

believed that the German petrochemical industry will make further reductions in price before TVA for tax reasons, but will allow the full incidence of the additional 5% TVA to fall upon the ultimate buyer.

In other words, the producer will try to maintain his netback at the same level in order to maintain his Return on Invested Capital in the neighborhood of 6% which appears to be accepted as reasonable by the leading German producers. This does not preclude the possibility of price revisions for reasons of other than tax system change, such as changes in supply-demand and other market factors. Barring such fluctuations, however, by 1972 total cost including TVA to the ultimate buyer should have risen by 7.2 percentage points, the difference between 15% and the average 7.8% turnover tax (on selling price net of tax) prior to 1968.

5. As far as imported product was concerned, under the "cascade" turnover tax system there was a so-called "border tax" of 4% of total selling price (including duty and this tax), equivalent to the final 4% turnover tax on domestic production. As a percentage of selling price net of tax, this 4% becomes 4.3%. This was intended to be (and was sometimes referred to as) a Turnover Equalization Tax so that domestic product paying local indirect taxes would not be at a significant disadvantage with respect to imported product.

During the "cascade" turnover tax period this border tax was allowed to be lower than average "cascaded" taxes on domestic product perhaps in recognition of the fact that imported product was subject to other costs such as indirect taxes in its home country which were not always fully rebated. Hence, from the same total invoice price charged on domestic product, the importer had only to turn back to the government this 4.3% border tax, as compared with 7.8% (on selling price net of tax) paid by the domestic petrochemical industry.

This in effect permitted the importer to netback, after sales taxes, more of the sales price at the border than the domestic producer at his plant, to the extent of the "cascaded" taxes on the domestic producer's transactions preceding the final 4%—that is, 7.8% less 4.3%, or 3.5% more than the domestic producer's netback.

This higher netback at the border helped to offset not only indirect taxes paid in the U. S. by the exporter, but also the heavy other costs and taxes involved in importation, such as duty, ocean freight, etc., to which the domestic producer is not subject. Such higher netback at the border is necessary to enable imported product to be anywhere near competitive, since it obviously cannot stand the same total sales tax burden as domestic product and compete after being penalized also by the payment of duty as well as indirect taxes in the country of origin, freight, etc.

6. With the change to TVA the border tax has become equal to the TVA percentage, which means that by 1972 border tax will have become 15%, an increase of 10.7 percentage points over the 4.3% formerly paid on imported selling price (before border tax). Therefore, if the importer is not to suffer loss of netback as a result of the change in system, he would have to be able to raise selling price (before border tax) by this increase of 10.7 percentage points. Since obviously the ultimate buyer will not submit to a total cost including tax of more than he is required to pay for domestic product, the importer will be able to increase selling price (before TVA) by only the 7.2 percentage points (on price before TVA) expected as price rise on domestic product between December, 1967 and 1972 (See 4 above).

This means that in contrast to the domestic producer who maintains the same netback as under the old turnover system, the importer will suffer a reduction in netback amounting to 3.5% of the new selling price before TVA—that is, the 10.7 percentage points increase in border tax less the 7.2 percentage points increase in selling price to which he is limited by the anticipated maximum invoice cost of domestic product. Depending upon the price which one wishes to use, this 3.5% is equivalent to 3.8% on the previous netback, and 3.2% of the previous gross selling price including tax.

7. An example of the comparative effect of the change in system on domestic and imported product is shown for the following hypothetical transaction: