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CORRIGENDUM

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ON SCOPE FOR CONVERGENCE OF
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CORRIGENDUM

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Page 48, second paragraph, last line : Insert between "case" and "the" :
amongst

Page 64 - Table : Entry for Ireland : Third column
(a) Delate "35/65" and substitute : 30/70
(b) Delate "65,8 %" and substitute : 52,4 %.

Page 83, second paragraph, last line : Delate "total market" and substitute :
"stable and relatively profitable domestic base as the foundation of their total market."

Page 91, third paragraph, first line : after "France", add : Ireland

Page 92, third paragraph, third line : Delate :"Ireland"
fourth line: Delate "65,8 %"and substitute :"58,6 %."

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Introduction

1. The purpose of this report is twofold: to describe the measures the Community should take in the years ahead in order to establish the tax conditions necessary for a genuine economic integration; and to identify the obstacles hampering achievement of this objective and the ways and means of overcoming them.

Chapter I

Tax harmonization: Objectives and limits

2. In all developed countries, taxation has, over many years, come to play a rapidly expanding role as a result of growing public budgets and its own increasing importance as an instrument of economic and social policy. For this reason, taxes, which account for a large proportion of gross domestic product,[1] have become one of the key determinants of economic and social activity.

3. It is only natural, therefore, that taxation should be a focus of attention in the Community. However, there can be no question at the moment of framing a genuine tax policy similar to that applied by the Member States. In the first place, although it is now financed out of own resources,[2] the Community Budget is still very modest when compared with the Member States' budgets taken together (2.6 % in 1978), with the result that taxation can play only a very limited budgetary role at Community level. Secondly, economic and social policy is still very much a matter for national governments, and for this reason the use of taxation as an instrument of this policy cannot be made subject to Community rules. Lastly, even where economic policy objectives such as containment of inflation rates and the programming of economic growth are fixed at Community level, the actual measures to be taken, including those in the tax field, are generally left to the discretion of the Member States.

[1] In 1977, tax receipts and social contributions in the Member States as a proportion of GDP ranged from 35.2 % in Ireland to 49.4 % in Luxembourg.
[2] Own resources are made up essentially of customs duties, agricultural levies and a portion (not more than 1 %) of the uniform basis of assessment for VAT.

And so, in the tax field, fundamental decisions are the prerogative of the Member States and extensive transfers of decisionmaking powers will not be feasible unless substantial progress is made towards integration. Tax harmonization is not intended, therefore, to serve the purpose of instituting a Community tax policy, nor is it an end in itself. It forms part of the means and powers granted to the Community to carry out its responsibilities.

4. The EEC Treaty lays down a number of fundamental objectives, including:

(i) the establishment of a common market by way of, among other things, the free movement of persons, goods, services and capital and a system that ensures that competition is not distorted;

(ii) the progressive alignment of Member States' economic policies;

(iii) the institution of a number of common policies: the EEC Treaty provides for only three such policies (external trade, agriculture and transport), but other common policies have been decided on, in principle at least, by the Community institutions, notably for energy, regional policy and the environment.

In addition, it was decided as early as 1970 that, under the procedure provided for in Article 201 of the Treaty, the Member States' financial contributions would be replaced by the Community's own resources in order to give the Community greater financial independence.[1]

The tax harmonization measures already or to be introduced by the Community must be seen in the light of these objectives, for, as this Chapter shows, none of them can be achieved without Community action in the field of taxation.

All these objectives have been restated in the context of the economic and monetary union decided on by the Heads of State or Government. With regard to tax matters, the Council Resolution of 22 March 1971[2] reads as follows:

'In order that effectively free movement of persons, goods, services and capital and progress in interpenetration of economies may be achieved at a faster rate, the Council, acting on a proposal from the Commission and having regard to the need to preserve a balance, shall decide on measures concerning:

(i) Community rules determining the uniform basis for assessing the value added tax within the meaning of the Decision of 21 April 1970 on the replacement of financial contributions from the Member States by the Communities' own resources;

(ii) the harmonization of the scope, basis of assessment and the mode of levying excise duties, in particular those which have an appreciable influence on trade;

(iii) the harmonization of those kinds of tax which are likely to have a direct influence on capital movements within the Community, in particular the taxation of interest from fixed-interest securities and dividends;

(iv) the further harmonization of the taxation of companies and firms;

(v) the progressive extension of duty-free concessions granted to private individuals crossing frontiers within the Community.

Before the end of the first stage the Council shall examine the results of research on the alignment of rates of value added tax and excise duties and the proposals of the Commission in this field.'

Although the path towards economic and monetary union has by no means been smooth since that first Council Resolution was adopted, the objective has never been abandoned. Indeed, a renewed drive is now evident — with the recent establishment of the European Monetary System.[3]

5. Bringing Member States' tax systems into closer alignment is not a straightforward matter for a number of reasons:

(a) Tax sovereignty is one of the fundamental components of national sovereignty, and at present all the Member States set great store by the inviolability of national sovereignty. It is important here to remember that one of the fundamental prerogatives of national parliaments is the right to vote taxes;

[1] Decision of 21 April 1970: OJ L 94 of 28. 4. 1970.
[2] OJ C 28 of 27. 3. 1971.
[3] Bull. EC 12-1978, points 1.1.1 *et seq.;* Twelfth General Report, point 96.

(b) Two equally necessary objectives — the progressive approximation of Member States' economic policies provided for in Article 2 of the EEC Treaty and the harmonization of their tax systems — may come into conflict. This is because Member States may need to manipulate differently the instruments at their disposal for implementing national economic policies in order to remedy the divergences existing between those policies. The instrument of taxation is in this respect very important, not least because it determines to a very large degree public expenditure policy and investment incentives; in any case, its importance is unlikely to decline since, in the European Monetary System, the Member States are unable to use the monetary instrument as freely as before;

(c) The general public is becoming increasingly sensitive to taxation; people think taxes are both too high and too complicated.

(d) It is extremely difficult to remove disparities in the structure of the tax system, the overall burden of taxation and the allocation of revenue between the different taxes, since they are not fortuitous but are a function of deep-rooted causes.

These causes include:

(i) differences in economic and social structures;

(ii) different conceptions of the role of taxation in general or of one tax in particular: for instance, views differ on the volume of investment that the State should finance and on the range of services it should supply as a *quid pro quo* for taxes paid, on the degree of income and wealth redistribution to be aimed at and on the way in which taxation should be used as an economic policy instrument;

(iii) differences in acceptability: a tax that is fairly well tolerated in one country is accepted grudgingly or not at all in another country;

(e) The complexity of present tax systems means that tax harmonization is faced with technical difficulties.

Lastly, there can be no hiding the fact that further enlargement of the Community to bring it up to twelve Member States, far from simplifying the task, will complicate it even more.

6. All these considerations explain the hesitations by the Member States and the slowness of tax harmonization.

In spite of these daunting difficulties, tax harmonization has in fact scored some undoubted successes, and this can be put down to the combination of several factors.

Firstly, agreement was reached on a number of priority objectives (free movement of persons, goods, services and capital; neutrality of taxation in respect of merchandise trade; institution of a system ensuring that competition is not distorted; abolition of tax frontiers; creation of the Community's own resources) and there has emerged a genuine political resolve to achieve some of them, at least in part.

Secondly, there has been no need for any steps affecting the personal taxes paid by individuals (income tax and wealth tax), which are the most politically sensitive ones.

Lastly, virtually all the measures so far adopted or merely proposed (concerned for the most part with turnover taxes, excise duties, indirect taxes on the raising of capital and corporation tax) are for the time being confined to structures and bases of assessment. As long as they are at liberty to determine tax rates, Member States can avoid jeopardizing the balance that has been forged between the different taxes, while at the same time remaining free to use the taxes to be harmonized for budgetary or economic purposes. As a result, it has been possible to avoid conflict between tax harmonization and Member States' freedom to determine the budgetary and economic function of taxation.

7. Although, the record in tax harmonization is certainly positive, the successes have been limited, because of the difficulties and long delays that have piled up at Council level as regards excise duties and direct taxes. For instance, in spite of the Commission's efforts, the Council has not as yet been able to act on the long-standing proposals concerning the excise

duties on wine, beer, spirits and mineral oils, which, however, deal only with tax structures and not tax rates.

Even more serious difficulties are therefore to be expected once the approximation of tax legislation is extended to tax rates. For this reason, such approximation will be possible only at a much more advanced stage of economic integration. Then, however, it will be absolutely necessary, since the harmonization of structures and bases of assessment will no longer be sufficient.

Admittedly, the present uncertainty as to how far the economic integration of the Community should go and how fast progress can be made makes it extremely difficult to determine exactly what tax measures will be needed; and of course, it is even more difficult to draw up a detailed timetable for such measures. In the final analysis, everything will depend on the division of powers between the Member States and the Community and hence on the transfers of sovereignty to the Community. Discussion of this matter has hardly advanced beyond the initial stage.

In spite of this uncertainty, a number of points are worth considering. Economic integration implies a 'single market', that is to say a common market with characteristics similar to those of a domestic market, and at once we have the problems of abolishing tax frontiers (i.e. border adjustments and cheeks in respect of intra-Community trade) and of harmonizing tax burdens.

As we have said, taxation is one of the major determinants of a country's economic and social life. The level of taxes influences a wide range of factors, including the structure of consumption and hence of production, company profitability, the location of investment projects and, generally speaking, the conditions of competition.

With the prospect before us of a thrust for economic integration, these various factors must not be artifically influenced by differences in tax burdens. Eventually therefore, closer alignment of these burdens will be necessary.

Given the role of taxation as an instrument of economic and social policy, such a move towards alignment is equally important in the context of increasingly close coordination of national policies and the framing of genuine common policies in the key economic sectors.

8. Before we consider the measures that would have to be taken in this respect, it may be useful to recapitulate the measures already decided upon or awaiting adoption.

In addition, it is worth emphasizing once again that the closer alignment of tax burdens which must be tackled will be a much more difficult process than the harmonization of structures and bases of assessment, because it will conflict with the principle that countries should have complete latitude in their use of taxation as an instrument of budgetary policy and economic and social policy and will consequently have important repercussions. These are discussed in Chapter V. Clearly, then, progress will have to be very cautious, the Member States must be allowed sufficient room for manoeuvre and the processes of tax harmonization and economic integration must keep in step.

Chapter II

Tax harmonization: Achievements and prospects

Main measures adopted or to be adopted prior to closer alignment of tax burdens

9. The free movements of goods and the establishment of the customs union are the areas in which the Community has recorded its greatest success in the tax field. Following adoption by the Council in 1967 of the fist two VAT Directives,[1] VAT has been introduced in the Member States, superseding the cascade tax systems, which had serious disadvantages. Another important step forward in the harmonization process was the Council's adoption in 1977 of the Sixth VAT Directive on the uniform basis of assessment for VAT.[2] This measure was necessary not only for the purpose of tax neutrality but also to achieve another major objective, namely providing the Community with its own resources.

The Commission has put forward other proposals aimed at resolving a number of problems to which no comprehensive and definitive solutions had been supplied by the Sixth Directive. These problems concern:

(i) the refund of VAT to non-resident taxable persons;

(ii) the arrangements to be applied to the works of art, collectors' items, antiques and used goods;[3]

(iii) the arrangements to be applied to hiring-out of movable tangible property;[4]

(iv) stores of vessels and aircraft;[5]

(v) the importation of goods eligible for a non-tariff customs exemption.[6]

To date, only the first of these proposals has been adopted by the Council, in the form of an Eighth VAT Directive.[7]

A number of other texts have still to be finalized by the Commission, including one concerning the temporary importation of certain means of production. In addition, the Commission plans to unveil shortly a multiannual programme for the simplification of procedures and formalities at intra-Community frontiers, since these are unwieldy, complicated and costly and cause a great deal of inconvenience to firms, particularly smaller firms.

10. Effective free movement of goods also entails harmonization of the systems of excise duties, notably in order to eliminate the many sources of divergence in this field, which are often bound up with the very structure of excise duties. It was with this in mind that the Commission sent to the Council several years ago a programme for harmonizing excise duties that laid down which excise duties were to be retained and incorporated arrangements to harmonize their structures and ultimately to prevent the Member States from introducing any new excise duties necessitating compensation arrangements or checks at frontiers (framework directive[8] and specific directives concerning tobacco, beer,[8] wine,[8] spirits[8] and mineral oils).[9]

The results obtained so far in this field are rather disappointing: only the harmonization of excise duties on cigarettes has been decided on and achieved in part.[10] In spite of an urgent request from the Commission, in its Communication of 2 August 1977,[11] and in spite of the infringement proceedings[12] initiated against the Member States, the Council has not yet acted on the other proposals before it, including those

[1] OJ 71 of 14. 4. 1967.
[2] OJ L 145 of 13. 6. 1977; Bull. EC 5-1977, points 1.3.1 to 1.3.4.
[3] OJ C 26 of 1. 2. 1978; OJ C 136 of 31. 5. 1979; Bull. EC 5-1979, point 2.1.45.
[4] OJ C 116 of 9. 5. 1979.
[5] OJ C 31 of 8. 2. 1980; Bull. EC 1-1980, point 2.1.19.
[6] OJ C 267 of 21. 11. 1975.
[7] OJ L 331 of 27. 12. 1979.
[8] OJ C 43 of 29. 4. 1972.
[9] OJ C 92 of 31. 10. 1973.
[10] OJ L 338 of 28. 12. 1977.
[11] Bull. EC 7/8-1977, point 2.1.39.
[12] Notably Bull. EC 7/8-1978, points 2.3.51 to 2.3.54; Bull. EC 4-1979, point 2.3.41; Bull. EC 2-1980, points 2.1.26 to 2.1.30.

concerning alcoholic beverages. The importance of excise duties for the free movement of excisable products is a good reason why top priority should now be given to the task of harmonizing them. It was with this in mind that the Commission sent to the Council on 26 June 1979 another communication[1] on the matter.

11. With a view to the free movement of goods but also of persons, the Community embarked some time ago on a policy of introducing tax exemptions for private individuals.

The Council has adopted a whole series of directives in this field. Exemptions were first introduced in 1969 and have since been gradually extended and improved. The four latest texts were adopted by the Council on 19 December 1978[2] and concern the following:

(i) goods contained in the personal luggage of travellers crossing intra-Community frontiers;

(ii) goods contained in the luggage of travellers coming from third countries;

(iii) the importation of goods in small consignments of a non-commercial character within the Community;

(iv) the importation of goods in small consignments of a non-commercial character from third countries.

Two other Commission proposals dating from 1975 have not as yet been adopted by the Council. They concern the temporary importation of certain means of transport and the permanent importation of personal property of individuals in the event of removal, marriage and inheritance.[3]

The Commission would like to press ahead with this policy of progressively extending exemptions in accordance with the objective laid down by the Council itself in its Resolution of 22 March 1971 on economic and monetary union,[4] but it is aware that it will be difficult to increase the amounts of the exemptions substantially as long as VAT and excise duty rates have not been brought somewhat more closely into line, because of the risks of distortion it would involve.

12. With respect to the free movement of persons, the Commission sent the Council, in December 1979, a proposal for a Directive concerning personal income tax payable by workers who carry on their activity in a Member State other than that in which they are resident.[5] The purpose of the proposal is to eliminate the discrimination and disadvantages with which such workers may have to contend.

