

Another tax term recently introduced to much wider usage in American tax literature is "border taxes." This refers to the levy of taxes on the value of an imported good after customs and transportation costs have been included. The rate applied may be no higher than the indirect tax rates this good would bear if produced within the country of import.

An "indirect tax" is a tax so declared in the General Agreement on Tariffs and Trade (GATT) and includes special excise taxes, general turnover, or sales taxes, and also VAT. Excluded are the individual and corporate income and profit taxes and apparently all property and wealth taxes.³

GATT establishes standards for national conduct of nations in the area of international trade. All major commercial non-communist nations have agreed to follow the rules. The last major nation to be accepted was Japan.

"Tax rebate" refers to the GATT rule permitting nations to refund indirect taxes attributable to goods exported.

The general fiscal rule applicable by GATT is that direct taxes (all taxes not indirect) are payable at source, i.e., the country of origin. In the case of income taxes, this means the country in which the income was earned. All indirect taxes are to be collected on a basis of country of destination. This means indirect taxes are rebated on exports and assessed as border taxes on imports.

VAT has become the principal source of tax revenues of the French national government. The French name is *taxe sur la valeur ajoutée* (TVA). It is a tax levied at each stage of production on the difference between the selling price of the product and the value of products purchased from other business firms included in the product sold.

There are other terms involved in thinking about the relationship between national tax systems and the balance of payments. These will be defined along the way as is appropriate.

The importance of the relationship between national tax systems and the balance of payments was first recognized in U.S. Treasury tax recommendations when the Revenue Act of 1962 was developed. Federal government tax actions since 1962 consisted largely of making corrections on the fringe of a troublesome and basic international tax disharmony existing between the U.S. and EEC. Even the justly famous U.S. 1964 tax reductions are appropriately viewed in this light.

The American economy in 1968 continues to enjoy an industrial research organization that develops many new products requiring worldwide investment and marketing for full exploitation.⁴ It continues to be a high savings economy. It also continues to suffer from a negative balance of payments figure, large federal government deficits, and rising prices.

U.S. adjustments

The Hearings and the Treasury 1962 and 1964 tax proposals considered only a limited approach toward harmonizing U.S. and European tax treatment of businesses. The harmonization was toward making the maximum individual income tax rate more comparable with that existing in Europe. The corporate tax rate was reduced directly and also indirectly by increasing the rate of allowable depreciation and by making allowance for a tax credit for qualified investment. The legislation of 1962 also provided procedures aimed at increasing corporate income taxes collected on profits of foreign operations of American companies. The elimination and reduction of rates of the special federal excise taxes in 1965 was a step toward harmonizing the U.S. tax system with that of the Member States of EEC. Tax treaties and 1966 legislation to reduce tax barriers to foreign investment in the U.S. are yet other tax harmonization steps taken by the U.S.

The 1964 adoption of the Interest Equalization tax by the U.S. and the special 25 percent German tax on interest income of foreign holders of German bonds and savings accounts, one arising from unusual capital outflow and the other from unwanted capital inflow, are symptoms of the types of tax developments caused by international imbalance. The reaction can become much more drastic as the imbalance becomes greater and takes on more of the air of permanence. This can be expected to be the situation now that Germany has adopted VAT and the rapid spread of the tax throughout western Europe is underway.

³ VAT can be collected on the income paid base and this is the procedure that may be used if it is introduced into the U.K. or the U.S. Nevertheless, nearly all considerations of VAT utilize the sales or transaction base.

⁴ Dan Throop Smith, *Revenue Act of 1962, Hearings of Senate Finance Committee, Pt. 7* (Washington, D.C.: U.S. GPO, 1962), pp. 3087-3093.