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NEW VAT DIRECTIVE CLEARS WAY FOR EC FINANCING

The adoption of a sixth value added tax directive by the Council of the European Communities in Brussels marks a further step toward European fiscal integration and the establishment of independent financial resources for the European Community.

By eliminating fiscal impediments and discriminations that distort competition, the new directive also achieves an essential economic objective of the Community: neutrality in intra Community and international trade.

The new directive enables the Community to begin full operation of its "own resources" budget planning. This new method of financing will make available to the Community up to 1 per cent of the basis of assessment of VAT revenue from member states. It replaces the current system, under which member states contribute about 10 per cent of the Community budget according to their "relative share" of the Community gross national product. The new system is considered a neutral financing arrangement because the VAT resources stem purely from the economic activity in each state. The remaining 90 per cent of the budget, which is this year more than $9 billion, is financed through agricultural levies and customs duties.

The new budgetary system is expected to impose new constraints on budget estimates and management, since the volume of revenue will be more rigid. In previous years, member state contributions to the Community were adjusted to cover expenditures that went beyond a planned budget.

The VAT directive defines the basic concepts relating to the value added tax -- for example, what persons are to be taxed, what transactions and events are to be taxed, how the tax is to be charged, the amount to be taxed. It also spells out special arrangements for small businesses, a flat-rate scheme for farmer exemptions and the supply of services.

The new directive insures greater neutrality in trade for services as well as for merchandise by eliminating cases of double taxation and non-taxation. For example, if a value added tax is applied to bread and shoes in Italy, Germany, France, Belgium, Britain and the other four countries of the Community would also apply a value added tax on those products.

The harmonized taxing system equalizes the competitive positions of business established in the Community in their trade with non-member countries. These provisions are especially important for those services requiring transfer of personnel or of means of production, such as transport.

In approving the directive, the Council agreed to grant temporary exemptions to member countries that would have experienced major economic or social difficulties through application of the common rules established by the value added tax system. The Council also set up a consultative committee composed of representatives of member states to examine any problems arising from the Community application of VAT.

A European Community spokesman pointed out that the new directive represents considerable progress toward the establishment of common taxation policies throughout the European Community. But he said the long-term objective remains the alignment of rates and the eventual breakdown of tax frontiers within the Community.

The new VAT directive was adopted by the Council on May 17 and will be implemented in the member states no later than January 1, 1978.