13. The efforts made to establish the free movement of capital, to decompartmentalize the capital markets and to create a genuine common market for capital have brought tax measures in their train. International capital movements are at present hampered by manifold tax obstacles such as discrimination, double taxation and complicated administrative formalities which further seal off the capital markets. What is more, certain factors such as differences in systems of company taxation and in the rates of withholding tax may trigger abnormal movements of capital, that is to say, movements prompted by tax considerations and not by financial considerations proper. Such movements are, moreover, liable to add to the difficulties of operating the European Monetary System.

It is important, therefore, that these tax obstacles be removed and some degree of neutrality of taxation introduced in order to ensure that capital movements and the sitting of investment projects are not determined by tax considerations but are made in response to economic considerations and guanrantee optimum utilization of financial resources and production factors in the Community. The tax factors referred to above affect both direct and indirect taxation.

With regard to indirect taxation, the Council has already adopted three directives on the har-

[1] Bull. EC 6-1979, point 2.1.39.
[2] OJ L 366 of 28. 12. 1978; Bull. EC 12-1978, point 2.1.54.
[3] OJ C 267 of 21. 11. 1975.
[4] OJ C 28 of 27. 3. 1971.
[5] OJ C 21 of 26. 1. 1980; Bull. EC 12-1979, point 2.1.58.

monization of capital duty payable by companies (indirect taxes on the raising of capital).[1] Under these directives, the tax rates are also harmonized.

In addition, the Commission has transmitted to the Council a proposal for a Directive on the harmonization of indirect taxes on transactions in securities,[2] discussion of which has not yet begun. In the longer term, the Commission intends to propose the abolition of this tax, which is out of place in a modern tax system.

With regard to direct taxation, capital movements have a bearing on the tax arrangements for bond interest and dividends. The problem where bond interest is concerned is to harmonize the systems of withholding tax. In 1973, the Commission came out in favour of the principle of a substancial withholding tax[3] of around 25 % that would both satisfy the dictates of tax equity and meet the concern over social issues expressed by the Heads of State or Government. At the same time, however, the Commission stated that it would not draw up a proposal along these lines until the Community was endowed with the machinery for monitoring capital movements at external frontiers. This is necessary in order to prevent the flight of capital from the Community to non-member countries not charging withholding tax. Any such outflow of capital would be particularly unwelcome at the present time, given the deficit in the Community's balance of payments.

In the case of dividends, both the systems of withholding taxes and the systems of company taxation need to be harmonized. In 1975, the Commission sent to the Council an important proposal for a Directive[4] providing for the adoption of a common system of company taxation granting partial relief from double economic taxation of dividends through the introduction of a tax credit and for the adoption of a harmonized system of withholding taxes on dividends. The Council, however, has not yet begun to examine the proposal in earnest and, in any case, the European Parliament has still not delivered its opinion.

14. Like the Community's other fundamental objectives, its common policies cannot be brought to fruition without recourse to the instrument of taxation.

A typical example is afforded by the common transport policy. One of the prime objectives of this policy is that each mode of transport should bear its fair share of infrastructure costs. In the case of road haulage of road passenger transport the instrument chosen to achieve this objective is taxation: in the final analysis, taxes on vehicles and on motor fuels will have to be fixed in such a way that their yield in aggregate totals corresponds to the share of infrastructure costs to be borne by these vehicles.

Industrial policy is another typical example. The 1969 proposals for Directives on cross-frontier company mergers and the tax treatment of parent companies and subsidiaries from different Member States[5] are likewise aimed at achieving a fundamental objective of industrial policy, namely that companies should be able to expand in the response to the requirements of an enlarged market and to improve their competitiveness world-wide. Indeed, it is extremely important that firms should be of a size to handle the technical and economic conditions characterizing the modern production apparatus, to exploit the scope for larger-scale production afforded by the establishment of the common market and to meet the requirements of increasing competition both within the Community and in the world at large. This entails abolition of the tax obstacles to the creation of cross-frontier corporate groups (in which subsidiaries are controlled by a parent company) resulting from mergers and the like or from the acquisition of extensive holdings.

While this objective has generally been achieved within national frontiers, this is not always true when cross-frontier takeovers or mergers are planned. The two proposals mentioned above are aimed at remedying this situation. In

[1] OJ L 249 of 3. 10. 1969; OJ L 303 of 13. 11. 1974; OJ L 103 of 18. 4. 1973.
[2] OJ C 133 of 14. 6. 1976.
[3] Seventh General Report, point 176.
[4] OJ C 253 of 5. 11. 1975; Supplement 10/75 — Bull. EC.
[5] OJ C 39 of 22. 3. 1969.

spite of a number of Council resolutions and the concern expressed at the 1972 Paris Summit, these proposals have still not been adopted, something which at long last should be done particularly since, without them, the Statute for European Companies cannot be implemented.

15. The introduction of arrangements to ensure that competition is not distorted is another important objective.

In the field of indirect taxation, the measures taken in respect of VAT (1967 Directives, uniform basis of assessment) and in respect of the harmonization of the structures of excise duties, whose aim is to secure the free movement of goods and services, also contribute to the achievement of competition policy.

As regards direct taxation, an initial step in this direction was taken when, in 1975, the Council received the proposal for a Directive on the harmonizing of the systems of company taxation.[1] The proposal lays down that the tax rates will have to be within a 45-55 % range in all Member States. A second step forward will be taken in the next few years, when the Commission draws up proposals relating to the harmonization of the bases of assessment for taxes on company profits. This is a vast field that embraces a whole series of matters such as depreciation, capital gains, stock valuation, carry-forward of losses, exempt reserves, etc.

Although there is no question at the moment of harmonizing incentives, of which there are a great many in this field (and indeed they are a facet of each Member State's economic policy), it is essential that a definition of a 'normal' basis of assessment be agreed if we are to eliminate distortions of competition, achieve some measure of tax transparency and ensure that the closer alignment of rates is truly meaningful.

16. Alongside the harmonization of tax systems, the establishment of conditions of effective competition also requires specific action to combat tax avoidance. Tax avoidance and evasion beyond Member States' frontiers pose a serious problem not only for the Member States but also for the Community. For each Member State, it results in budgetary losses and infringements of the principle of tax equity; for the Community, it is liable to cause distortions in capital movements and in the conditions of competition. Lastly, where VAT is concerned, it affects that portion of revenue accruing to the Community.

To be effective, measures to combat international tax avoidance and evasion can no longer be devised on a national or bilateral basis, on account of the free movement of persons and capital, the growing interpenetration of economies and the growth of multinationals; they must be organized on the widest possible international basis, and first of all at Community level. It was these reasons which prompted the Council, acting on a proposal from the Commission, to adopt on 10 February 1975 a Resolution on the measures to be taken by the Community in order to combat international tax evasion and avoidance,[2] and to follow this up with a Directive, adopted in 1977, concerning mutual assistance by the competent authorities of the Member States in the field of direct taxation.[3]

In order, however, to ensure that companies are not penalized when profits are adjusted, the Commission sent to the Council in 1976 a proposal for a Directive[4] designed to eliminate double taxation in connection with the adjustment of profits carried out by a Member State. The Council has not as yet begun its substantive examination of the proposal.

As regards VAT, the Commission has drawn up two proposals for Directives; one of them is similar to that on direct taxation adopted by the Council, while the other concerns mutual assistance in the recovery of VAT claims. The Council adopted both proposals on 6 December 1979.[5]

[1] Point 13; OJ C 253 of 5. 11. 1975; Supplement 10/75 — Bull. EC.
[2] OJ C 35 of 14. 2. 1975.
[3] OJ L 336 of 27. 12. 1977; Bull. EC 11-1977, point 2.1.51.
[4] OJ C 301 of 21. 12. 1976.
[5] OJ L 331 of 27. 12. 1979; Bull. EC 12-1975, point 2.1.55.

The Commission will press ahead with this policy of combating tax avoidance in the coming years, among other things by endeavouring to introduce more effective monitoring of transfer prices set by groups of companies.

Measures to be taken in the years ahead with a view to achieving a greater degree of economic integration

17. While, as stated above, it is not possible to determine at present all the tax measures needed to establish a genuine economic and monetary union, the Commission feels that priority will have to be given to two objectives:

(i) in the field of indirect taxation, it will be necessary to create a single market, that is to say, a market with characteristics similar to those of a domestic market. This objective can be achieved in full only if tax frontiers are abolished, i.e. if the taxation of imports, the remission of tax on exports and checks at intra-Community frontiers are discontinued;

(ii) in the field of direct taxation, firms' tax burdens will have to be brought more closely into line so that production costs, the location of investment projects and the return on invested capital in the Member States are not influenced to unduly differing degrees by taxation and so conditions of fair competition between firms in different Member States can be established.

To these two objectives, there may one day be added a third, the use of taxation as an instrument of common policies if, as is desirable, they finally gain momentum; however, the measures to be taken in this field can be spelt out only once these objectives have themselves been clearly defined.

18. Abolition of tax frontiers has been an objective of the Community since its inception. Express provision for the abolition of tax frontiers in the VAT field was made in the First Directive,[1] dated 1967. The main snag here is that this objective cannot be attained unless VAT and excise duty rates have been aligned closely enough. Admittedly, the VAT deduction system, which should be extended to transactions between taxable persons in different Member States, does not, in theory, necessitate any closer alignment of rates. But the system does not apply to non-taxable persons; and the danger of evasion by taxable persons cannot be ignored. For these reasons, closer alignment of tax rates is essential in order to ensure that differences between rates do not engender substantial deflections of trade, notably in frontier regions. This is an even more serious problem in the case of excise duties, where rates differ much more widely than VAT rates and where the amount of duty payable may account for a very substantial proportion of the price of a product.

Where excise duties are concerned, the closer alignment of rates may also have a bearing on common policies. For instance, the common organization of the market in wine, which was established to guarantee and facilitate the disposal of wine, will never operate entirely satisfactorily as long as the Member States retain complete autonomy with regard to the excise duty on wine: the reason is that they can take tax measures whose effects, not to say aims, run counter to the objectives pursued on the agricultural front — for example, an increase in the excise duty tends to reduce wine consumption. This has actually happened: shortly after the Commission had recommended a reduction in the excise duty for agricultural policy reasons, some Member States announced a substantial increase.

Another problem in this area is that, contrary to what can be done elsewhere, the tax frontiers cannot be abolished progressively. Elimination of frontier checks is dependent on the simultaneous alignment — to the extent necessary — of VAT and all excise duty rates. As long as there are marked differences in the rates of even one of these taxes, frontier checks will have to continue.[2]

[1] OJ 71 of 14. 4. 1967.
[2] It must not be forgotten that frontier checks are carried out not only for tax reasons but also for health (including plant health), statistical and general regulatory reasons.

Closer alignment of rates does not, however, mean uniform rates. It is likely that some disparities can be tolerated without undue inconvenience, although prior studies would be needed to determine the acceptable spread. Rates cannot be brought more closely into line, though, unless a number of preconditions have been met.

With regard to VAT, adoption by the Council of the proposals referred to in point 9 is one such precondition, the others being:

(a) full and complete harmonization of the basis of assessment, in particular by discontinuing the derogations from the principle of a uniform basis of assessment;

(b) a decision must be taken as to whether the Community system is to have one rate or several; in the latter case, the relationship between the rates must be fixed and the list of goods and services chargeable at the different rates must be drawn up. At present, the number of VAT rates ranges from one in Denmark to eight in Italy.

With regard to excise duties, the harmonization of structures under way for manufactured tobacco must be completed. In addition, the Council must adopt the proposals sent to it by the Commission concerning the other four excise duties requiring harmonization[1] (those on beer, spirits, wine and mineral oils), and any other charges of this sort must be abolished and prohibited, except for those not entailing frontier checks, such as entertainments or betting tax.

If tax frontiers are to be abolished, the problem of allocating tax revenue accruing from VAT and excise duties must also be settled. For VAT, one possible solution would be to allocate to the country of origin the total amount of revenue from the sale of goods and services to non-resident non-taxable persons — as is current practice under the system of tax exemptions — and to the country of destination the total amount of revenue from transactions between taxable persons. In the latter case, an appropriate financial compensation mechanism would have to be introduced. For excise duties, the solutions adopted could be guided by similar principles. For instance, excise duties levied on sales to non-resident non-taxable persons would still accrue to the country of origin, while excise duties on products traded between taxable persons would accrue to the country of destination. Here too, appropriate monitoring and compensation arrangements would be needed.

19. As regards taxes on company profits, it was mentioned above that the Commission will, in the next year or so, submit proposals concerning the relevant basis of assessment. In addition, however, the Council must adopt the 1975 proposal on the harmonization of the systems of company taxation and the systems of withholding taxes on dividends.[2] In the longer term, the closer alignment of the rates of corporation tax that will be triggered by this proposal will have to be taken further. Two other problems will have to be tackled: namely, whether the wealth tax should be made generally applicable to enterprises or abolished; and how the tax burden on profits earned by companies not subject to corporation tax is to be treated.

Lastly, thought will have to be given to the investment incentives granted by Member States, in connection with the basis of assessment for taxes on profits. It would be going too far to consider harmonizing such incentives, since they are tailored to situations that are not the same everywhere. Rather, some degree of coordination is needed. Indeed, bearing in mind the objective of a fully fledged economic and monetary union, it is inconceivable that such measures should be taken by the Member States without being dovetailed into an overall policy even where, as aids, they do not in fact conflict with the Treaty. As and when jointly agreed economic policies are framed and implemented, it will become increasingly necessary to coordinate the use of taxation as an intervention instrument.

[1] Point 10.
[2] Point 13; OJ C 253 of 5. 11. 1975.

Chapter III

Analysis of tax structures in the Member States and of changes in structure in recent years

General

20. The changes in each Member State in the structure and burden of taxation during the period from 1973 to 1977 are shown in the annexed tables which have been drawn up using data provided by the Statistical Office of the European Communities. As an analysis focusing on taxes only cannot provide a valid comparison between States owing to the different methods of financing social security (taxes or contributions), all the calculations have been made on the basis of total receipts from taxes and actual social contributions.

Each table distinguishes between personal income taxes (including local taxes and withholding taxes), corporation tax, wealth taxes (including estate duties), VAT, the five major excise duties (on beer, wine, spirits, tobacco and mineral oils), other taxes, levies accruing to the European Communities[1] (ECSC levy, sugar levies, customs duties, agricultural levies) and actual social contributions.

Each tax or contribution is shown as a percentage of total receipts from taxes and actual social contributions and as a percentage of gross domestic product at market prices.

A brief analysis of these tables by Member State is also annexed hereto.

The survey which follows comprises:

(a) two summary tables covering all Member States, one for 1973 and the other for 1977;

(b) four graphs showing, for each Member State, the respective trends of corporation tax, VAT, the total of the five excise duties to be harmonized and total receipts from taxes and actual social contributions, and the differences between Member States in these areas;

(c) comments.

Comments

21. Total receipts from taxes and social contributions show major structural differences between one Member State and another:

(i) in the case of income and wealth taxes taken together, France has the lowest proportion and Denmark the highest (16 % of the total compared with 61 % in 1973, 18 % compared with 58.9 % in 1977). The difference, even though slightly reduced, is still very substantial;

(ii) in the case of VAT, it is the United Kingdom and France which are at the two extremes (6.8 % in the United Kingdom compared with 24 % in France in 1973, 8.2 % compared with 21.2 % in 1977). However, it should be noted that, following the substantial increase in the standard VAT rate in the United Kingdom in the spring of 1979, future figures relating to that country will be much higher.[2] Nevertheless, the difference between the two countries will probably remain fairly large;

(iii) in the case of the five major excise duties taken together, France has the lowest proportion and Ireland the highest (7.1 % compared with 24.8 % in 1973, 5.4 % compared with 21.2 % in 1977). The difference is still very substantial;

[1] The figures concerning the levies accruing to the Communities should be interpreted with caution and do not permit a valid comparison between one State and the next, since in some States, such as the Netherlands, a large proportion of customs duties and agricultural levies relate to products intended for the domestic markets of other Member States, whereas the opposite is true in other States, such as Luxembourg.

