

EXHIBIT 2

The value added tax may be described as an overall and nonrecurrent tax on consumption, the levy of which is made by partial payments in each state of production and distribution on the basis of the value which is added to the product in each stage.

The T.V.A. will replace the cumulative turnover tax system previously used by the E.E.C. member countries. T.V.A. will be applied by all member countries of the E.E.C. not later than January 1, 1970. Germany and France (modified form) are presently operating under this new tax system. The Netherlands and Belgium will introduce the change on January 1, 1969; Italy and Luxembourg probably not before January, 1970.

Will the T.V.A. offer some relief from the discriminatory practices against imports possible under the old turnover tax systems?

In the opinion of the M.S.D. International Data staff, the possibility of such relief is remote. The "why" of this opinion may be adjudged by an examination of a written commentary by the previously quoted Mr. Jansen.

"T.V.A., the European Community's common turnover tax system, will be in force throughout the six member countries by January 1, 1970; but tax harmonization will not be finished, because the common system still leaves many choices in the hands of the individual governments.

The first two Community T.V.A. directives require the member governments to apply T.V.A. to only a small part of the service sector. Depending on each country's own possibilities for collecting T.V.A., it may work out its own provisions for small business and may decide for itself whether or not to apply the tax to retail trade and to the many services not connected with production and distribution of goods, such as banking, physicians' fees, and other services normally supplied to private individuals. Only a few services that have a direct bearing on production and distribution must become subject to the common T.V.A., among them, the transfer of patents and trade marks, advertising and the transport and storage of goods.

Of all the choices left to the member governments, however, the selection of tax rates and the granting of exemptions give the most room for disparities in the first phase of turnover tax harmonization.

Even after January 1, 1970, considerable differences will persist between the six countries in both the standard rates and the higher or lower rates levied on specific goods or services. It is too early to make precise forecasts of what the normal rate will be in any of the Six on January 1, 1970, but I would guess they would be roughly 20 per cent in France and Belgium, between 10 per cent and 12 per cent in the Netherlands, Italy, and the Federal Republic of Germany, and 9 per cent in Luxembourg.