

**Draft Council directive for the harmonization amongst Member States
of turnover tax legislation**

(Proposal submitted by the Commission to the Council on 5 November 1962)

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SECRETARIAT OF THE COMMISSION OF
THE EUROPEAN ECONOMIC COMMUNITY

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The Council of the European Economic Community,

Having regard to the provisions of the Treaty establishing the European Economic Community, and in particular Articles 99 and 100 thereof;

Having regard to the proposal of the Commission;

Having regard to the opinion of the Economic and Social Committee;

Having regard to the opinion of the European Parliament;

Whereas the aim of the Treaty is to create an economic union based on vigorous competition and having the characteristics of an internal market;

Whereas an essential prerequisite for this aim is that the turnover tax legislation of Member States should not distort competition nor hinder the free circulation of goods and services in the Common Market;

Whereas the existing laws do not meet the above-mentioned requirements since on the one hand the systems of multi-stage, cumulative taxation practised in five of the Member States are not neutral in their effects on competition, and on the other hand these same laws all permit in respect of intra-Community trade the application of compensatory taxes to imports and drawbacks on exports, thus maintaining tax frontiers between Member States;

Whereas it is in the interest of the Common Market to harmonize turnover tax legislation in order to eliminate as far as possible all distortions in the terms of competition, both nationally and at Community level, as well as to abolish the above-mentioned taxation measures affecting Community trade;

Whereas from studies in this field it is evident that harmonization must culminate in the abolition of multi-stage cumulative tax systems and the adoption by all Member States of a common system of added-value tax, to be applied at all stages of production and wholesale trade, leaving to the States the option whether to impose independently a supplementary tax on retail

sales or to extend the system of added-value tax to retail trade;

Whereas the proposed harmonization must be carried out by stages as it will entail considerable modifications to the taxation structures of Member States and have far-reaching consequences in the budgetary, economic and social fields;

Whereas the replacement of the systems of multi-stage cumulative taxes by non-cumulative systems will remove the factors which distort competitions; and

Whereas it is therefore desirable that all Member States should during a preliminary stage adopt a non-cumulative system of their own choice;

Whereas during a second stage the Member States should mould their chosen non-cumulative systems into a common system of added-value taxation without, however, being obliged to adopt harmonized rates and reliefs;

Whereas the aim of the common system of added-value taxation must be to secure neutrality of effect on competition inasmuch as within each country the same goods will be taxed at the same rate irrespective of the number of stages in their production and distribution, and in international trade the amount of tax imposed will be known, so that it will be possible to fix an exact figure for compensation;

Whereas it is hardly possible at present to indicate by what time the necessary conditions for attaining the ultimate objective, which is the abolition of all tax frontiers, can be fulfilled; and

Whereas it is therefore preferable that the timing of the third and final stage and the measures pertaining thereto should be fixed at a later date on the basis of proposals made by the Commission to the Council,

Has adopted the present directive:

Article 1

Those Member States which for turnover taxes apply a multi-stage, cumulative system shall replace this, at latest by the

beginning of the fourth year reckoned from the end of the year of notification of this directive, by a non-cumulative system, under which tax will normally be imposed on goods and services at only one stage. Member States will, however, remain free to fix independently a supplementary tax at the retail stage superimposed upon the above-mentioned non-cumulative tax, or, if they have elected to apply an added-value tax system, to extend this system to cover retail trade.

As from the end of the above-mentioned period, standard-rate compensatory measures for imports and exports shall no longer be permitted in trade between Member States.

Article 2

The Member States shall inform the Commission at the end of each year of the period mentioned in Article 1 of any measures taken or contemplated to fulfil the obligation laid down in the said Article.

Article 3

The Member States shall introduce, at latest by the end of the transition period, a common system of added-value taxation

embracing all stages up to and including wholesale trade. The form of this tax system and the methods of applying it shall be decided by the Council, acting on proposals of the Commission, before the end of the period referred to in Article 1. The Member States will be free to apply independently a supplementary tax on retail sales, or to make the common added-value tax applicable to this stage also.

Article 4

The Commission will study by what means and within what period of time the harmonization of turnover taxes provided for in Article 3 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. The Commission will submit its proposals to the Council in sufficient time for the latter to take decisions before the end of the transition period.

Article 5

The present directive is addressed to all Member States.