

on January 1, 1970; Italy may not be prepared to switch to TVA by that date. The changes in tax structure do not appear, for the cost part, to be designed to bring about significant changes in the total revenue yield of the various tax systems or of the sales taxes themselves. France has reformed its indirect tax structure to achieve a similar application of the TVA.

It is fair to say that the Europeans, by comparison to their present situation, have evolved a far more workable sales tax capable of application at a high rate—more complicated than is needed where a retail tax would work, but still a workable mechanism. If a country is in the market for a high rate sales tax and if it really believes it cannot handle a retail tax, it should consider the European model.

Rebates

Another aspect of European sales tax systems that has been highlighted in recent years as a result of the U.S. balance of payments problem, is the export rebate and compensatory import tax that characterizes those systems. All countries with significant sales taxes or excise tax systems automatically structure those systems to attempt to keep the taxes from affecting external export prices and to insure the application of the taxes to imported goods. If the tax is a manufacturers tax on the final product, exports are not subject to the tax, or if taxed, can secure a rebate. Imported goods, on the other hand, are subjected to the same tax as is imposed on domestic manufactured goods, so that both goods will compete on equal terms in the domestic market in this respect. The United States does this for its few manufacturers taxes; Canada does the same under its 11% broad manufacturers tax.

If the tax is imposed at the wholesale stage or the retail stage, such rebates and import taxes are not needed: a manufacturer selling goods whether for internal consumption or export is not subject to these taxes; a wholesaler importing goods will pay the tax on his subsequent sale. The sales for export that a wholesaler or retailer may make will be exempted from tax.

The essential principle under which all these taxes are structured is that sales and excise taxes are intended to be paid by domestic consumers in the form of higher prices without handicapping exports or favoring imports.

European turnover taxes followed the same principle but found additional complexities. It was simple to say to a German manufacturing firm that it need not pay the 4% turnover tax on an export sale. But what about the 4% taxes paid by the manufacturer on purchases from its suppliers of materials of almost every sort; these 4% taxes were built into the costs of the manufacturing operation, just as the 4% taxes the suppliers had to pay on their purchases were built into their costs and passed along as part of the prices charged by the suppliers. This is the vice of turnover taxes; they pyramid in prices throughout the economy. The economic effects of these taxes were significant at the high rate levels applied in Europe. The principle of protecting exports, therefore, required a rebate of those taxes previously imposed in the production chain and which cumulated as costs for the manufacturer on its purchases, or for the wholesaler if he was the exporter. But how much should be rebated? The experts had to estimate the amount as high rate taxes were hidden in the price structure and their total would vary with the extent of integration of productive activities in the prior stages. The European countries carefully developed average figures and used them for the rebates. Corresponding figures were used for the import charges.

A common market ideally requires a tax system that does not have complex border adjustments. A common retail tax would accomplish this—as pretty much occurs in the United States—if care is taken to keep the tax from applying to purchases for business purposes. Failing that, if border adjustments are to exist, their calculation should be made with as much precision as possible. It is here that the value-added tax provided an extra advantage for the Europeans. The value-added tax eliminated for internal sales the distortions resulting from pyramiding and differences in integration of business activities, and offered a ready measure of the taxes that the exporting firm had to pay because of its purchases. Under the German value-added tax, a firm is given a “rebate” through refund or credit for all of the taxes it has to pay on its purchases, whether its goods are sold internally or externally. The structure of the tax enables the government to determine the amount of export rebate needed to reflect the exporter's book costs representing the taxes paid on its purchases. It similarly permits the fixing of the amount of import charge to reflect the taxes paid by domestic concerns.