

mated that in Belgium, the Netherlands and Germany border tax adjustments represent about 60% to 70% of the permitted amount (for Luxembourg the percentage is lower and for Italy it is higher); secondly these figures have been confirmed to some extent by Germany's prospective change-over from a cascade to TVA tax, for a 4% cascade tax is expected to produce the same revenue as a 10% TVA tax, so that for a consumption tax producing this amount of revenue the appropriate rate of border tax adjustments would be 10%, whereas under the existing cascade system Germany's border tax adjustments are usually in the region of 6 per cent; thirdly, in calculating the tax paid at previous stages on a class of products to be rebated on export or equalised on import, certain indirect taxes paid on such products or on their components or on the capital equipment, materials or services used in their production are not included in the calculation.

"Taxe occulte"

This third reason leads naturally to the consideration of "taxe occulte" which may be defined as the indirect taxes on capital equipment (e.g. machinery and vehicles), auxiliary materials (e.g. hydrocarbon oils and packing), or services (e.g. transport and advertising) used in the production of goods. Its significance as regards border tax adjustments is first that there is considerable variation as between countries both in the amount of "taxe occulte" and in the proportion of it subject to border tax adjustments, and secondly that, like a cascade tax, the amount attributable to individual exports or imports cannot be known exactly, so that any rebate or equalisation charge has to be calculated either according to the average rate borne by the class of article exported or imported or according to the average rate paid by the industry manufacturing the exported or imported article.

While the situation varies from country to country, those countries operating cascade systems probably have the highest amount of "taxe occulte", first because the coverage of such systems is generally very wide and secondly because the cascade system results in a proportion of the tax on the capital equipment, auxiliary materials and services being taxed again each time the article produced is sold. A varying proportion of this "taxe occulte" is however rebated on export and imposed on import.

The value-added tax has also a wide coverage but eliminates much "taxe occulte" by a fiscal device known as "financial deductions" under which manufacturers are reimbursed certain "taxe occulte" paid. In France, the only country with much experience of a value-added tax, such reimbursements do not cover, however, the "taxe occulte" on hydrocarbon oil, on motor vehicles, or on services, so that much remains. Under the value-added tax systems at present in force there has been no border tax adjustment, either on export or import, to take account of "taxe occulte" borne on the home market.

The amount of "taxe occulte" under sales tax is much more variable, since the coverage of sales tax varies considerably. Apart from the British export rebate scheme which provides for border adjustment in respect of "taxe occulte" on exportation, there have been no border adjustments to take account of "taxe occulte" borne on the home market in countries applying sales taxes.

Apart from "taxe occulte" in respect of cascade taxes, value-added taxes and sales taxes, the most important element of "taxe occulte" is probably due to the excise tax on hydrocarbon oil, which is required for transporting goods. The British export rebate scheme takes account of this in computing the rate of export rebate, but otherwise border tax adjustments are not made, either on export or on import, to take account of "taxe occulte" in respect of excise duties.

The variations between Member countries both as regards the amount of "taxe occulte" in the tax system and the treatment of it with regard to border adjustments is summarised in Table 2.

Conclusions on the technical question

The foregoing description indicates that it is possible to come to provisional conclusions on the question of whether the amount of border tax adjustment in relation to the indirect tax burden is likely to vary according to the way in which the adjustment system operates. The first conclusion is that overall the border adjustments of countries operating cascade taxes are likely to be relatively lower than those of countries operating value-added taxes or sales taxes, though they may be higher for particular products or particular industries. The second conclusion is that there is likely to be variation between countries due to variations in the amount of "taxe occulte" caused by the tax structure and variations in the amount of such "taxe occulte" which is adjusted at the border.