community — in the sense of an approximation, and not a standardization of legislation — is designed to lead to the creation of a common area without internal frontiers in which people, goods, services and capital can move around freely. Such a frontier-free area will make life decidedly easier for both individuals and firms in the Community.

'The Community's priority is to complete the internal market. This means abolishing tax frontiers by 31 December 1992, aligning VAT and excise-duty rates and eliminating double taxation of companies. Only a pragmatic approach can bring about the necessary agreements'.

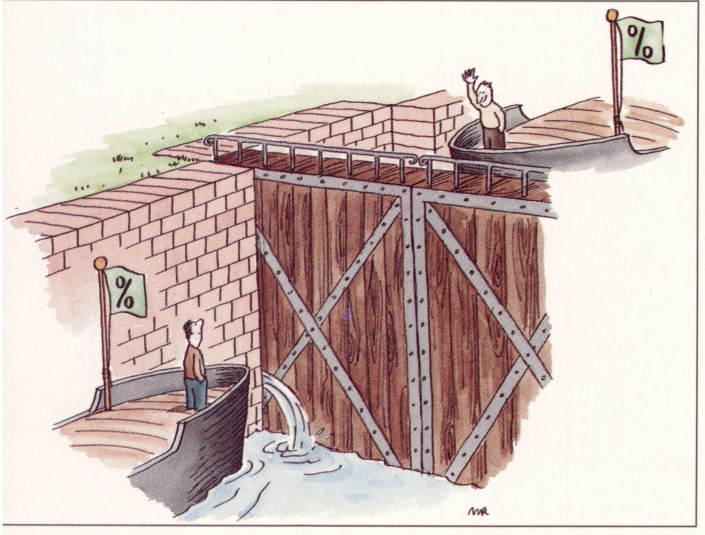
Christiane Scrivener, Member of the Commission of the European Communities

EC tax policy is not concerned with levying common taxes: its aim is rather to create a smoothly functioning internal market. The principle of subsidiarity, as consistently applied by the Community, is also of relevance here. It states that functions should be performed at the lowest possible level, e.g. at municipal, regional or national level in Member States. The Community concerns itself only with tasks that have Community implications, leaving implementation in most cases to the Member States.

APPROXIMATION, NOT STANDARDIZATION

Tax approximation primarily affects value-added tax (VAT) and excise duties, the different rates of which in Member States continue to make border checks necessary. Measures also need to be taken at Community level in other areas, such as company taxation, where differing national regulations lead to distortions of competition that are incompatible with the smooth functioning of the internal market.

At the same time, the abolition of tax frontiers will help to make Member States' systems of taxation more readily understandable and to reduce the administrative burden on firms and individuals.



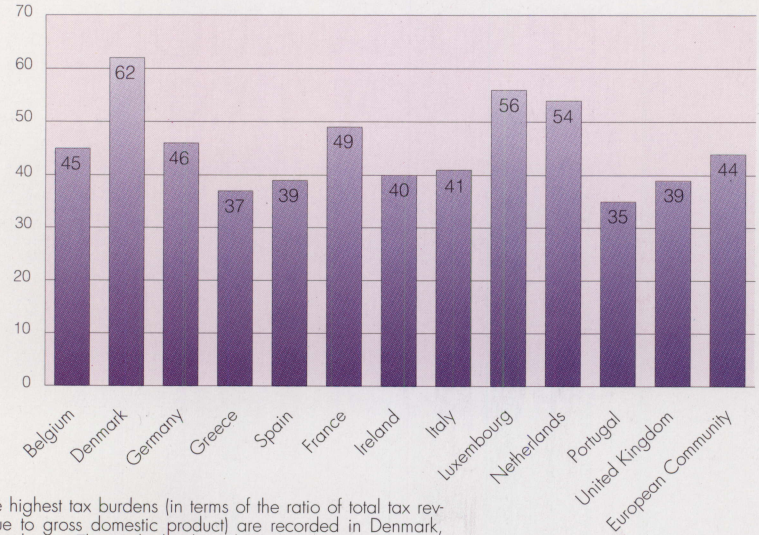
Mario Ramos

In political terms, the task of tax approximation is extremely difficult, as all changes in taxation will have a direct positive or negative effect on the revenue accruing to national budgets. Added to this is the fact that, in tax matters, decisions taken by Member States in the Council of Ministers must be unanimous.

In the wake of the creation of the single market by the end of 1992, for which governments and firms have been preparing for a number of years, Member States have already begun to restructure their tax systems and adjust their levels of taxation. The German Government, for example, has taken the Community's targets into account in adjusting excise-duty rates. France has reduced its VAT rates in order to move closer to the Community average. Ireland and The Netherlands have responded in similar fashion to the 1992 deadline.

