

EXHIBIT D

[From the OECD Observer—October 1967]

BORDER TAX ADJUSTMENTS

During the last four years there has been much discussion within and outside the OECD concerning the effects on international trade of the different tax structures and tax systems of Member countries. These effects are determined largely by the border tax adjustment practices at present in existence.

Among the questions provoked are whether some indirect tax systems are more balance-of-trade advantageous than others, whether reliance on consumption rather than income taxes is likely to improve a country's balance-of-trade position and whether changes in domestic taxation may as a result of the border tax adjustment mechanism have devaluation effects, and if so what should be done about it.

This article was written by Mr. Kenneth Messere, Secretary of the Fiscal Committee of OECD.

THE PROBLEMS CREATED BY BORDER TAX ADJUSTMENTS

As export subsidies are disallowed under GATT regulations and tariff barriers are being reduced, either as a result of measures taken by regional groupings such as the EEC or EFTA or as a result of GATT negotiations, attention has become concentrated more on other possible barriers to international trade. In recent years there has been a great deal of discussion on border tax adjustments, which are believed by some to lead to the same devaluation effects as an export subsidy or import duty, even though their avowed purpose is to put exports on the same footing as similar goods produced in other countries on the one hand, and imports on the same footing as home-produced goods on the other.

Arrangements have always been made to ensure that goods exported from one country to another are not subject to the same taxes in both countries, on the one hand, and do not escape taxation altogether, on the other. Avoidance of double taxation or nontaxation may be broadly effected in two ways: the goods may be subject to the taxes of the exporting country (the so-called country of origin principle) or to the taxes of the importing country (the country of destination principle).

While border tax adjustments may be defined in various ways, it is most convenient for dealing with the problems which they present to regard them as the fiscal adjustments which are necessary to put into effect the destination principle. That is to say they cover both the exemption from tax, or the repayment of tax already paid in the exporting country, and the imposition of taxes corresponding to the internal taxes of the importing country, whether such imposition takes place at the time the goods are imported or subsequently. Under present international practices, which are based on the rules formulated in GATT, indirect taxes on goods themselves, whether known as sales taxes, turnover taxes, value-added taxes, excise taxes or resulting from State monopolies are considered eligible for border tax adjustments while other taxes such as income taxes, profits taxes, payroll taxes, social security and property taxes are not generally regarded as eligible; to put it differently the principle of destination generally applies to indirect taxes on particular goods while the principle of origin applies to other kinds of taxes.

While the main question remains how far border tax adjustments are neutral in their effects on international trade and how far they favour some countries at the expense of others, further analysis indicates that there are three entirely different kinds of questions involved.

The technical question.—Do some countries make greater border tax adjustments than others in relation to the domestic tax burden because of the way in which their systems of tax adjustments are operated? This involves the study of the types of indirect tax system in operation, the way in which border tax adjustments operate under each system and the treatment of indirect taxes on capital equipment, auxiliary materials or services used in the production of goods (see below under "taxe occulte").

The theoretical question.—Do countries relying for their revenue predominantly on taxes eligible for border tax adjustments have a balance of trade