

The United States, for example, has not sought in the past to determine how much of the Federal gasoline tax, the passenger motor vehicle tax, the truck tax, the telephone tax, or the alcohol tax paid by a manufacturer who exports some of his goods, is allocable to those exports and thus increases their costs. Nor has it sought to determine what part of state and local taxes paid on goods purchased by a business increases its export costs. In contrast, under the European systems the value-added taxes on such products, since they are all in the base of the tax, automatically are rebated. (There are, of course, some specific European excise taxes outside the scope of turnover and value-added taxes that are not being rebated.) The United Kingdom, several years ago, initiated rebates for its special excise taxes—principally the gasoline taxes, motor vehicle license taxes, and purchase taxes on office supplies—on goods purchased by its exporters, and essentially used averages to determine the rebates.

In the United States it has been estimated that the costs attributable to our Federal, state and local taxes on goods bought by manufacturers represent on the average an amount equal to about 2% of export sales prices. The impact on product lines differs, with the range running from about 1½ to 4% of export sales prices. A rebate of these tax costs and a similar import charge, administered through our Customs organization, would reflect, for the United States, an approach that corresponds to the principle applicable under the value-added and turnover taxes of attempting to keep sales and similar taxes at prior stages of production from increasing export costs and export prices. An approach by the United States to deal with its indirect taxes through a rebate and compensatory import charge mechanism would involve the use of product averages, and would be similar to the procedure followed by the Europeans under their turnover taxes. Consideration of this approach in the United States would reflect principles and practices underlying the treatment of indirect taxes in Europe. It would parallel the attention to, and consequent changes in, border tax adjustments, now generally resulting from the shift to value-added taxes.

#### *Trade and tax policies*

European efforts to stabilize their sales taxes and border adjustments and then to harmonize them raise even larger issues of trade policy interlocked with tax policy. The European practice of rebates and import charges for turnover and value-added taxes reflects the basic assumption that such taxes are passed along through channels of trade so that their burden is borne by households buying goods for personal consumption. This is the assumption behind the exemption of exports from a manufacturers tax. It is the assumption of legislators who enact wholesale or retail taxes or other sales taxes. As a working assumption for domestic legislation and for general judgments on the distribution of the burden of a tax system, or of a new excise or sales tax, it is a useful operational device. But the balance of payments world of today, with its fixed exchange rates and the attention that must be focused on both the over-all balance and its component parts, including the trade portion, requires much more attention to specifics than ever before. This need for such attention is also heightened by the high levels of tax rates that now obtain under modern tax systems compared with an earlier period, a development that contrasts with the shift to lower levels of tariff barriers. If the generality is only a generality and the specific situations show a different posture, then the matter must require a sharper focus.

If sales taxes or other indirect taxes—whether they be value-added, turnover, retail or other tax forms—cannot be fully passed on in price, then a manufacturer selling in his domestic market must lower his prices and reduce his profits. However, if the full rebate of the tax cost and the exemption of exports from the tax make it unnecessary to change his export prices, he is not concerned about passing anything along on an export sale, and he need not lower his export price. The business of exporting becomes that much more attractive, and the sales tax system has become an incentive to export activity. Similarly, on the import side, the importer to meet the competition of lowered domestic prices must reduce his price, his profits decline and he is less interested in pushing those imports. In essence, one gets to the question of tax incidence and whether these sales taxes are fully shifted forward in price or only partly shifted.

Put another way, a value-added tax is carefully structured to pass the tax along in an accounting sense. Its effect on international trade, however, depends on whether the economic effects follow the accounting structure. If the tax is not fully shifted forward in an economic sense, then the international trade of the country using the tax will be favored regardless of the accounting structure.