Tax approximation, which is expected to be achieved by 1993, will not lead to any far-reaching and sudden upheavals. However, in addition to the practical steps towards approximation, the Community tax system will steadily become more uniform as a result of the momentum of the single market programme and the liberalization of capital movements.

TAX YIELD IN EC MEMBER STATES (AS % OF GDP IN 1989)



The highest tax burdens (in terms of the ratio of total tax revenue to gross domestic product) are recorded in Denmark, Luxembourg, The Netherlands and France.

VAT: A MINIMUM RATE OF 15%

As from 1 January 1993, each Member State will apply a standard rate of VAT not lower than 15%. This important decision was taken by the Community's Finance Ministers on 24 June 1991 within the framework of a decisive and unanimous political agreement on the abolition of tax frontiers and the approximation of VAT and excise-duty rates. In addition to the standard rate of VAT, Member States will have the option of applying one or two reduced rates, not lower than 5%. It will be possible for existing rates below 5% and zero-rating to be retained for a transitional period after 1993. All the higher rates of VAT levied on cars, hi-fi and video equipment, perfumes, etc. will be abolished as from 1 January 1993.

Frontier checks will be abolished on 1 January 1993 but VAT will continue, for a transitional period, to be levied only in the country of destination.

Member States have agreed that under the definitive taxation system VAT will be charged in the country of origin. As from 1 January 1997, therefore, VAT will in principle be levied in the country in which goods are produced.

The abolition of customs checks and formalities at internal frontiers will do away with some 60 million customs forms currently used each year. Any necessary controls will be carried out through a system of cooperation between Member States' tax authorities and a computerized network for exchanging information.

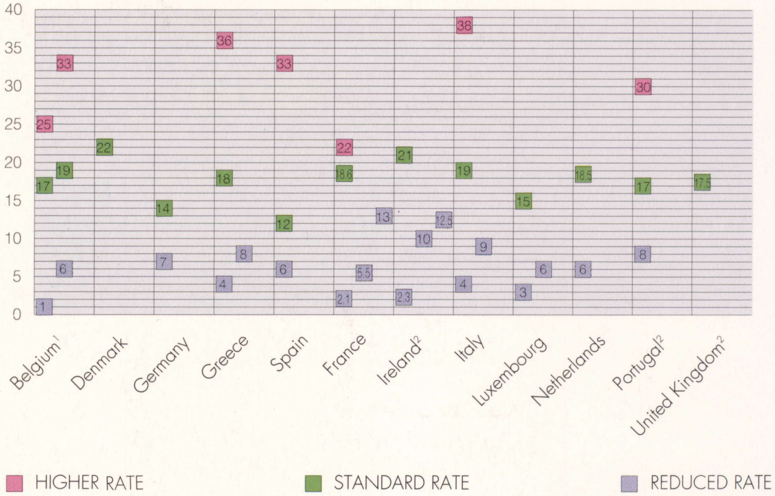
Throughout the EC, unleaded petrol is to be cheaper than leaded petrol.

Eureka Slide

'This agreement is of particular importance since it can now confidently be said that tax frontiers will be abolished by 1 January 1993'.

Christiane Scrivener, Member of the Commission with special responsibility for taxation, commenting on the agreement reached by Ministers for Finance on VAT and excise-duty rates.

CURRENT VAT RATES IN MEMBER STATES



[1] Belgium: intermediate rate of 17%.

[2] These are the only countries in which there is also a significant extent of zero-rating.

As from 1 January 1993, all Member States will apply a minimum VAT rate of 15% (see 'VAT: a minimum rate of 15%').

ABOLITION OF RESTRICTIONS ON PURCHASES BY INDIVIDUALS

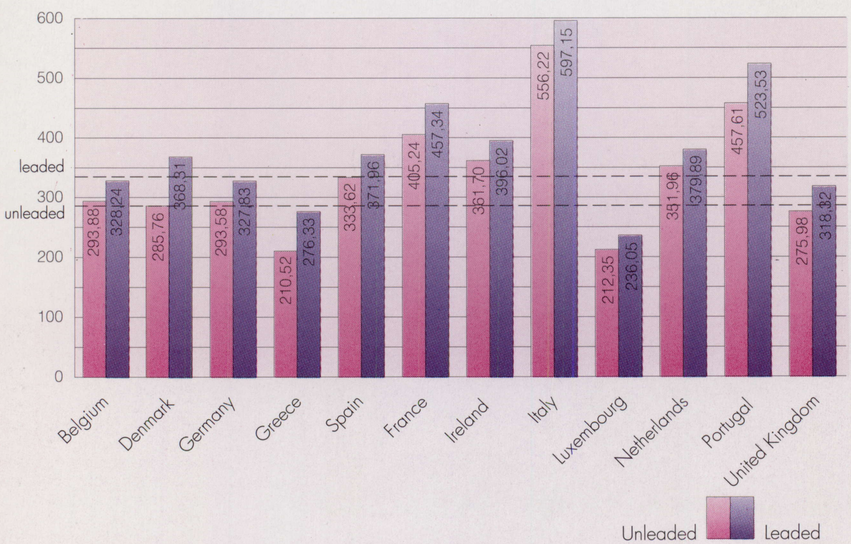
Travellers will be free, as from 1993, to make purchases in other Member States and to return home with those purchases without formalities, provided that they are for their personal consumption. Special rules will be applied to cars and mail-order sales, for which taxes in the country of destination will continue to apply. Thus, the continuing restrictions on purchases by travellers spending weekends and holidays in other Member States will disappear. Already, the maximum amount of goods that a traveller may purchase free of formalities or duties has risen since 1 July 1991 from ECU 390 to ECU 600 per person per trip, with certain restrictions in the case of Denmark, Ireland and Greece.

