PRESS RELEASE

9034/89 (Presse 173)

1351st Council meeting

- Economic and Financial Affairs -

Luxembourg, 9 October 1989

President: Pierre BEREGOVOY

Ministre d'Etat

Minister for Economic and Financial Affairs

and the Budget of the French Republic

The Governments of the Member States and the Commission of the European Communities were represented as follows:

Belgium:

Mr Philippe MAYSTADT — Minister for Finance

Denmark:

Mr Niels HELVEG PETERSEN — Minister for Economic Affairs

Germany:

Mr Theo WAIGEL — Federal Minister for Finance

Mr Hans TIETMEYER — State Secretary, Federal Ministry of Finance

Greece:

Mr Constantinos LYBEROPOULOS — Ambassador, Permanent Representative

Spain:

Mr José BORRELL FONTELLES — State Secretary for Finance

Mr Pedro PEREZ — State Secretary for Economic Affairs

France:

Mr Pierre BEREGOVOY — Ministre d'Etat, Minister for Economic and Financial Affairs and the Budget

Ireland:

Mr Albert REYNOLDS — Minister for Finance

Italy:

Mr Guido CARLI   Minister for the Treasury

Mr Rino FORMICA   Minister for Finance

Luxembourg:

Mr Jacques SANTER   Ministre d'Etat, Minister for the Treasury

Mr Jean-Claude JUNCKER   Minister for Finance

Netherlands:

Mr O.C.R. RUDING   Minister for Finance

Mr H.E. KONING   State Secretary for Finance

Portugal:

Mr Simoes COELHO   Ambassador, Permanent Representative

United Kingdom:

Mr Peter LILLEY   Financial Secretary to the Treasury

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Commission:

Mr Henning CHRISTOPHERSEN   Vice-President

Mrs Christiane SCRIVENER   Member

ABOLITION OF FISCAL FRONTIERS - THE COUNCIL'S CONCLUSIONS

Having examined the report drawn up by the Presidency of the ad hoc Working Party in accordance with the instructions given by the Council on 19 June 1989, the Council considers that the introduction of a system of taxation in the country of origin, as was proposed by the Commission, presupposes the fulfilment of conditions which cannot be satisfied before 1 January 1993. Thus, in order to achieve the effective elimination of frontiers on that date for both undertakings and individuals, while respecting the economic neutrality of the common system of value added tax, the Council deems it necessary to continue levying VAT and excise duties in the country of consumption for a limited period.

The solution contemplated will have to:

- result in a reduction of the present burden on undertakings and administrations;

- prevent distortions of competition without obstructing free movement.

The initial guidelines of the solution considered for 1 January 1993 regarding VAT are as follows:

1. transactions carried out by taxable persons and exempt or non-taxable bodies will be taxed in the country of destination at the rates and under the conditions applying in that country;

2. for a very large majority of delegations removing limits on purchases by travellers tied to an approximation of rates will make it possible to introduce freedom of movement and purchase by individuals while averting excessive risks of distortions of competition. The special situation of certain Member States may be covered by special arrangements;

3. purchases of registered vehicles and, subject to detailed examination, distance purchasing by individuals will be subject to VAT in the country of destination and at that country's rate, in order to ensure the neutrality of the common system of VAT;

4. requirements imposed on undertakings will be simplified: all formalities relating to the crossing of frontiers will be abolished. There will only be a fiscal obligation to declare intra-community commerical transactions a posteriori, which will also make it possible to keep statistical records of trade;

5. the administrative monitoring and control of transactions will be ensured by means of increased administrative co-operation and exchange of data between Member States regarding VAT.

In the light of comments from the Commission and delegations, the ad hoc Working Party is instructed to continue examining the methods of implementing these arrangements and questions relating to excise duties and the budgetary consequences.

The Working Party will pay particular attention to the smooth functioning of the proposed system and to the need for effective control measures in order to reduce the risk of fraud, without creating distortions of competition or impeding free movement.

The Working Party will also examine the specific questions arising from the removal of limits on purchases by travellers, and the question of the harmonization of rates, which will have to be resolved as soon as possible.

The Working Party is required to submit its overall conclusions to the ECOFIN Council on 13 November 1989.

TAXATION OF SAVINGS

The Council took stock of progress on the strengthening of mutual assistance by tax administrations on the taxation of savings; it noted that the Commission will submit components of a solution to it before the next meeting of the ad hoc Working Party on 20 October 1989 so that the Council can arrive at appropriate political guidelines at its meeting on 13 November next.

AID TO POLAND AND HUNGARY

Further to the conclusions reached by the Council meeting on General Affairs on 3 October last, the Council examined the Commission communication on the Community's granting loans for investment in Poland and Hungary.

Concluding that discussion, the Council invited the European Investment Bank to take the necessary steps to be able to grant loans to Hungary and Poland. The Council also agreed in principle on a Community guarantee for EIB loans to those countries.

The Council also established a letter of amendment to the draft 1990 budget in order to initiate the budgetary procedure for the ECU 200 million decided on by the Council meeting on General Affairs on 3 October, with a view to financing the programme of aid for the economic re-organization of those countries. By introducing a new budget heading that letter of amendment was also intended to create the budget conditions for the grant of the aforementioned Community guarantee for the EIB loans to those two countries.