



*European Communities
Commission
Press Release*

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ADOPTION OF SIXTH VAT DIRECTIVE

The Council of the European Communities has adopted a Sixth Directive on V.A.T. on the basis of a proposal submitted by the Commission on June 29, 1973 and amended on July 26, 1974.

For two reasons, the adoption of this Directive represents a milestone on the road towards an integrated Community: with regard to finance, it means that the "own resources" arrangements can now be operated in full, and, in the tax area, it means that V.A.T. can be made more neutral as regards competition.

I. The Introduction of the Directive Arrangements for the "Own Resources" System

What are "own resources"? They are revenue accruing from taxes levied on certain transactions such as imports, sales and purchases. The revenue is generated by the transactions themselves, and is not determined by a scale of payments, as is currently the case with the financial contributions which the Member States make to the budget of the Communities.

The decision to replace Member States' financial contributions by the Communities' own resources was taken by the Council in 1970. The changeover should have been carried out gradually: initially, own resources comprised only the agricultural levies and an increasing proportion of customs duties, the balance of expenditure being covered by financial contributions from Member States calculated on the basis of a scale of payments.

Under the terms of the Council decision, the Community's budget should have been fully financed, from January 1, 1975, by own resources. The financial contributions of the Member States, should have been replaced by the allocation to the Communities of a given percentage of V.A.T. revenue (up to a maximum of 1 % of the basis of assessment). But the Council was unable to agree on a definition of a uniform basis for assessing V.A.T., and the system of financial contributions, now calculated on the basis of each Member State's share of Community GNP, was continued up to and including 1977.

Now that the Sixth Directive has been adopted, the own resources arrangements can be completed and the Community will have a system giving it financial autonomy. In practice, this will only be achieved when the Council has approved the implementing financial regulation relating to V.A.T., and when the Member States have adapted their internal legislation.

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Transition to the complete own resources arrangements has important implications:

- a) it will put an end to the "relative shares" system, under which Member States' contributions were calculated on the basis of temporary criteria (scale of contributions, share of Community GNP). From January 1, 1978, the system of financing will be neutral, in the sense that the own resources paid by Member States will stem purely from the economic activity in each State. (In the case of the three new Member States, however, the Treaty of Accession imposes certain limits on actual payments until 1980.)
- b) The new system will also impose new constraints as regards budget estimates and management. The volume of revenue will be a more rigid factor than in the past, since it will no longer be a question of adjusting revenue a posteriori to cover expenditure, as in the case of financial contributions from Member States. Accuracy in estimating revenue and strictness in administering expenditure will therefore be even more necessary than in the past.

II. Harmonization of the Basis of Assessment

The new Directive takes a good deal further the process of harmonization of the member countries' V.A.T. systems, the principles and main points of which had been fixed by the first two Directives of April 11, 1967. In particular, it ensures greater neutrality in international trade for services as well as merchandise by eliminating cases of double taxation and non-taxation. It also improves the competitive position of undertakings established in the Community as regards trade with non-member countries, particularly in the services sector.

The need to ensure that own resources are collected fairly by Member States has led to a thorough harmonization of all the arrangements likely to influence the amount of such resources. In particular, the Directive lays down common rules as regards liability to tax, the definition of taxable transactions, the taxable amount, the chargeable event of the tax, the right to deduct, etc. It also gives common lists of exempted transactions and institutes special common arrangements for small undertakings and some types of farming.

Temporary exemptions

Generally speaking, the Directive lays down common rules; in a very few cases the Council must later take decisions either on aims or on arrangements for applying principles already adopted. However, the immediate implementation of the common solutions adopted would have led, in some cases, to major economic or social difficulties in several Member States. The Council has therefore agreed to grant temporary exemptions in such cases to allow the Member States concerned to adapt their laws gradually to the Community provisions. In five years' time the Council will give a ruling as to the phasing out of these exemptions.

Finally, the Directive provides for the setting up of a consultative committee composed of representatives of Member States and chaired by a Commission representative. This committee will have power to examine any matters arising from the application of Community rules on V.A.T. It will certainly play an important and useful role during the years ahead. Although the Sixth Directive marks an important stage in the process of V.A.T. harmonization, it is far from being the end of the matter. During the years to come, the Commission will be aiming first to complete the harmonization of the structures and implementing procedures, and then to work towards the alignment of rates, which remains the long-term objective: as long as rates vary from country to country, tax frontiers will survive within the Community.