The reason for the failure as yet to secure the removal of all restrictions is the very wide disparities in tax rates between Member States. Some Member States which levy comparatively high taxes are worried about excessive shortfalls in tax revenue and deflections of trade.

Jean Guyaux

Tax approximation should also bring prices further together.

EXCISE DUTY ON PETROL (ECU per 1 000 litres)



This table shows the excise dûty on petrol in Member States. As from 1 January 1993, a minimum rate of ECU 337 per 1 000 litres of leaded petrol will apply; the rate on unleaded petrol will have to be ECU 50 less than that on leaded petrol.

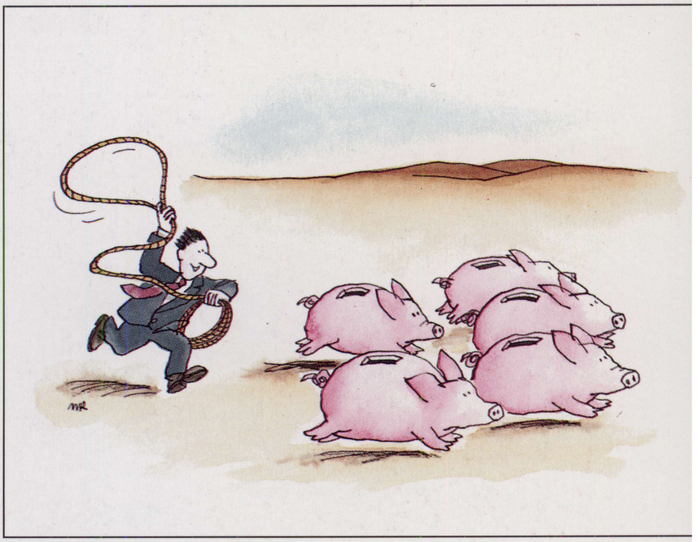
MINIMUM RATES AND A HARMONIZED STRUCTURE FOR EXCISE DUTIES

Certain products, for example cigarettes, coffee and petrol, are subject not only to VAT but also to excise duties. Until now, both the structure and rates of these duties have been left to Member States, resulting in widely differing rates of duty and border checks.

In order to complete the single market, the Commission considered it necessary to propose harmonized structures and minimum rates for three groups of products: manufactured tobacco, alcoholic beverages and mineral oils. Minimum rates for mineral oils, beer, wine and cigarettes have already been agreed by Member States and are to come into force on 1 January 1993.

Member States have also responded favourably to the target rates proposed by the Commission and will attempt to move towards them when adjusting their rates.

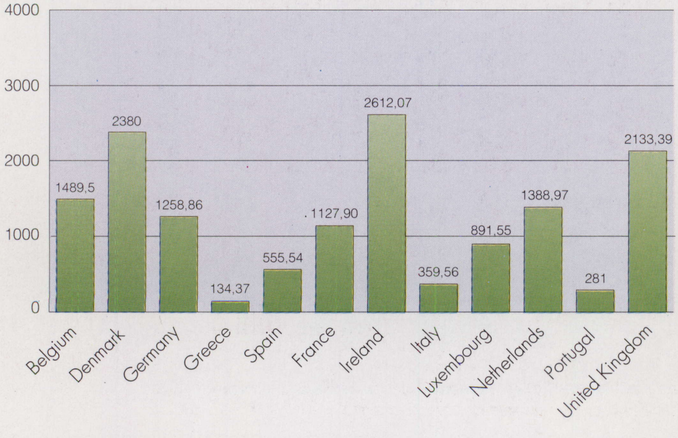
In all cases, frontier checks will have to be abolished as from 1 January 1993.



Mario Ramos

Taxable goods will be transported between Member States relying on a system of interconnected tax warehouses.

EXCISE DUTY ON SPIRITS (ECU per hectolitre of pure alcohol)



This table shows the situation in the Member States on 1 January 1990. It will be seen that rates vary considerably from one Member State to another. While Italy, Portugal and Greece levy extremely low excise duties on spirits, Denmark, Ireland and the United Kingdom apply very high rates. For some alcoholic beverages, Community minimum rates have already been adopted and are due to come into force on 1 January 1993 (see table on minimum rates).

MINIMUM EXCISE-DUTY RATES ADOPTED FOR APPLICATION FROM 1 JANUARY 1993

PRODUCT	ECU
Mineral oils	
☐ leaded petrol (1 000 l)	337
☐ unleaded petrol (1 000 l)	287
☐ road diesel oil (1 000 l)	245
☐ heating gas oil (1 000 l)	0
☐ heavy fuel oil (1 000 kg)	13
☐ LPG and methane (used as fuel)	to be determined later
☐ kerosene (1 000 l)	
• used as fuel	to be determined later
• used for heating	0
Alcoholic beverages	
☐ beer (hl of end product)	0.748 per degree Plato or 1.87 per degree of alcohol
☐ still wine (hl)	0
☐ sparkling wine (hl)	0
☐ potable alcohol (hl of pure alcohol)	to be determined later
☐ intermediate products	to be determined later
Manufactured tobacco	
☐ cigarettes (per 1 000): overall excise duty (specific and *ad valorem* excluding VAT) category most in demand	57% of retail price (including tax) for cigarettes of the price
☐ other manufactured tobacco	to be determined later

SPECIAL PROVISIONS

Mineral oils

☐ *Greece* has been granted a transitional period of two years during which the minimum rate to be observed for the excise duty on road diesel oil will be ECU 195.

☐ *Luxembourg* has been granted a transitional period of two years during which the following minimum rates will be observed:

- for road diesel oil: ECU 195
- for leaded petrol: ECU 292
- for unleaded petrol: ECU 242

Manufactured tobacco

Spain will have a transitional period of two years, starting from 1 January 1993, in which to reach the rate of 57%.

Alcoholic beverages

☐ For the beer produced by small independent breweries, the minimum rates are reduced by 50%, namely 0.374 per degree Plato or 0.935 per degree of alcohol.

☐ For potable alcohols produced by small distilleries, the minimum rate will be reduced by 50%.

NO DOUBLE TAXATION FOR FIRMS

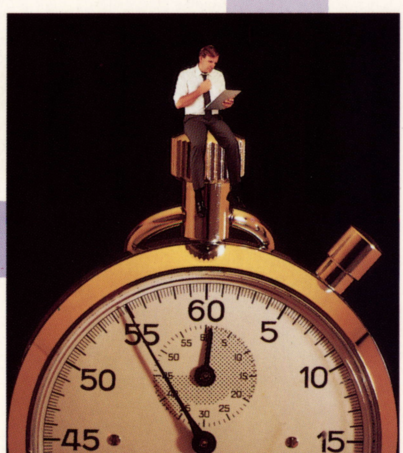
As Christiane Scrivener, the Member of the Commission with special responsibility for taxation, has said, taxes must not place firms that do business in several Member States at a disadvantage compared with firms that restrict their activities to their own domestic market. Any form of double taxation in cross-border transactions must be eliminated by 1 January 1993.

In July 1990, after many years of negotiations, two directives and an agreement were adopted which regulate the tax aspects of cross-border cooperation between firms. The so-called parent company/subsidiary Directive has considerably reduced the risk of double taxation of the profits of foreign subsidiaries that are distributed to the parent company in the form of dividends. In order to avoid any increase in tax burdens, there will also be common rules for mergers, divisions and contributions of assets and for exchanges of shares involving firms from different Member States. A Community-wide arbitration procedure will rule out double taxation on profit adjustments between associated enterprises.

In November 1990 the Commission presented two draft directives aimed at removing further obstacles to cross-border business activities in the Community.

One of these draft directives provides for the abolition of all withholding taxes on interest and royalty payments between parent companies and subsidiaries in different Member States. The other would permit firms to take account, for tax purposes, of the losses of their permanent establishments and subsidiaries situated in other Member States. Both directives are to be adopted by the Council in time for their implementation by Member States as of 1 January 1993.

One of the consequences of the single market programme and the revision of the Treaties of Rome set in train by the Single European Act has been the abandonment of the centralist concept of maximum harmonization of national laws at EC level. In the company taxation field, the Commission called in 1990 for a study to be undertaken of the priorities to be adopted in the context of the further development of the internal market. Entrusted to a group of independent experts from various Member States, chaired by Mr Ruding, a former Dutch Minister of Finance, this study is covering *inter alia* the differences in Member States' tax systems and the effect they have on the competitive situation and investment behaviour of firms. On this basis, the areas in which further Community action may be needed will be identified.



P. A. Simon — Benelux Press

'It is particularly important that the tax obstacles to cross-border cooperation in the Community should disappear by 31 December 1992'.

Christiane Scrivener, Member of the Commission of the European Communities.

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