[2] Forecasts put the extra annual receipts at more than UKL 4 000 million, or more than 8 % of total receipts from taxes estimated for 1979/80.

(iv) finally, in the case of social contributions, we observe an increase in their share in most Member States and a quite special situation in Denmark owing to the fact that social security expenditure is financed mainly through tax. For this reason, there are enormous differences between the two extremes (in 1973, 1.9 % in Denmark and 41.2 % in Italy; in 1977, 1.2 % in Denmark and 41.9 % in France).

22. As regards the tax burden, it can be seen that during the period 1973-77, total receipts from taxes and social contributions increased in all Member States. However, this increase was more marked in some countries than in others. Luxembourg, for example recorded the highest increase (from 35.2 % of GNP to 49.4 %) and Denmark the lowest (from 42.5 % to 42.6 %).

The total tax burden (total receipts from taxes and social contributions as a percentage of GDP) varies very considerably between one country and the next. In 1973, the greatest difference was between Italy and the Netherlands (30.6 % as against 44.5 %) and in 1977 between Italy and Luxembourg (34.6 % as against 49.4 %). While the percentages increased, the size of the difference was unchanged.

As regards the weight of the main taxes and the trend between 1973 and 1977, the situation is as follows:

(i) the share of personal income taxes increased continually in all Member States except Denmark during the period in question. The highest increases were in Italy from 4.6 % of GDP to 8 %, in Belgium from 10.4 % to 14.6 % and in Luxembourg from 7.8 % to 11.1 %. The greatest difference was again between France and Denmark (in 1973, 3.4 % of GDP in France compared with 22.3 % in Denmark, in 1977, 4.8 % in France compared with 21.6 % in Denmark). Even though it has been reduced slightly, this difference remains extremely large;

(ii) the corporation tax trend varied according to country during the period. However, over the last two years, this tax's share in total receipts has fallen everywhere to a greater or lesser extent, except in Luxembourg where it has increased. This very special situation in the Grand Duchy is probably explained by the large number of companies in that country, particularly in the banking sector.

In 1973, receipts from this source were equivalent to 0.46 % of GDP in Italy and 4.06 % of GDP in Luxembourg, whereas in 1977 the corresponding figures were 0.98 % and 6.67 %. This shows that the widest spread increased between 1973 and 1977;

(iii) the trend of wealth taxes also varied according to Member State. The greatest difference was between Italy and the United Kingdom (0.14 % of GDP in Italy in 1973 compared with 4.63 % in the United Kingdom, and 0.06 % compared with 4.46 % in 1977). It can therefore be seen that the difference is fairly substantial and has remained virtually constant;

(iv) VAT showed little change in all Member States during the period in question. As already pointed out, the two extremes were the United Kingdom and France. Expressed as percentages of GDP, the figures for these two countries were, respectively, 2.2 % and 8.6 % in 1973 and 3 % and 8.3 % in 1977;

(v) the total for the five major excise duties varied according to Member State, although only to a limited extent: there was a relative increase in Denmark, Italy and Luxembourg, and a fall in the other countries.

In the case of the five excise duties, it has also already been pointed out that the greatest difference was between France and Ireland. Expressed as percentages of GDP, the figures for these two countries were, respectively, 2.5 % and 7.9 % in 1973 and 2.1 % and 7.5 % in 1977. The difference of slightly more than 5 percentage points remains virtually constant;

(vi) finally, social contributions were of course lowest throughout the period in Denmark, while they were highest in Italy in 1973 and in France in 1977 (0.82 % of GDP in Denmark in 1973 as against 12.38 % in Italy; 0.53 % in Denmark in 1977 as against 16.47 % in France). It can be seen that the difference here is enormous and is tending to increase.

Conclusion

23. Tables 1 and 2 and Graphs 1 to 4 and the comments on them highlight the differences which exist between Member States in the structure of total receipts from taxes and social contributions, in the weight of these receipts and in that of their main components, and the changes in these differences.

Whether we consider the structure of total receipts, the overall tax burden or the relative weight of particular taxes, we see that the differences between the extremes are still large and sometimes even very large. In some cases, the difference in 1977 narrowed compared with that in 1973, although so slightly as to make the change insignificant. In other cases, the difference remains virtually constant. In the case of corporation taxes, it has actually increased.

Nevertheless, there is one interesting area of convergence: the relative weight of personal income taxes has increased in all countries, except in Denmark.[1] In some Member States, like France and Italy, the increase primarily reflects deliberate policy. In all Member States, however, this phenomenon is probably also linked with inflation which pushes up the tax burden on incomes if scales are inadequately adjusted and produces a fall in the relative share of specific excise duties which are not regularly adjusted in line with the rate of inflation. This phenomenon is most marked in Italy, but is also very clear in France. For this reason, these countries, in which the share of direct taxes has traditionally been the lowest, are tending to draw slightly nearer to the others.

The major differences seen are clearly not likely to facilitate the harmonization of tax rates among Member States. They make it necessary for the Community to move in this direction only with great caution and little by little so as to avoid sudden upheavals which would be intolerable at national level.

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[1] However, Denmark maintains its lead as regards the relative weight of these taxes.

Table 1 — *Structure of total receipts from taxes and social contributions and the tax burden: 1973*

Taxes and social contributions	Belgium		FR of Germany		Denmark		France		Ireland		Italy		Luxembourg		Netherlands		United Kingdom	
	a	b	a	b	a	b	a	b	a	b	a	b	a	b	a	b	a	b
Personal income taxes (including local taxes and withholding taxes)	27.20	10.41	27.72	10.43	52.39	22.25	9.65	3.43	25.78	8.27	15.04	4.61	22.24	7.83	26.70	11.87	29.86	10.04
Corporation tax	8.00	3.05	3.51	1.32	3.12	1.32	5.75	2.04	2.65	0.85	1.34	0.46	11.52	4.06	6.67	2.97	7.57	2.55
Wealth taxes (including estate duties)	0.81	0.30	2.81	1.06	5.48	2.33	0.57	0.20	10.23	3.28	0.48	0.14	1.72	0.60	1.43	0.64	13.78	4.63
Total	36.01	13.76	34.04	12.81	60.99	25.90	15.97	5.67	38.66	12.40	16.86	5.21	35.48	12.49	34.80	15.48	51.21	17.22
VAT	17.60	6.71	14.41	5.42	17.86	7.58	24.04	8.56	15.94	5.11	15.12	4.67	10.87	3.83	14.92	6.63	6.76	2.27
Excise duty on beer	0.40	0.15	0.37	0.14	1.73	0.74	0.08	0.02	5.57	1.79	0.16	0.05	0.32	0.11	0.28	0.13	1.61	0.54
Excise duty on wine	0.20	0.06	0.09	0.04	0.32	0.14	0.11	0.04	0.30	0.09	—	—	0.19	0.06	0.12	0.05	0.41	0.14
Excise duty on spirits	0.50	0.19	0.92	0.35	1.13	0.48	0.89	0.31	4.64	1.49	0.50	0.15	0.72	0.25	0.72	0.32	1.99	0.67
Excise duty on tobacco	1.55	0.58	2.57	0.97	3.54	1.50	1.55	0.55	7.64	2.45	2.94	0.90	1.92	0.67	1.39	0.62	4.51	1.52
Excise duty on mineral oils	4.80	1.81	4.80	1.81	2.34	0.99	4.48	1.59	6.62	2.12	8.14	2.46	4.64	1.63	3.17	1.41	6.55	2.20
Total of these excise duties	7.45	2.79	8.75	3.29	9.06	3.85	7.11	2.51	24.77	7.94	11.74	3.56	7.79	2.72	5.68	2.53	15.07	5.07
Other taxes	6.08	2.32	9.84	3.70	9.78	4.15	14.64	5.21	9.07	2.91	14.01	4.46	16.99	5.99	5.38	2.39	9.18	3.09
Total of national taxes	67.10	25.58	67.04	25.23	97.69	41.48	61.76	21.99	88.44	28.36	57.73	17.90	71.13	25.03	60.78	27.03	82.22	27.65
Various levies accruing to the European Communities	1.35	0.51	0.91	0.34	0.37	0.16	0.64	0.25	0.71	0.23	1.04	0.31	0.89	0.31	1.33	0.59	0.71	0.24
Total tax receipts	68.45	26.09	67.95	25.57	98.06	41.64	62.40	22.22	89.15	28.59	58.81	18.21	72.02	25.34	62.11	27.62	82.93	27.89
Actual social contributions	31.55	12.04	32.05	12.06	1.94	0.82	37.60	13.39	10.85	3.48	41.23	12.38	27.98	9.87	37.89	16.85	17.07	5.74
Overall total	100.00	38.13	100.00	37.63	100.00	42.46	100.00	35.61	100.00	32.07	100.00	30.59	100.00	35.21	100.00	44.47	100.00	33.63

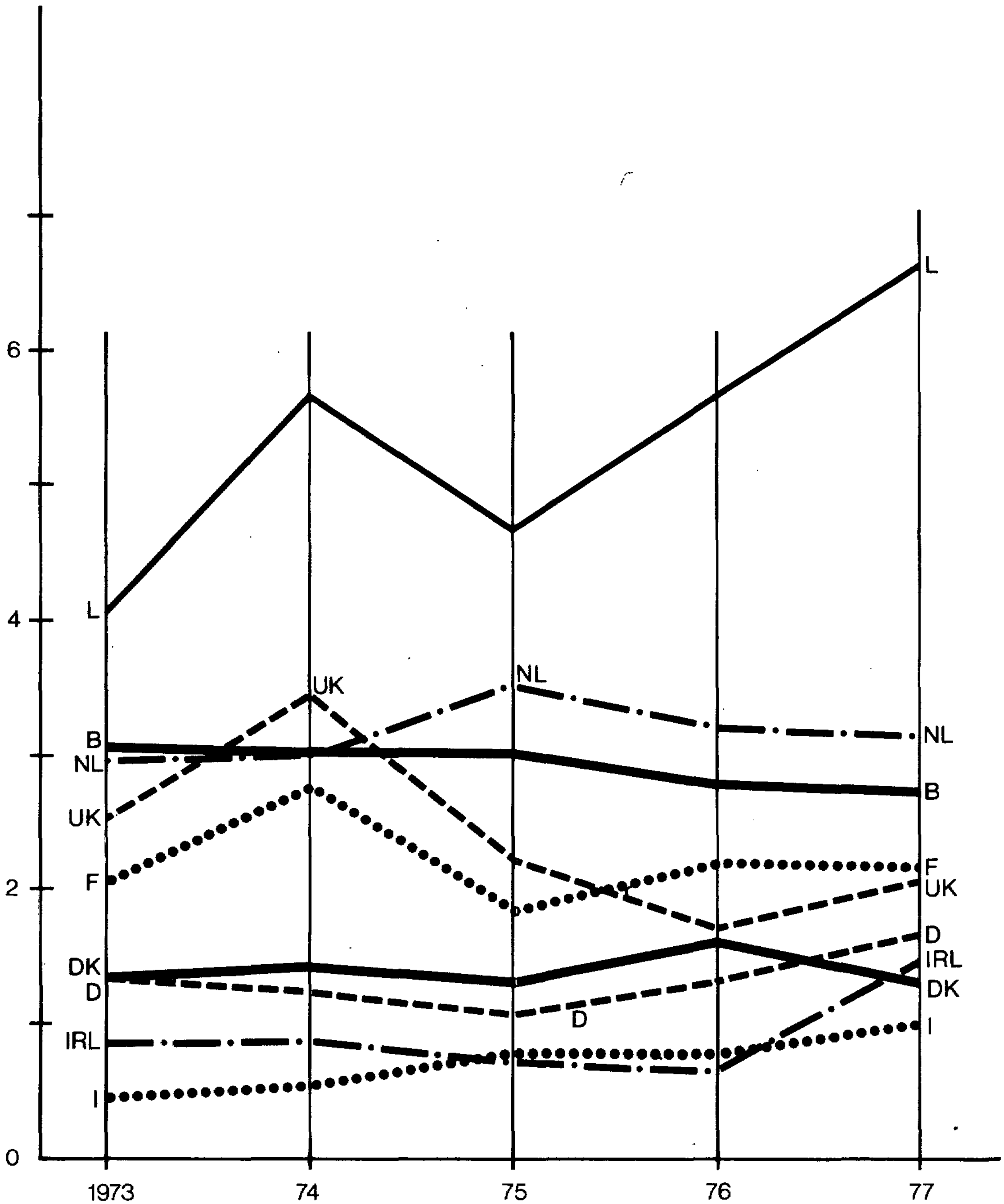
a = share of the various taxes or contributions in total receipts from taxes and social contributions.
b = share of the various taxes or contributions in GDP (at market prices).

Table 2 — *Structure of total receipts from taxes and social contributions and the tax burden: 1977*

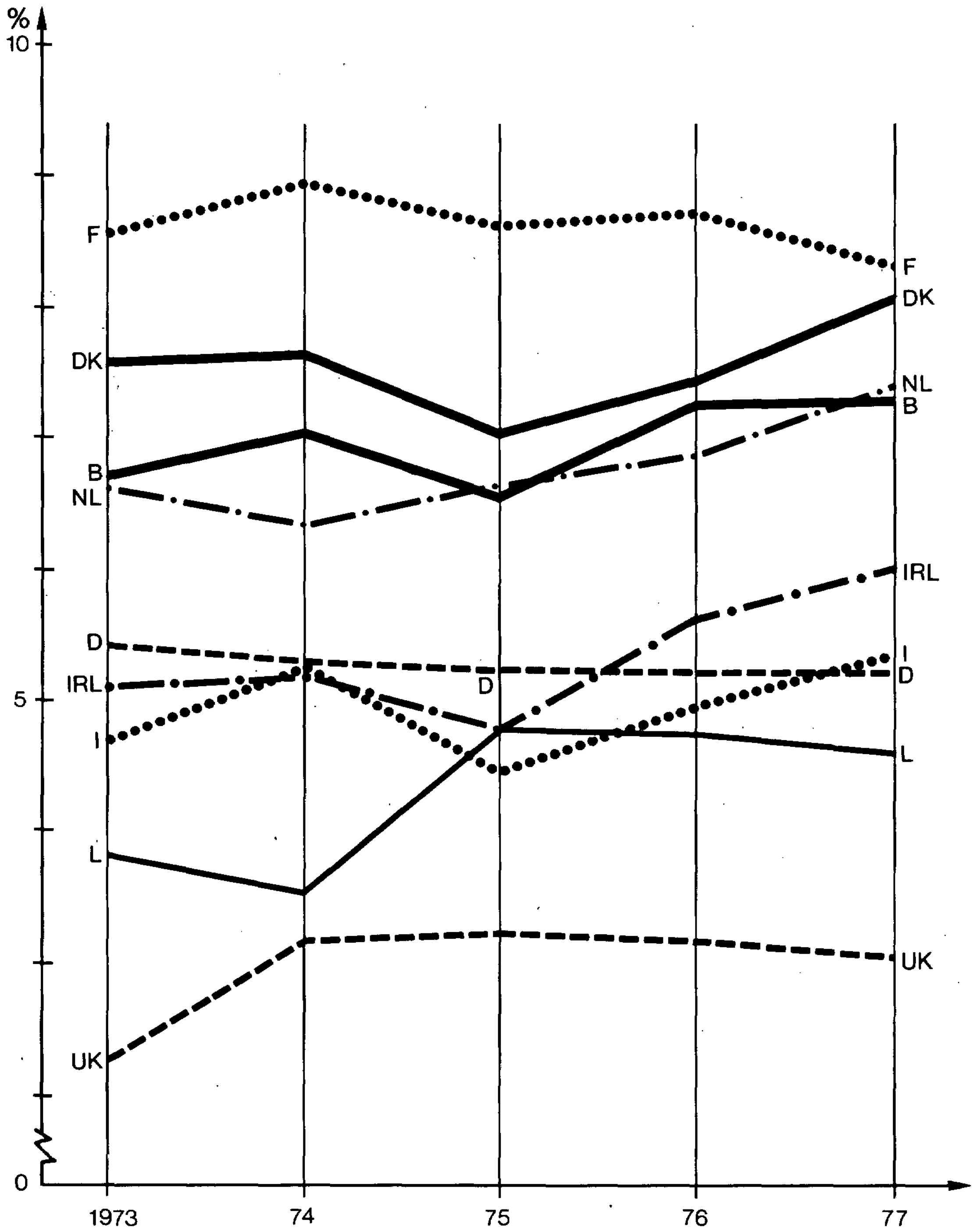
Taxes and social contributions	Belgium		FR of Germany		Denmark		France		Ireland		Italy		Luxembourg		Netherlands		United Kingdom	
	a	b	a	b	a	b	a	b	a	b	a	b	a	b	a	b	a	b
Personal income taxes (including local taxes and withholding taxes)	33.05	14.56	28.29	11.26	50.72	21.60	12.15	4.79	27.63	9.72	23.39	8.02	22.31	11.06	25.86	12.17	34.21	12.59
Corporation tax	6.15	2.70	4.13	1.64	3.08	1.31	5.40	2.14	4.11	1.44	2.57	0.98	13.41	6.67	6.65	3.13	5.58	2.05
Wealth taxes (including estate duties)	0.80	0.34	2.95	1.18	5.04	2.15	0.43	0.18	6.70	2.36	0.18	0.06	1.23	0.60	1.89	0.89	12.13	4.46
Total	40.00	17.60	35.37	14.08	58.84	25.06	17.98	7.11	38.44	13.52	26.14	9.06	36.95	18.33	34.40	16.19	51.92	19.10
VAT	16.54	7.29	13.13	5.23	18.95	8.07	21.17	8.32	16.99	5.98	15.30	5.35	9.29	4.59	15.68	7.38	8.22	3.03
Excise duty on beer	0.30	0.13	0.27	0.11	1.59	0.68	0.04	0.01	5.14	1.81	0.11	0.04	0.32	0.16	0.21	0.10	1.69	0.62
Excise duty on wine	0.19	0.08	0.09	0.04	0.45	0.19	0.06	0.02	0.29	0.10	—	—	0.15	0.07	0.14	0.07	0.53	0.20
Excise duty on spirits	0.46	0.20	0.79	0.31	1.26	0.54	0.78	0.31	3.60	1.27	0.27	0.09	0.55	0.27	0.70	0.33	1.60	0.59
Excise duty on tobacco	1.43	0.62	2.05	0.82	3.29	1.40	0.75	0.29	4.67	1.64	2.16	0.74	2.00	0.99	1.18	0.55	4.39	1.62
Excise duty on mineral oils	3.33	1.46	4.02	1.60	2.54	1.08	3.78	1.50	7.50	2.64	8.12	2.82	3.39	1.67	2.50	1.18	4.49	1.65
Total of these excise duties	5.71	2.49	7.22	2.88	9.13	3.89	5.41	2.13	21.20	7.46	10.66	3.69	6.41	3.16	4.73	2.23	12.70	4.68
Other taxes	5.15	2.26	9.08	3.61	11.02	4.70	12.78	5.03	6.49	2.28	7.32	2.52	15.73	7.78	4.99	2.35	6.47	2.38
Total of national taxes	67.40	29.64	64.80	25.80	97.94	41.72	57.34	22.58	83.12	29.24	59.42	20.62	68.38	33.86	59.80	28.15	79.31	29.19
Various levies accruing to the European Communities	1.92	0.84	1.13	0.45	0.82	0.35	0.74	0.29	3.95	1.39	1.55	0.53	0.73	0.26	2.04	0.96	1.29	0.47
Total tax receipts	69.32	30.48	65.93	26.25	98.76	42.07	58.08	22.87	87.07	30.63	60.97	21.15	69.11	34.12	61.84	29.11	80.60	29.66
Actual social contributions	30.68	13.56	34.07	13.56	1.24	0.53	41.92	16.47	12.93	4.55	39.03	13.38	30.89	15.27	38.16	17.96	19.40	7.14
Overall total	100.00	44.04	100.00	39.81	100.00	42.60	100.00	39.34	100.00	35.18	100.00	34.53	100.00	49.39	100.00	47.07	100.00	36.80

a = share of the various taxes or contributions in total receipts from taxes and social contributions.
b = share of the various taxes or contributions in GDP (at market prices).

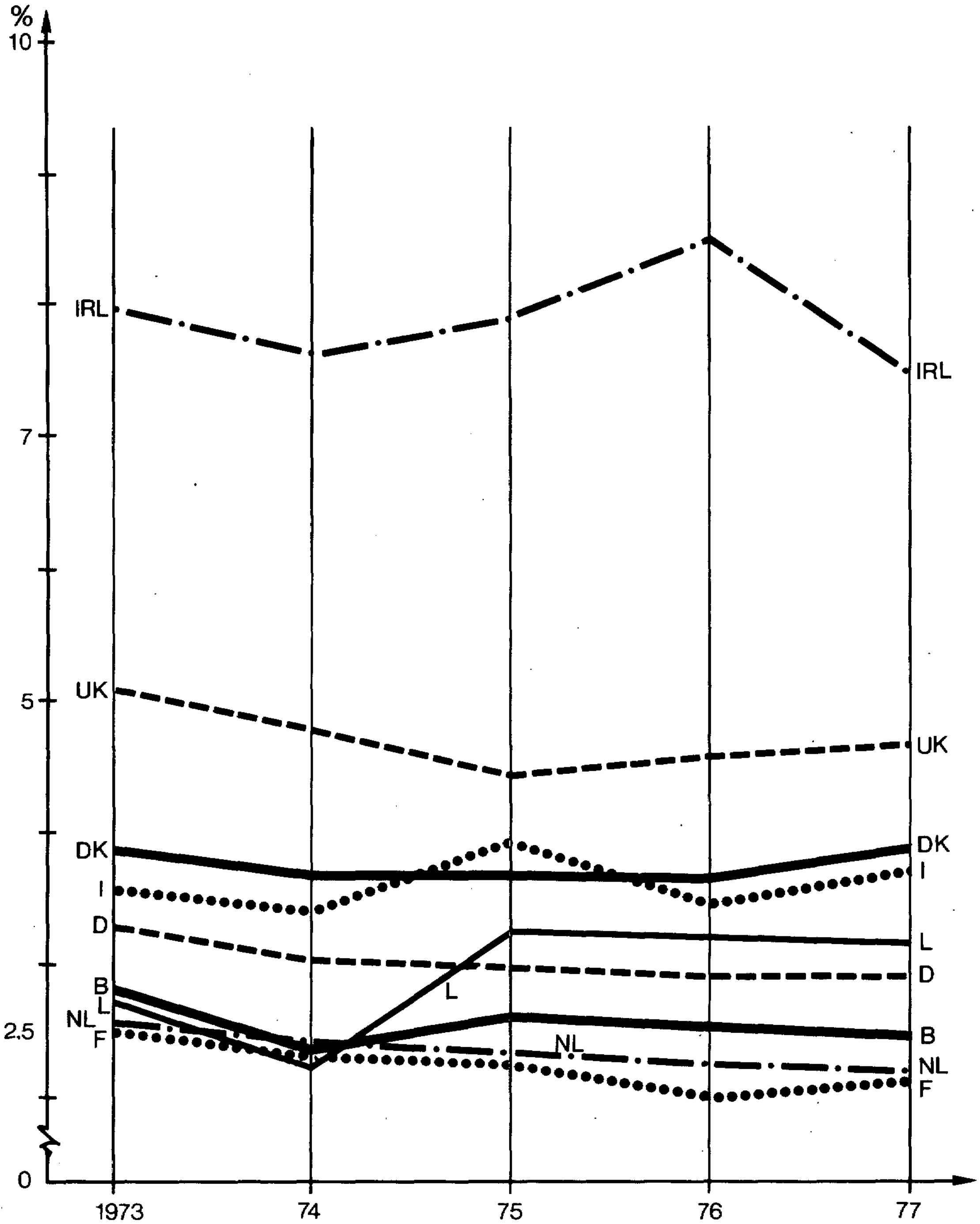
Graph 1 — *Corporation tax as a percentage of GDP*



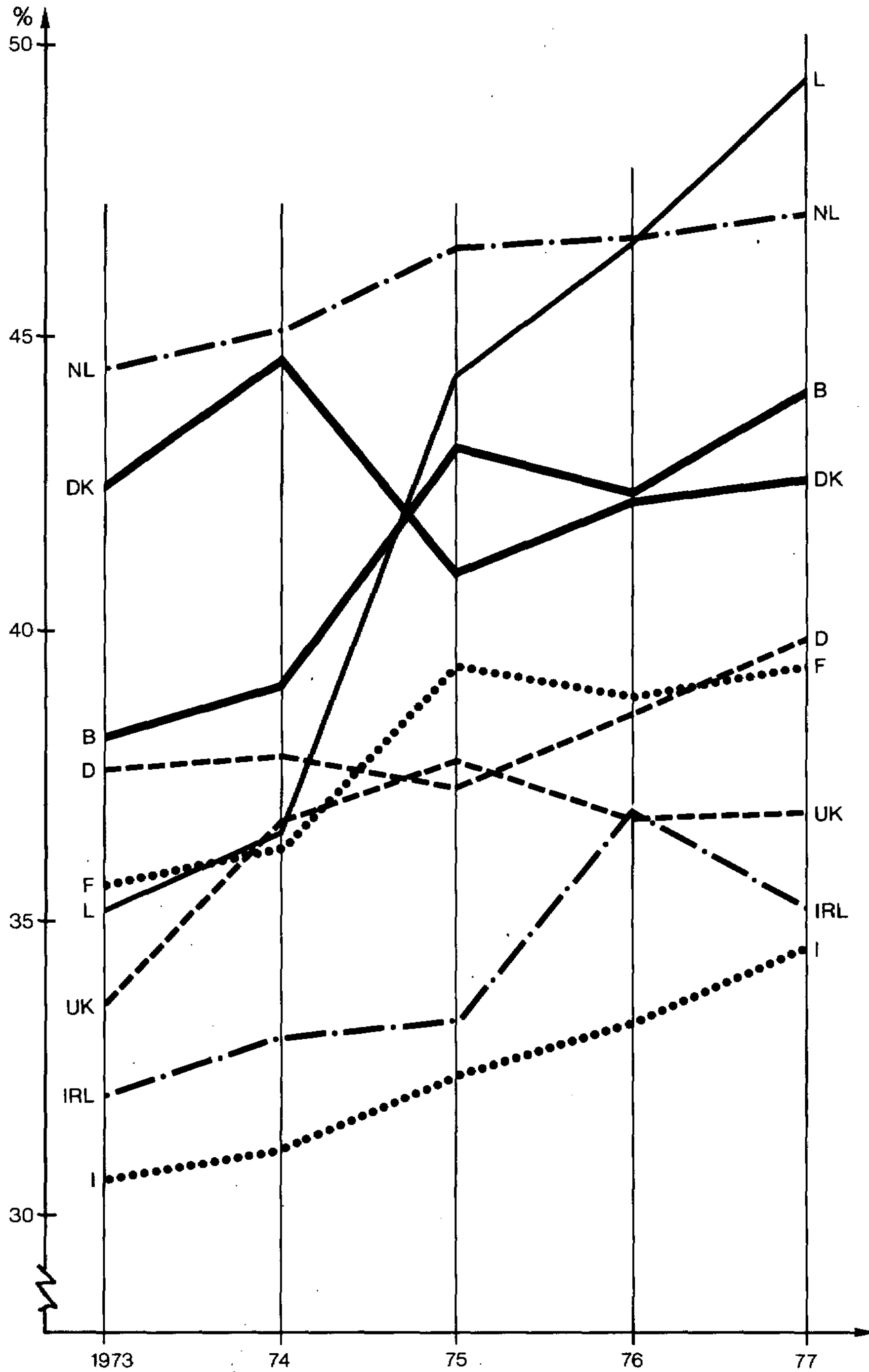
Graph 2 — *VAT as a percentage of GDP*



Graph 3 — *The five excise duties as a percentage of GDP*



Graph 4 — *Total taxes and social security contributions as a percentage of GDP*



Chapter IV

Analysis of the main taxes to be harmonized

24. This Chapter gives a brief analysis of the main taxes to be harmonized, namely VAT, the five major excise duties (on beer, spirits, wine, tobacco and mineral oils) and corporation tax. It does not contain conclusions, since these will be drawn in Chapter V and VI. Furthermore, in the case of company taxation, it is restricted to corporation tax and does not take account of the wealth tax applied in some Member States or, where they exist, other (generally local) taxes such as the business tax in France, the tax on industry and trade in Germany or the commune trade tax in Luxembourg, although these may represent a considerable burden.

Value added tax

The rules governing the basis of assessment

25. The adoption on 17 May 1977 of the Sixth Directive[1] (common system of VAT: uniform basis assessment) was motivated mainly by the need to ensure that the Community's own resources from VAT were collected equitably.

The Directive is therefore mainly concerned with harmonizing all those provisions likely to affect the amount of VAT own resources, in particular the rules governing liability, the definition of taxable transactions, taxable amounts and chargeable event, etc.

On some points, however, the Directive stipulates that the Council will later decide on the arrangements for applying principles laid down in the Directive, while on others it allows Member States to derogate temporarily from the common provisions. Although the Sixth Directive therefore represents a decisive step towards the harmonization of VAT, it is far from completing the process. As already pointed out in Chapter II, the harmonization of the basis of assessment must first be completed. This task is currently being carried out. The problem of rates must be tackled in the next stage.

The following points give a summary outline of the sometimes substantial differences between the systems of rates in force in the Member States.

The VAT rates in force in each Member State

26. Technically speaking, the 'zero rate' cannot be considered a real rate of taxation; it represents an exemption with refund of input tax and is little used in most Member States. However, being widely applied in Ireland and the United Kingdom, the 'zero rate' must be included among the rates in force in these two Member States, since the analysis of their VAT systems would otherwise be incomplete. On the other hand, account need not be taken of the 'flat rates for farmers', which are not taxation rates but flat-rate percentages calculated to enable farmers to offset the VAT charge on inputs. Taking into account the above, the situation on 1 July 1979 was as follows:

Belgium (three rates)	
— standard rate	16 %
— reduced rate	6 %
— increased rate	25 %
Denmark (one rate)	
— single rate	20.25 %
FR of Germany (two rates)	
— standard rate	13 %
— reduced rate	6.5 %
France (three rates)	
— standard rate	17.60 %
— reduced rate	7 %
— increased rate	33 1/3 %

[1] OJ L 145 of 13. 6. 1977; Bull. EC 5-1977, points 1.3.1 to 1.3.4.

Ireland (three rates)	
— standard rate	20 %
— reduced rate	10 %
— zero rate	0 %

Italy (eight rates)	
— standard rate	14 %
— reduced rates	1, 3, 6, 9 and 12 %
— increased rate	35 %
— intermediate rate	18 %

Luxembourg (three rates)	
— standard rate	10 %
— reduced rates	5 and 2 %

Netherlands (two rates)	
— standard rate	18 %
— reduced rate	4 %

United Kingdom (two rates)	
— standard rate	15 %
— zero rate	0 %

There are clearly considerable differences as regards the number of rates, there being a single rate in Denmark and eight rates in Italy. In several Member States, however, there has been a tendency for the number of rates to be reduced: for example, France and Belgium have abolished the intermediate rate and Ireland and the United Kingdom have abolished the increased rates.

Rate levels have tended to increase in six of the nine Member States during the last ten years:

FR of Germany:
the standard rate has increased from 10 % (1968) to 13 % (1979)
the reduced rate has increased from 5 % (1968) to 6.5 % (1979)

Ireland:
the standard rate has increased from 16.37 % (1972) to 20 % (1979)
the reduced rate has increased from 5.25 % (1972) to 10 % (1979)

Denmark:
the single rate has increased from 10 % (1967) to 20.25 % (1979)

Italy:
the standard rate has increased from 12 % (1973) to 14 % (1979)
the increased rate has increased from 18 % (1973) to 35 % (1979)

Luxembourg:
the standard rate has increased from 8 % (1970) to 10 % (1979)

Netherlands:
the standard rate has increased from 12 % (1969) to 18 % (1979)

In *Belgium*, the level of the standard rate has fallen (from 18 % in 1971 to 16 % in 1979), but most goods and services previously subject to the 14 % intermediate rate (abolished as from 1 January 1978) are now subject to the standard rate of 16 %.

France has also reduced the level of the standard rate, from 20 % in 1968 to 17.60 % in 1979; over the same period, however, the increased rate has gone up from 25 % in 1968 to 33⅓ % in 1979 and the reduced rate from 6.38 % in 1968 to 7 % in 1979, while goods and services subject to the 14.92 % intermediate rate in 1968 are now taxed at 17.60 %.

In the *United Kingdom*, the standard rate has increased from 10 % in 1973 to 15 % in 1979, while the increased rate, introduced in 1974, has been abolished.

The coverage of the various rates

Reduced rates and zero rate

27. In all Member States (except for Denmark which applies a single rate), application of reduced rates or a zero rate is obviously aimed at reducing or even eliminating the VAT charge on 'essential' products and services.

The broad categories of products and services which benefit wholly or in part, from the reduced and zero rates are as follows: agricultural and foods products (D, B, F, I, IRL, L, NL, UK); pharmaceutical and medical products (D, B, F, IRL, I, L, UK); books, newspapers, etc. (D, B, F, IRL, I, L, N, UK); fabrics, clothing, footwear (I, IRL, UK).

However, it should be emphasized that, in each country, a small or large number of products and services in these different categories are subject to other rates, which of course distorts competition between products that are substitutes for one another.

Increased rates

28. In some Member States, application of increased rates is designed to increase the VAT charge on certain categories of 'luxury' products: motor cars (B, F, I); consumer durables: radios, televisions, refrigerators, etc. (B); jewellery, furs, perfume and cosmetics (B, F); spirits (B, I).
Problems of distortion of competition between products that are substitutes for one another also arise where increased rates are applied.

The relative percentage shares of the different rates in the overall basis of assessment for VAT

29. Owing to the peculiarities of each national VAT system, the extent to which the standard, reduced and increased rates are used varies greatly between the Member States. These differences are particularly evident in the case of the zero rate, which covers a minimal proportion of the overall basis of assessment in some countries (e.g. 0.67 % in Belgium) but plays a major part in other Member States (e.g. approximately 36 % of the basis of assessment in Ireland).

It is of course impossible to make a comparison, as regards the relative share of each rate, between a country like Italy which applies eight rates and one like the Federal Republic of Germany which applies only two; however, appreciable differences exist even between States which apply the same number of rates.
In the Netherlands, for example, the standard rate and the reduced rate are applied to approximately 71 % and 29 % respectively of the basis of assessment, whereas in the Federal Republic of Germany, the respective shares are approximately 78 % and 20 %. The relative shares of the three rates in force in France are approximately 69 % for the standard rate, approximately 26 % for the reduced rate and approximately 5 % for the increased rate, whereas in Belgium these three rates account for approximately 61 %, 32 % and 7 % respectively of the basis of assessment.

30. As regards the weight of VAT, the difference in the coverage of the rates prevent any valid comparison on the basis of the different nominal rates. To provide some idea of the impact of VAT, the following table shows how the weight of this tax, expressed as a percentage of national final consumption (at current prices and exchange rates), varied during the period 1974-77. Although this statistical concept does not coincide with the basis of assessment for VAT, it nevertheless represents a sufficient approximation.

Table 3 — *Changes in the weight of VAT*

(in %)

	1974	1975	1976	1977
Belgium	9.5	8.5	9.3	9.3
FR of Germany	7.2	6.8	6.8	6.9
Denmark	9.4	8.7	8.5	10.1
France	11.9	11.2	11.4	10.8
Ireland	6.0	5.7	6.7	7.2
Italy	6.5	5.4	6.3	6.9
Luxembourg	6.1	6.5	6.3	6.6
Netherlands	8.7	8.7	9.1	9.6
United Kingdom	3.8	3.9	3.8	3.8

The differences therefore remain substantial, even though the gap between the United Kingdom and the other Member States has narrowed greatly since the second half of 1979 following the substantial increase in the United Kingdom standard VAT rate on 18 June 1979 from 8 % to 15 %.

The use of VAT as an instrument of short-term economic policy

31. The differences between the various national situations may widen or narrow tempor-

arily when VAT is used for short-term economic policy ends; however, adjusting VAT rates would not seem to be a particularly flexible instrument for managing demand.

Leaving aside a general modification of the level of rates, any change in them requires fairly considerable technical preparations. Furthermore, an increase in the number of rates entails an increase in the cost of running the system, both for taxable persons and for the tax authorities. Finally, while increases in rates are generally passed on in full in prices, the same does not always apply to reductions in rates which frequently serve only to increase profit margins.

This explains why, in recent years, the Member States have very seldom used VAT as a short-term economic policy instrument, although increases or reductions in rates, introduced permanently for primarily budgetary or social reasons, have also had effects on the short-term situation.

In Denmark, the single VAT rate was reduced from 15 % to 9.25 % between October 1975 and March 1976 in order to stimulate consumption and so to boost production.

In France, the collection of tax was suspended in 1973 (zero rating) for retail sales of beef with the aim of curbing the rise in consumer prices.

In both cases, the action, to be effective, had to be fairly radical and of sufficient duration, which caused considerable cash deficits. The effects sought were not fully achieved: in France, the abolition of tax charge in 1973 was not fully passed on to consumer prices, while in Denmark in 1976 there were such perverse effects as an increase in imports.

However, it should not be forgotten that the use of VAT for short-term economic purposes is not necessarily limited to adjustment of the rates. It can also take other forms, for example the limitation of the right to deduct input tax in the case of investments.

Excise duties

General analysis of the excise duties to be harmonized

32. In all Member States a significant proportion of tax revenues is derived from excise duties. However, dependence on the excises varies considerably, from less than 5 % in the Netherlands to almost 24 % in Ireland of total receipts of taxes and social contributions in 1977.

Expressed as a percentage of final national consumption in 1977, the receipts of the five major excises were as indicated in Table 4.

Table 4 — *Receipts of the five major excise duties (1977)*

	B	D	DK	F	IRL	I	L	NL	UK
Mineral oils	1.9	2.1	1.3	2.0	3.2	3.6	2.2	1.5	2.1
Tobacco	0.8	1.1	1.7	0.4	2.0	1.0	1.3	0.7	2.0
Spirits	0.3	0.4	0.7	0.4	1.5	0.1	0.4	0.4	0.7
Beer	0.2	0.1	0.8	0.02	2.2	0.05	0.2	0.1	0.8
Wine	0.1	0.05	0.2	0.03	0.1	—	0.1	0.08	0.2
Total	3.2	3.8	4.8	2.8	8.9	4.8	4.1	2.9	5.8

With the exception of the partially harmonized excise on tobacco and some excises in Ireland and Denmark (mostly minor) the excises are specific taxes — that is, their yield is a function of the specific rate (a monetary amount) and the quantity put to taxable use. Only an increase in rates or an increase in consumption can give a higher tax revenue. If a State wishes to raise revenue from a certain excise to keep pace with a generally growing price level, it is necessary to adapt from time to time the rate of the excise concerned. (See Graphs 6 to 11).

By contrast, the yield of an *ad valorem* excise follows automatically every increase in the price of the product subject to the excise. Adjustment of the rate will only become necessary, therefore, if the rise in the price of the product diverges significantly from the movement of the general price level, or if the State wishes to adjust the tax burden on the product concerned.

33. In 1977, the yield of the excises on mineral oil, tobacco, spirits, wine and beer accounted, in all Member States except Denmark, for an overwhelming proportion of the total yield from excise taxes. In Denmark, where a range of other excises apply (and in particular an excise at very high rates on the purchase of cars) other excises accounted for almost 40 % of the total. In the other eight Member States, however, excises other than the 'big five' never accounted for more than 10 % of the total excise yield, and in several instances for less than 5 %.

These five excises of course apply at different rates in the different Member States — and the wine excise is not universally applied.[1] Nevertheless, these excises, notwithstanding variations in level, are in general applied at relatively high rates. Their incidence, expressed as a percentage of retail price, is frequently 60 % or more. Moreover, the goods to which these five excises apply are not rare or luxury items, but the produce of major sectors of the Community economy, both industrial and agricultural. In addition, expenditure on the goods subject to these excises account for a substantial proportion of total consumer expenditure — up to a fifth. Finally, it should be remembered that alcohol and oil in particular are used throughout the Community as raw materials, and often under tax control; administration of these excises therefore impinges on a wide variety of industries whose final products are not subject to excises.

The combination of generally high incidence and wide economic impact is a unique feature of the five major excises. At lower levels of tax, small differences in tax structure — such as differences in exemptions, or in the period allowed for duty deferment — although distortions of competition, may not assume serious proportions. But where the excise accounts for so large a part of final price, differences in excise structure or in administration which are at first sight minor can in fact markedly distort competition, to the point at which a given market can be made virtually inaccessible.

34. Four of these excises are wholly specific. The fifth — the tobacco excise — which is already partly harmonized — is specific in part. It follows, as stated above, that to maintain their incidence during a period of rising prices requires periodic increases in the tax rate. Table 5 shows — as an index — to what degree the Member States have adapted the rates of the excise duties on the products mentioned above since 1973. (The level of rates at 1 January 1973 = 100 except for cigarettes, which at 1 July 1973 = 100, the date of entry into force of the first Directive on harmonizing of taxes other than VAT on manufactured tobacco.) For comparison, the evolution of the index of consumer prices in general during the same period is shown at the bottom of the table.

This bottom line of course gives only an overall view of price changes during the period: the price of a particular product may well have diverged significantly from the overall figure. (Petrol is an obvious example.) Nevertheless, given

[1] Point 40.

Table 5 — *Indices of the evolution of excise duty on cigarettes, spirits, wine, beer and mineral oils*

	B	DK	D	F	IRL	I	L	NL	UK
All excise duty rates at 1. 1. 1973 (tobacco at 1. 7. 1973) = 100	100	100	100	100	100	100	100	100	100
20 cigarettes at 1. 7. 1979	225	211	126	131	185	186	168	153	177
Spirits at 1. 7. 1979	139	188	130	186	202	167	100	132	144
Wine at 1. 7. 1979	200	187	—	100	242	—	100	191	218
Beer at 1. 7. 1979	137	143	100	100	233	150	147	100	151
Standard petrol at 1. 7. 1979	120	221	100	219	210	296	106	114	164
High-grade petrol at 1. 7. 1979	120	221	100	222	210	204	106	114	164
Gas oil at 1. 7. 1979	110	[1]	100	211	100	58	126	110	186
Consumer price index at July 1979 (Jan. 1973 = 100)	169	196	137	192	244	263	158	158	256

[1] DK introduced an excise duty 3. 10. 1977. The rate on 1. 7. 1979 was 30 DKR/hl.
Those instances in which the increase in rates has exceeded the increase in the consumer price index are underlined.

the very high tax content of most excise goods, the table offers an adequate basis for a general analysis.

With unchanged policies, government expenditure could be expected to rise broadly in line with the rise in prices overall. (In practice, the trend for government expenditure to rise more quickly than prices — i.e. to increase as a proportion of GNP — is almost universally maintained.) Consequently, governments could be expected to increase excise rates at least in line with inflation. Moreover, such a policy, justified on fiscal grounds, is reinforced, in relation to cigarettes and alcoholic drinks, by the social and health policy considerations which are claimed to underlie these excises and, in relation to mineral oils, by powerful conservation considerations.

All these factors in combination would suggest that, over the medium term, the index for each excise should at least match or even surpass the consumer price index (except in the rare case of an unusually large and rapid increase in tax-exclusive price, leading to a slump in consumption and tax receipts).

As can be seen from Table 5, most of Member States have changed all the excise duty rates for the five products since 1973 — in particular, those Member States with the highest inflation rates. However, it is striking that, of the examples given in the table, only in 11 instances did the increase in the excise rate match or exceed the increase in prices overall. In addition, certain Member States, for certain products, left the excise rate unchanged throughout the period. Finally, in every Member State, such increases in rates as have taken place have followed no discernible pattern.

35. Taking each excise in turn:

Cigarettes: In three Member States, rates were increased by more than the consumer price in-

dex; in the remainder, the tax increases were less than the price index.

Spirits: In all nine Member States, rates increased by less than the consumer price index. In Luxembourg, notwithstanding a general price increase of almost 60 %, the rate was unchanged.

Wine: In two Member States, rates were increased by considerably more than the increase in the price index: in the remainder, the tax increases were less than the price index. France and Luxembourg made no change in the rate.

Beer: In all nine Member States, rates were increased by less than consumer price index. The Federal Republic of Germany, France and the Netherlands made no change in the rate.

Standard petrol: In three Member States, rates were increased by more than the increase in the consumer price index; in the remainder, the tax increases were less than the price index. The Federal Republic of Germany made no change.

High-grade petrol: In two Member States, rates were increased by more than the consumer price index; in the remainder, the tax increases were less than the price index. The Federal Republic of Germany made no change.

Gas oil: In all Member States but one, the tax increases were less than the price index. The Federal Republic of Germany and Ireland made no change.

36. Graphs 6 to 11 below show greater detail how the excise duty rates in EUA for the products as mentioned in Table 5, have evolved over time. The graphs show that within each of the five product groups wide gaps exist between the duty rates from one Member State to the other. Whether or not the evolution of rates in the individual Member States since 1973 has contributed to narrowing that gap and approximating the burden on each product in all the Member States is not directly apparent from the graphs.

37. Table 6 illuminates this point, by converting the excise rates into EUA (EUA values at 2 July 1979). The average duty for all Member States then being calculated on this basis and taken as 100, the table shows for each Member State the percentage of the excise duty in relation to the average. The last column indicates the standard deviation. Only for petroleum products do the standard deviations show a decrease. By contrast, for other excises, the standard deviation has markedly increased in every case. This result is broadly consistent with the data in Table 5, which shows the widely divergent policies of the Member States on the excise rates over the same period.

Table 6 — *Excise duty applicable in each Member State as a percentage of the Community average*

	average: EUA = 100	B	DK	D	F	IRL	I	L	NL	UK	Stand. deviation
Cigarettes 20 at 1. 7. 1973	0.383 = 100	67	247	165	57	71	54	57	89	92	64.96
at 1. 7. 1979	0.674 = 100	86	299	118	42	74	57	54	77	92	78.04
Spirits at 1. 1. 1973	754 = 100	72	250	79	78	118	17	56	76	154	67.87
at 1. 7. 1979	1225 = 100	62	289	63	89	147	18	34	62	136	82.68
Wine at 1. 1. 1973	21.45 = 100	69	257	0	7	181	0	69	73	243	101.83
at 1. 7. 1979	43.03 = 100	69	240	0	4	218	0	34	69	265	109.68
Beer at 1. 1. 1973	12.43 = 100	53	301	46	11	196	35	35	73	150	96.40
at 1. 7. 1979	19.61 = 100	46	272	29	7	289	34	33	46	144	109.32
Petrol HG at 1. 1. 1973	11.95 = 100	131	95	146	91	57	76	111	127	66	30.85
at 1. 7. 1979	18.96 = 100	99	132	92	127	76	140	74	91	68	26.87
Gas oil at 1. 1. 1973	6.15 = 100	103	0	268	98	95	61	46	99	129	73.77
at 1. 7. 1979	8.14 = 100	85	51	203	156	72	27	44	82	180	63.58

Mineral oils

38. All the Member States levy an excise on mineral oils. In all cases, the burden of this excise is overwhelmingly concentrated on motor fuels. These account for between 25 % and 35 % of consumption of mineral oils in the different Member States, whilst yielding between 80 % and 95 % of the excise revenue. With the exception of Italy, the level of the excise imposed on petrol, the most important motor fuel, varies relatively little. By contrast, as Table 7 shows, the excise levied on diesel oil varies considerably, between a tax slightly exceeding that on petrol in the United Kingdom to complete exemption for most motor lorries in Denmark (although these vehicles are liable to an equalization tax).

The major divergences betweeen the Member States in applying this excise lie in the exemptions from its scope and the reduced rates applied to specific uses. In France[1] exemption is granted for all heavy fuel oil used in industry. In all other Member States, heating oils (including heavy fuel oils) are subject to a low rate (see Table 7). In the United Kingdom, however, there is an exception to this rule, whereby mineral oils used to produce energy for industries linked to the mineral oil industry, may be exempted where more than 50 % of the oil consumption in a given plant serves the production of mineral oils. In Denmark, the Netherlands and France, there is full exemption for lubricants, whereas in the Federal Republic of Germany, these are taxed at the full rate.

These variations in exemptions give rise to wide-ranging distortions in competition, particularly between industries which are heavily dependent on mineral oils as an energy source.

Alcohol

39. Alcohol is subject to an excise in all the Member States. In general, the excise falls only on alcohol (i.e. ethyl alcohol) for human consumption. Six of the nine Member States have a unique rate on all potable spirits, irrespective of the raw material used, the method of production, the size of the production unit, manner of consumption etc. As Table 8 shows, three countries distinguish certain potable spirits from others (e.g. alcohol produced from wine and other alcohols) and apply different tax rates to the categories thus created. These differentiations in tax rates are usually justified on social or health grounds. It is, however, striking that they generally result in preferential treatment of domestic production.

There are moreover very substantial differences between the levels of the excise rates levied on potable spirits, the highest rate in the Community (in Denmark) being roughly forty times higher than the lowest (in Italy).

The use of alcohol for industrial purposes — other than for pharmaceutical, medical or cosmetic purposes — is almost invariably exempted from the excise in all Member States. However, there are a wide range of minor exemptions which vary considerably from one Member State to another (e.g. patients in hospitals are permitted tax-free consumption in the UK; alcohol used in the production of other products, such as pastry, is exempt in Italy). In some Member States, the use of alcohol for the production of cosmetics is exempted whilst in other countries only a reduced rate is granted. In addition, most of the Member States which tax such use (usually at a reduced rate) also tax substitute alcohols at the same rate (e.g. isopropyl alcohol). Some intermediate alcoholic beverages (e.g. liqueur wines) are in some Member States subject to the alcohol excise while they are subject to the wine excise in others.

Wine

40. Italy does not apply an excise to wine; the Federal German excise applies only to sparkling wine, and in the Benelux countries, wine originating in Luxembourg is either exempt from the excise (Luxembourg) or is taxed at a

[1] It should be noted that VAT taxpayers are not permitted in France to deduct VAT paid on purchases of mineral oils other than heavy fuel oils. This has the effect of an additional excise on the products affected. However, for commercial road vehicles, the amount of non-deductible VAT is taken into account in fixing the level of the axle tax ('taxe à l'essieu').

reduced rate (Belgium, the Netherlands). The wine excise is therefore unique amongst the five major excises proposed for harmonization, in that it is not in general application in all Member States.

This fundamental divergence between the Member States is accentuated by the fact that the wine-importing countries levy the wine excise at relatively high levels. The range in tax rates for a still table wine of 11° is therefore from zero to 116 EUA per hl. (see Table 9).

The scope of the wine excise also varies considerably. Certain Member States extend the excise to include fortified wines (such as sherry and port, aromatized wines, and liqueur wines). The rates applied to these wines are in some instances roughly proportional to their alcoholic strengths. In other instances, different rates are applied to wines falling within different bands of alcoholic strength; the differences between the rates may or may not be proportional to the differences between the bands. By contrast, other Member States classify certain wines as alcohols, and subject them — usually with some reduction in rate — to the alcohol excise.

Beer

41. Beer is subject to an excise in all the Member States. There are three major differences between the beer excises. First, six of the Member States tax beer at the pre-production stage, that is, on the worts, which is an intermediate product between the initial mashing of the raw materials and the finished products. Several of these Member States grant to domestic producers arbitrary loss allowances, to cover losses between the production of the worts and delivery of the finished beer. All Member States applying the worts system are obliged to make arbitrary corrections in calculating the duty on imported beers.

Three Member States (France, the Federal Republic of Germany and Denmark) apply the excise to the finished product. This is the system favoured by the Commission in its 1972 proposal, because it offers the best means for achieving tax neutrality in international trade.

Secondly, there are large variations in the levels of the beer excises (see Table 11). In general, these variations reflect differences in the level of taxation of alcoholic drinks overall. (For example, Italy has relatively very low excises on beer and alcohol and no excise on table wine. Denmark's excises on wine, beer and alcohol are in each case amongst the highest in the Community.)

Thirdly, certain Member States apply progressive rates to domestic producers, which vary with the total annual volume of beer produced. Where such systems apply only to domestic producers, they clearly discriminate against imports (although steps have been, or are being, taken, to correct this). Even when Article 95 of the Treaty is respected, however, the Commission regards such measures as distorting competition between production units of differing size. The Commission's proposals envisage the eventual abolition of such provisions.

Manufactured tobaccos

42. Cigarettes yield roughly 90 % of the tax receipts from tobacco. In order to improve competition and interpenetration of markets, a phased harmonization of the excise on all manufactured tobaccos began in 1973. The first stage — which applied only to cigarettes — was replaced by a second stage in 1978. This in turn is due to be replaced by a third stage in 1981. Common definitions for all manufactured tobaccos were adopted in 1978.

The Community system chosen for cigarettes is part-specific (a fixed sum per cigarette) and part-*ad valorem* (a percentage of retail price). This system is in large measure a compromise between the two extremes of wholly specific and wholly *ad valorem* systems which applied in the original six Member States. At present, the specific element may vary between 5 % and 55 % of the total tax burden (including VAT) levied on the most popular price category. Table 10 shows where the Member States place

themselves within this permitted range. At the final stage, a single ratio must be fixed for the specific element.

Progress in harmonizing the cigarette excise has been slow and difficult. This is largely due to the fact that the cigarette markets of the Member States differ in many important respects. On some markets, the retail price range is relatively narrow (e. g. Denmark about 15 % of the lowest price category); on others, strikingly large (e. g. in France, about 140 % of the lowest price category). In addition, there are considerable differences in consumer tastes, in packaging, in the constraints on advertising, in price controls and so on. Finally, the objectives of private sector and State-owned producers frequently conflict.

By contrast, the tax burden on cigarettes varies within relatively narrow limits. In eight of the nine Member States, the tax burden (excise plus VAT) falls between 61 % and 73 % of the retail price. Denmark is a marked exception to this rule, with a tax burden approaching 90 % — a figure which reflects the generally high level of all the Danish excises (see Graph 5).

There are, however, considerable differences both in the levels of the excise levied on other manufactured tobaccos, the most important of which are cigars and smoking tobaccos, and the way (specific *ad valorem* or mixed) in which the rates are expressed. For cigars, the tax burden (excise plus VAT) varies between 13 % and 65 % of the retail price and for smoking tobaccos, between 30 % and 75 % of the retail price. The major source of differences here lies in the fact that some Member States tax all manufactured tobaccos at broadly the same level, whilst others apply much reduced rates to smoking tobacco and cigars.

Table 7 — *Excise duty rates on mineral oils in application at 1. 11. 1979 in the Member States of the Community*

(per hl in EUA)

Product	B	D	DK	F	GB	IRL	I	L	NL
Standard petrol	21.14	17.73	24.83	22.84	12.22	14.27	25.71	14.12	17.41
High-grade petrol	21.14	17.73	24.83	24.33	12.22	14.27	26.43	14.12	17.41
Diesel oil	7.00	16.70	4.09	12.84	13.88	5.83	2.18	3.62	6.69
Gas oil for heating	1.12	0.67	4.09	2.38	1.00	0.66	1.61	0.62 - 0.95	1.18
Heavy fuel oil	0.24	0.58	4.45	0	1.00	0.66	0.08	0.24	0.49
Lubricants	0.22	17.94	0	0	1.00	0.66	11.76 - 12.31	0.22	0
1 EUA at 1. 11. 1979	40.0146 BFR	2.48215 DM	7.33073 DKR	5.80591 FF	0.663027 UKL	0.668985 IRL	1144.47 LIT	40.0146 LFR	2.75763 HFL

Table 8 — *Comparative table of the excise duty on spirits*
(in EUA per hl of pure alcohol — Reference date: 3. 9. 1979)

	D	B	DK	F	IRL	I	L	NL	UK
I. SPIRITS									
– Alcohol distilled from vinicultural products	770.75	752.13	3524.21	303.38/ 1081.33	1783.44 [1]	97.16 [9]	419.22	756.74	1700.52
– Alcohol distilled from fruits	770.75	752.13	3524.21	1081.33	1783.44	105.99-141.33	419.22	756.74	1700.52
– Alcohol distilled from other products	770.75	752.13	3524.21	1081.33	1783.44	176.66-220.82	419.22	756.74	1700.52
– Brandies from grains (whisky, gin)	770.75	752.13	3524.21	1081.33	1776.27 [1]	220.82	419.22	756.74	1695.35
– Brandies from fruits	770.75 [9]	752.13	3524.21	1081.33	1776.27	105.99	419.22 [9]	756.74	1695.35
– Brandies from wine	770.75 [9]	752.13	3524.21	723.71	1776.27	93.63	419.22 [9]	756.74	1695.35
– Aquavit	770.75	752.13	2295.57	1081.33	1776.27	220.82	419.22	756.74	1695.35
– Rum	770.75	752.13	3524.21	525.41	1776.27	176.66	419.22	756.74	1695.35
– Genever gin	770.75	752.13	3524.21	844.05	1776.27	220.82	419.22	756.74	1695.35
– Liqueurs	770.75	752.13	3524.21	723.71	1776.27 [4]	220.82	419.22	756.74	1695.35
– Spiced wines	770.75 [2]	see wine duty[3]	191.18/hl	844.05	only wine duty	146.63 or 220.82 [5]	see wine duty[3]	see wine duty[3]	only wine duty
– Liqueur wines with certified denomination of origin	770.75 [2]	see wine duty[3]	191.18/hl	723.71	only wine duty	146.63 or 220.82 [5]	see wine duty[3]	see wine duty[3]	only wine duty
– Liqueur wines without certified denomination of origin	770.75 [2]	see wine duty[3]	191.18/hl	884.05	only wine duty	220.82	see wine duty[3]	see wine duty[3]	only wine duty

– Alcohol for medical or pharmaceutical use, not denatured	474.31	752.13	exempt	35.59	exempt	220.82	419.22	756.74	exempt
– Alcohol content of:									
– pharmac. prod. for external use	237.16	752.13	exempt	35.59	exempt	0.88–220.82	419.22	756.74	exempt
– parfumes and cosmetics, not denatured	237.16	246.60	exempt [8]	92.37 [7]	1783.44 [4]	220.82	226.87	247.92	1700.52
– parfumes and cosmetics, denatured	237.16	246.60	exempt [8]	92.37	exempt	0.88 10.60	226.87	247.92	exempt
– Alcohol for other industrial uses, denatured	exempt	exempt	exempt	exempt	exempt	0.88–10.60	exempt	exempt	exempt
– Alcohol for vinegar	19.76	exempt	exempt	exempt	exempt	— [6]	exempt	exempt	exempt
– Methylated alcohol, propyl and isopropyl alcohol	—	exempt or 246.60	—	— [7]	—	1.77	exempt or 226.87	exempt	—
	DM	BFR	DKR	FF	IRL	LIT	LFR	HFL	UKL
1 EUA corresponds at 3. 9. 1979	2.52999	40.5517	7.29667	5.90013	0.672886	1132.13	40.5517	2.77506	0.61565

[1] The higher rate applies if the product has not been warehoused three years or more.
[2] The excise duty on spirits is levied on the alcohol exceeding 14 % by vol. for liqueur wines and on the alcohol exceeding 10.5 % by vol. for spiced wines.
[3] Spiced wines and liqueur wines are subject to the excise duty on spirits for the alcohol added, in addition to the excise duty on wine.
[4] Importers can avoid testing of the imported goods when paying the rate provided for this case.
[5] The lower rate applies on vermouth and Marsala.
[6] It is not permitted to produce vinegar with alcohol and vinegar acid.
[7] Methylated spirit and propyl and isopropyl alcohol are treated as ethyle alcohol, but can not be used for beverages or medical purposes.
[8] Certain perfumes and cosmetics are subject to a special excise duty.
[9] Certain distillers are granted reduced rates of duty.

Table 9 — *Comparative table of the excise duty on wine*
(in EUA per hl — Reference date: 3. 9. 1979)

	D	B	DK	F	IRL	I	L	NL	UK
II. WINE									
A. *Still wines*									
– strength ≤ 10° G.L.									
– of fresh grapes	—	14.80-29.59	102.79	1.53	92.97	—	0 - 14.80	14.91-29.82	116.14
– of fruits	—	29.59	66.47	as spirits where ap-prop.	80.62	—	14.80	29.82	75.46
– strength ≤ 12°									
– of fresh grapes		14.80-29.59	102.79	1.53	92.97	—	0 - 14.80	14.91-29.82	116.14
– of fruits	—	29.59	66.47	as spirits where ap-prop.	80.62	—	14.80	29.82	112.99
– strength ≤ 15°									
– of fresh grapes	—	29.59 + 0.26 per 1/10° above 12°	102.79	1.53	92.97/120.99	—	14.80 + 0.26 per 1/10° above 12°	29.82 + 0.27 per 1/10° above 12°	116.14
– of fruits	—	29.59 + 0.26 per 1/10° above 12°	66.47-105.53	as spirits where ap-prop.	80.62/100.72		14.80 + 0.26 per 1/10° above 12°	29.82 + 0.27 per 1/10° above 12°	112.99
– strength > 15°									
– of fresh grapes	—	29.59 + 0.42 per 1/10° above 12°	191.18	1.53-3.81[1]	120.99/ 149.40	—	14.80 + 0.42 per 1/10° above 12°	29.82–0.43 per 1/10° above 12°	134.02–157.80 + 16.91 per° above 22° G.L.
– of fruits	—	29.59 + 0.42 per 1/10° above 12°	105.53–191.18	as spirits where ap-prop.	100.72/ 110.90	—	14.80 + 0.42 per 1/10° above 12°	29.82–0.43 per 1/10° above 12°	124.19 + 16.91 per° above 18° G.L.

	DM	BFR	DKR	FF	IRL	LIT	LFR	HFL	UKL
B. *Sparkling wines*									
– strength ⩽ 6°									
– of fresh grapes	79.05	33.29	191.18	1.53	182.68	—	3.70	33.55	141.69
– of fruits	79.05	33.29	191.18	as spirits	140.28	—	3.70	33.55	87.26
– strength > 6°									
– of fresh grapes	79.05	88.78-103.57	191.18	1.53	182.68	—	36.99-51.79	89.42-104.37	141.69-159.57
– of fruits	79.05	48.09	191.18	as spirits	140.28	—	48.09	48.46	87.26-135.99
– with certified denomination 'Champagne'	79.05	103.57	191.18	3.81	182.68	—	51.79	104.37	141.69
1 EUA corresponds at 3. 9. 1979	2.52999	40.5517	7.29667	5.90013	0.672886	1132.13	40.5517	2.77506	0.61565

[1] Applies only on natural sweet wines subject to the excise duty on wine.

Table 10 — *'Popular' cigarettes (20 pack): Price and Tax Structures* Situation 1. 9. 1979

Country	Retail price		Tax component						Specific element in excise as percentage of total tax burden
			Excise			VAT	Total taxes		
	National currency	EUA	Spec. (per 1 000 cigarettes)	Ad. val. (% retail price)	Total excise %	%	%	EUA	%
Belgium	41 BFR/25 = 32.80 BFR/20	0.827	59 BFR	62.05	65.65	5.66	71.31	0.590	5.04
Luxembourg	30 LFR/25 = 24 LFR/20	0.605	48 LFR	55.55	59.55	2.00	61.55	0.372	6.5
Netherlands	2.60 HFR/25 = 2.08 HFL/20	0.767	3.60 HFL	51.07	54.53	14.70	69.23	0.531	5.0
France	2.50 FF	0.435	4.54 FF	43.60	47.20	25.45	72.65	0.316	5.0
FR of Germany	2.85 DM	1.136	49.2 DM	24.3	58.80	11.50	70.30	0.800	49.2
Italy	600 LIT	0.529	518 LIT	56.2	57.93	15.25	73.18	0.387	2.36
Denmark	16.50 DKR	2.364	401.1 DKR	23.04	71.65	16.84	88.49	2.078	54.99
UK	0.66 UKL	0.975	11.74 UKL	21	56.57	13.04	69.61	0.678	51.0
Ireland	0.54 IRL	0.797	9.1 IRL	20.2	53.88	9.09	62.97	0.502	53.5

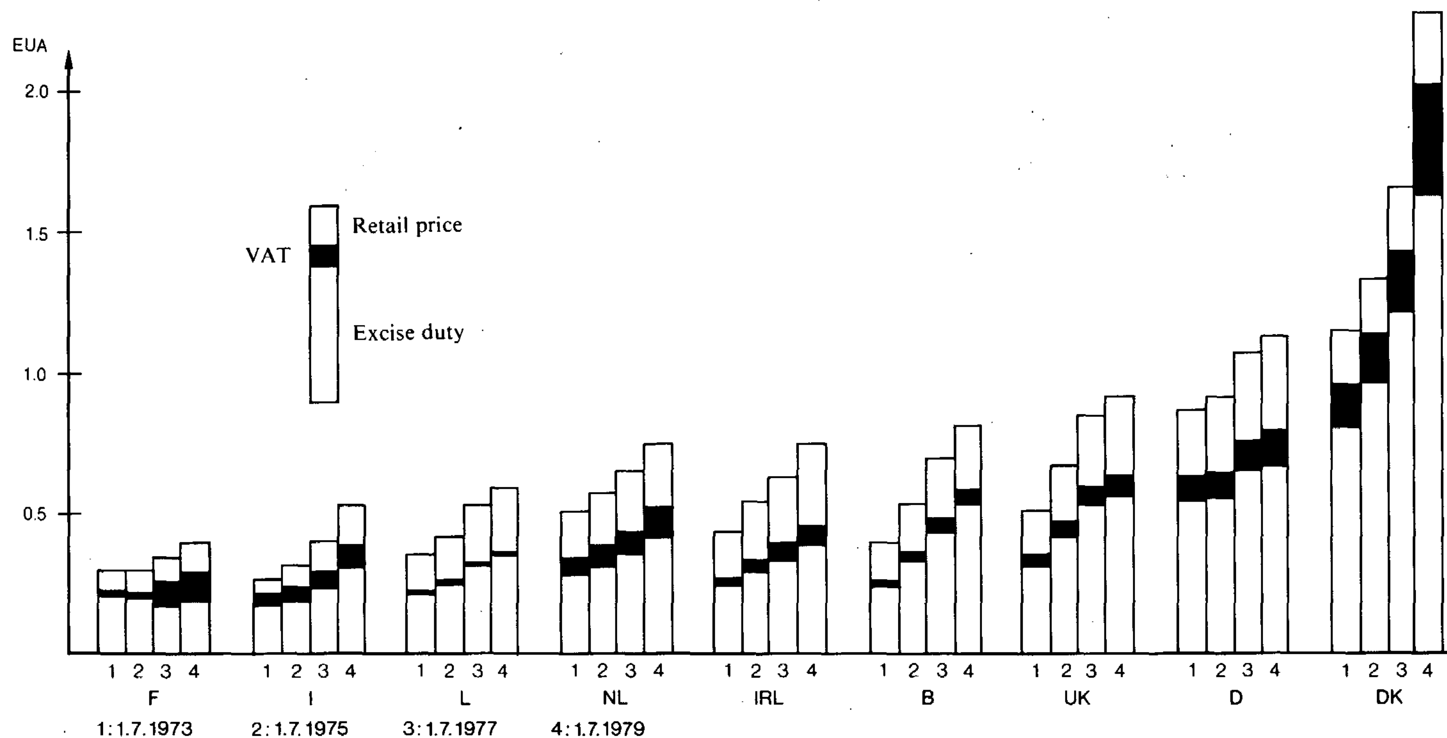
Table 11 — *Comparative table of the excise duty on beer* (in EUA — Reference date: 3. 9. 1979)

(per hl)

Product	D	B	DK	F	IRL	I	L	NL	UK
4°9 Balling	2.37 — 2.96	6.24	0/5.41	0.76	21.33	2.60	4.53	6.45	17.30
7°35 Balling	3.56 — 4.45	6.24	0/42.42	0.76	31.43	3.90	4.53	6.45	17.30
11° Balling	4.74 — 5.93	8.91	52.98	0.76	47.14	5.83	6.48	9.04	24.20
12°5 Balling	4.74 — 5.93	8.91	52.98	1.36 [1]	53.87	6.62	6.48	9.04	27.65
13°75 Balling	4.74 — 5.93	10.69	62.88	1.36 [1]	61.73	7.29	7.77	10.94	31.67
16° Balling	7.11 — 8.89	12.30	62.88	1.36 [1]	69.58	8.48	8.94	12.54	35.70
1 EUA corresponds at	DM	BFR	DKR	FF	IRL	LIT	LFR	HFL	UKL
3. 9. 1979 to	2.52999	40.5517	7.29667	5.90013	0.672886	1132.13	40.5517	2.77506	0.61565

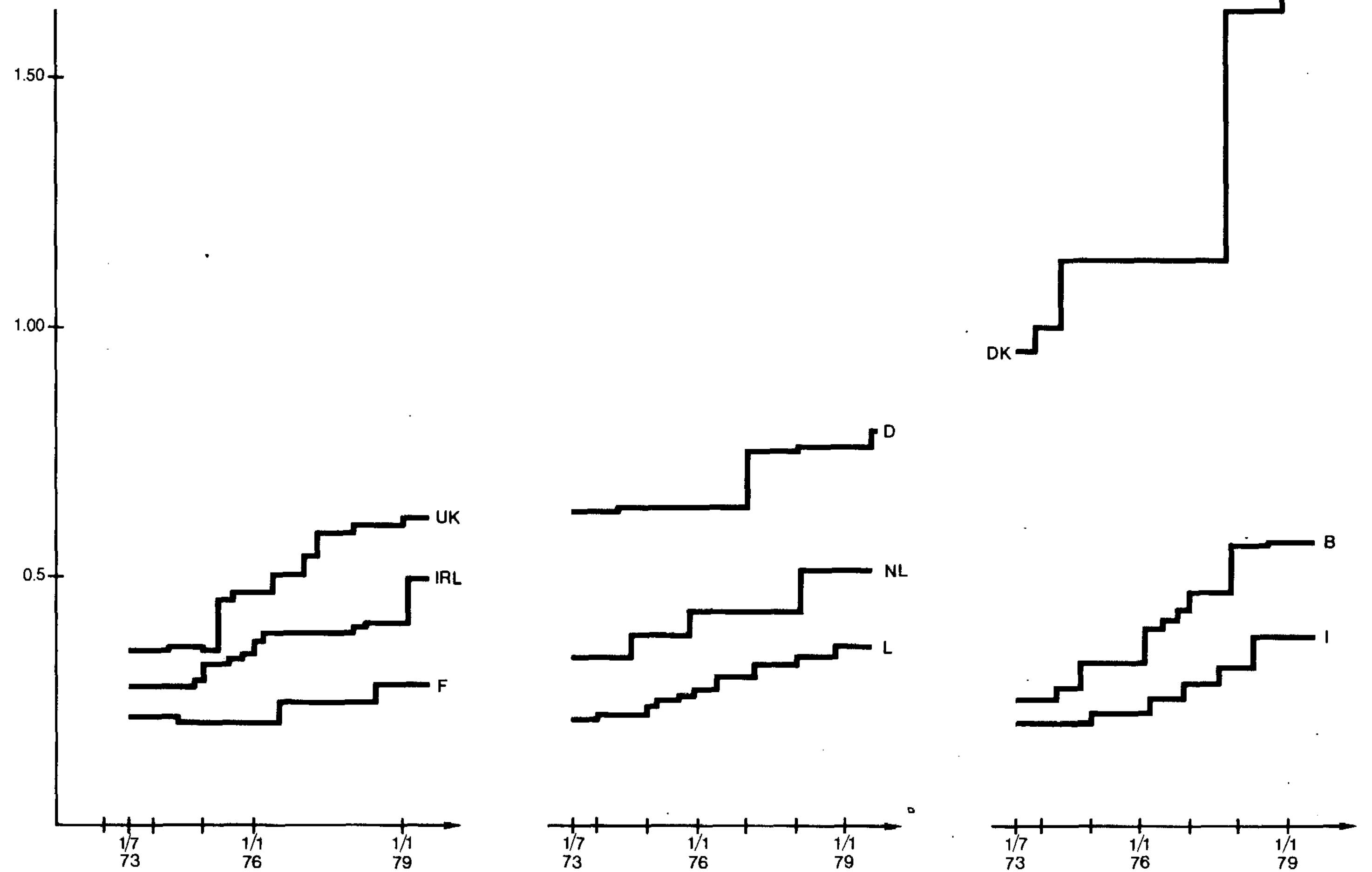
[1] The higher rate applies on beer in containers of more than 1 litre and beers of more than 4°6 degrees régie.

Graph 5 — *Retail price (VAT and excise duty) in EUA[1] per 20 cigarettes*
(in the most popular price category)



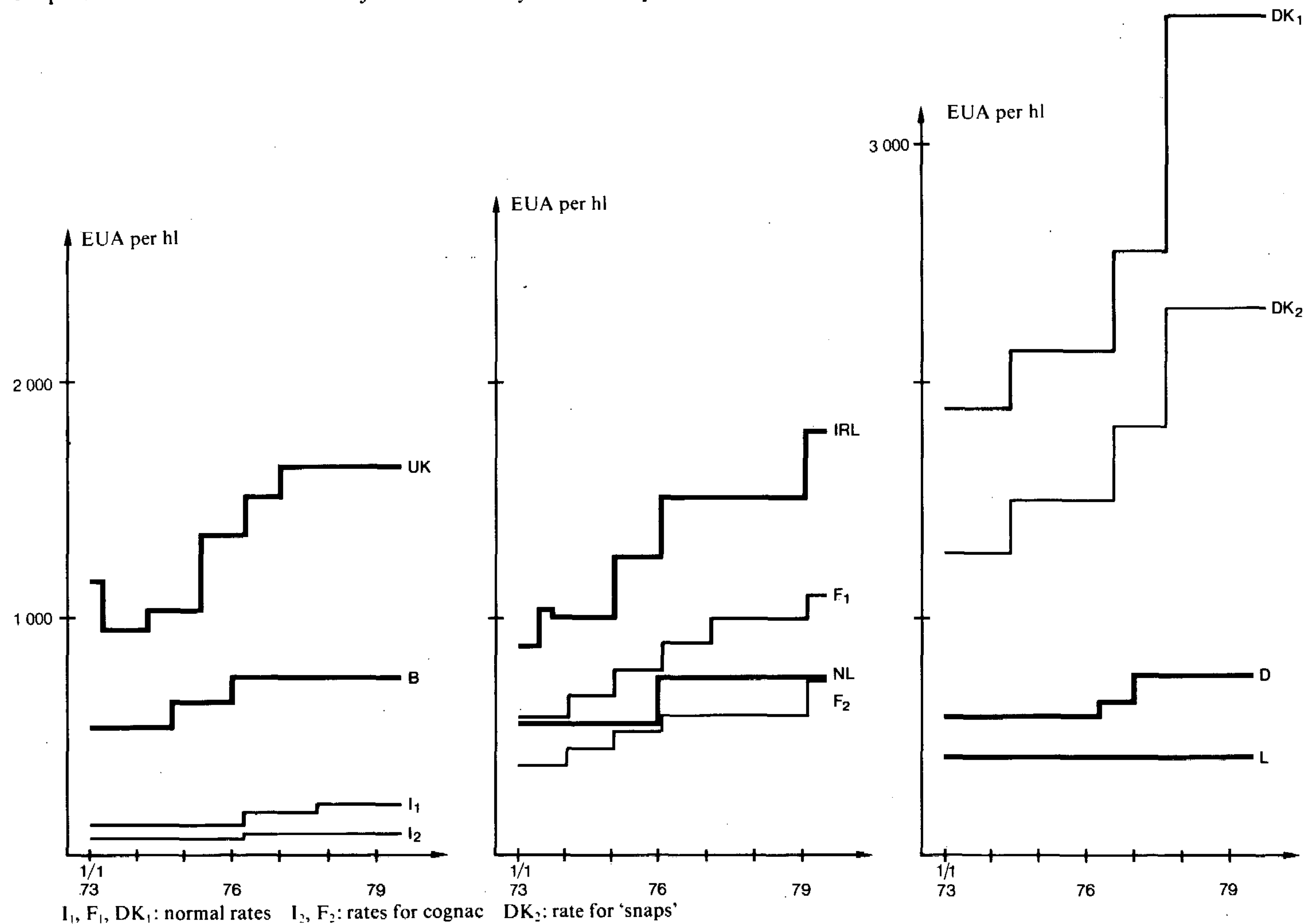
[1] Exchange rates as at 2 July 1979: OJ C 166 of 3. 7. 1979.

Graph 6 — *Evolution in EUA[1] of the excise duty + VAT per 20 cigarettes*



[1] Exchange rates as at 2 July 1979; OJ C 166 of 3. 7. 1979.

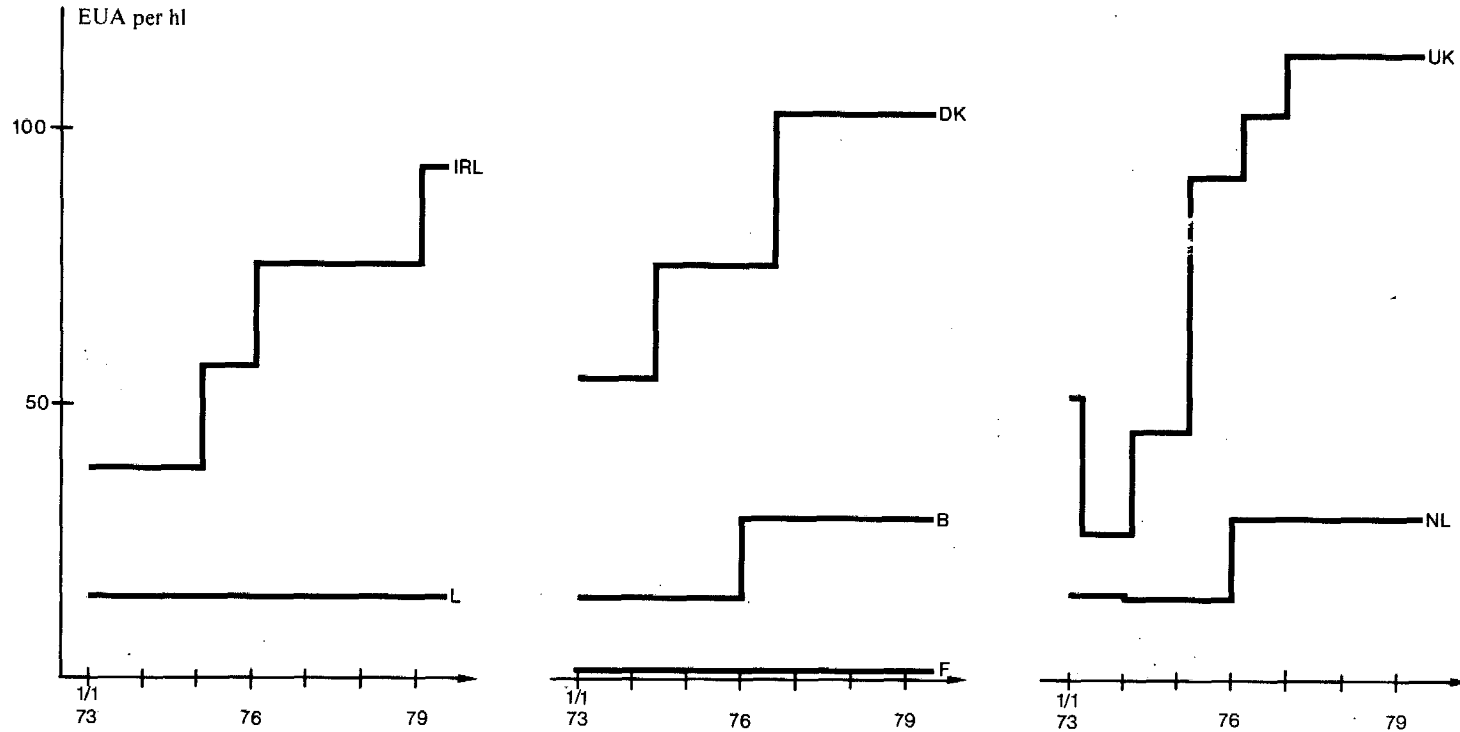
Graph 7 — *Evolution in EUA[1] of the excise duty on 100 % pure alcohol*



I_1, F_1, DK_1: normal rates I_2, F_2: rates for cognac DK_2: rate for 'snaps'

[1] Exchange rates as at 2 July 1979: OJ C 166 of 3. 7. 1979.

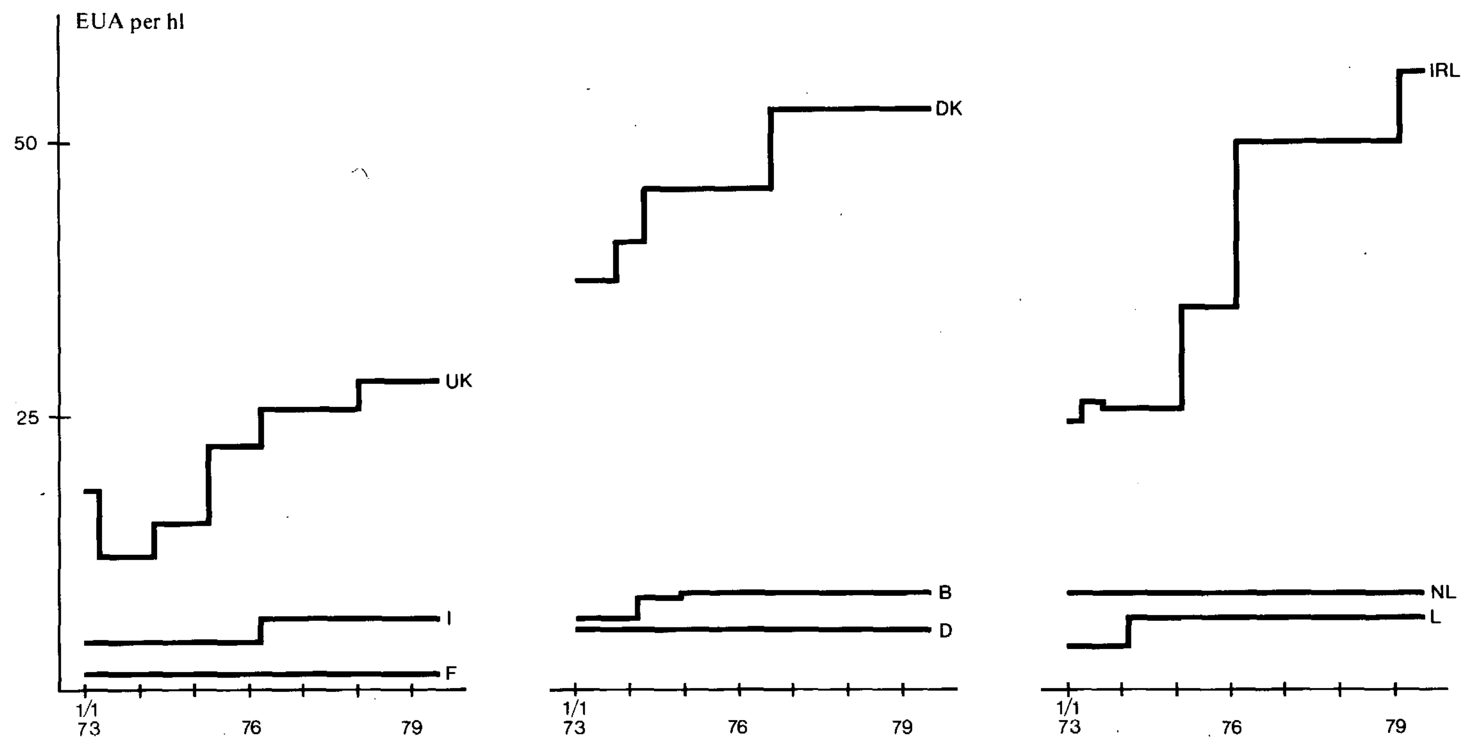
Graph 8 — *Evolution in EUA[1] of the excise duty on wine at 12 % alcohol*



D and I: no excise duty.

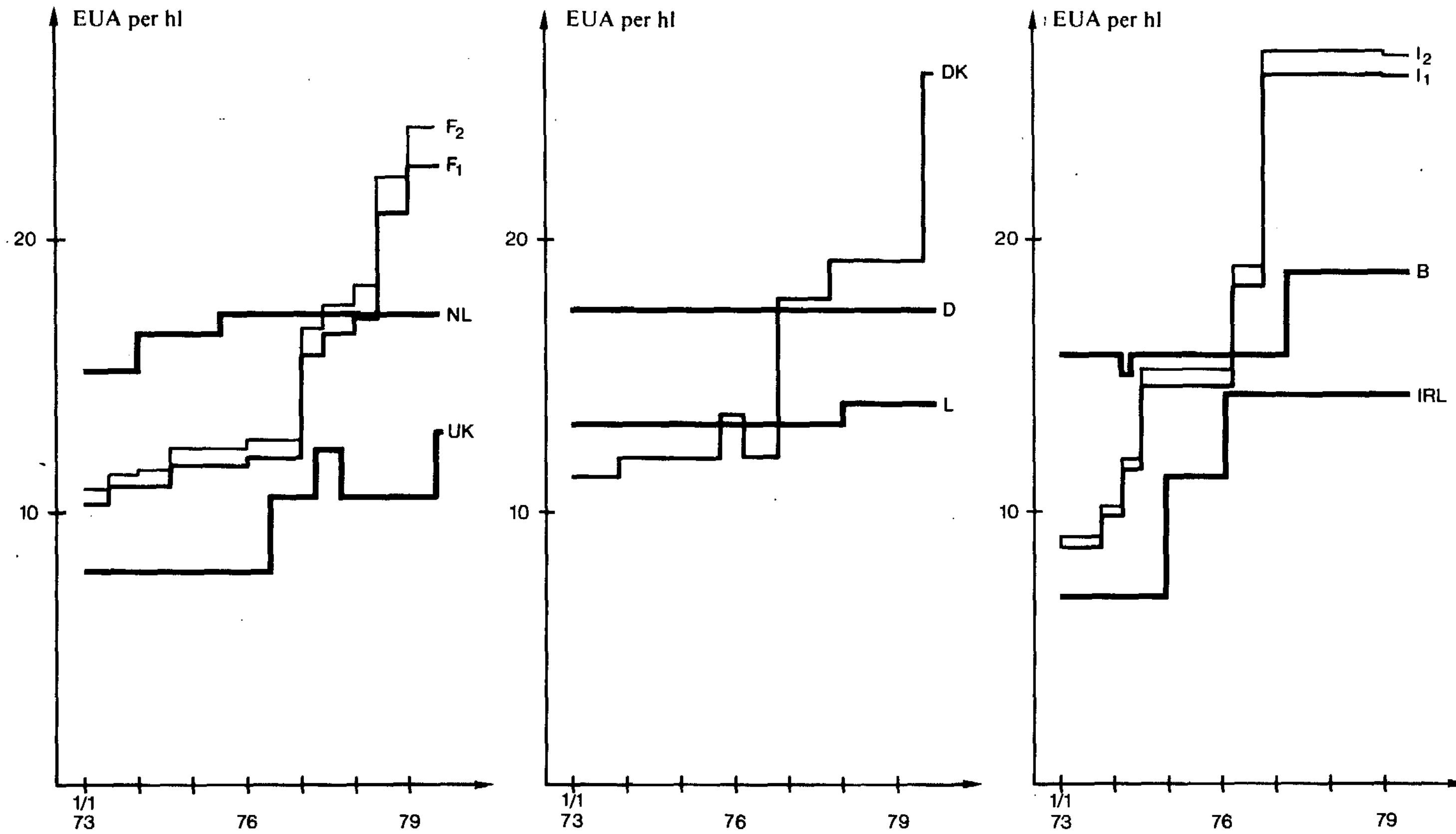
[1] Exchange rates as at 2 July 1979: OJ C 166 of 3. 7. 1979.

Graph 9 — *Evolution in EUA*[1] *of the excise duty on beer at 12.5° plato*



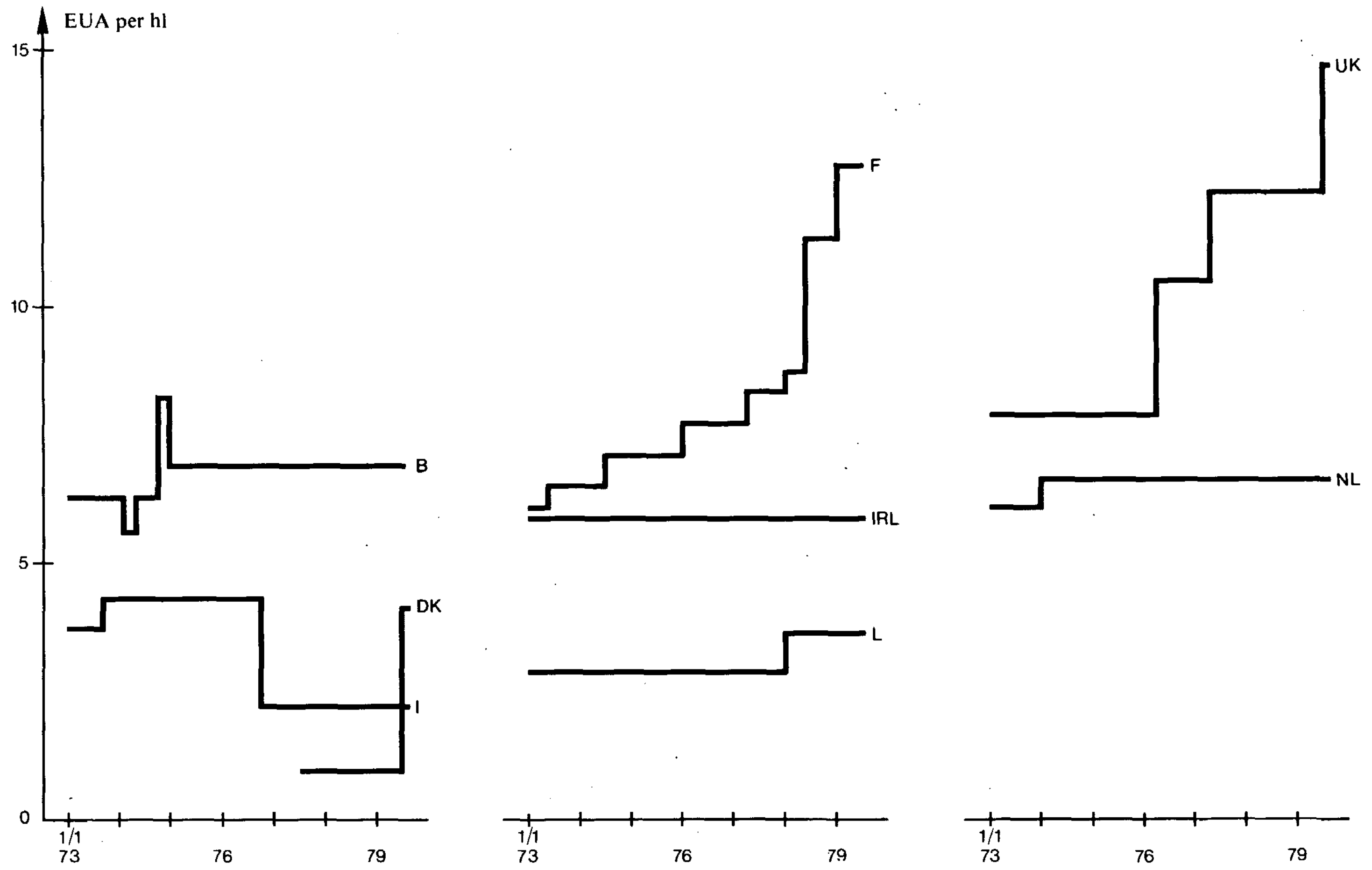
[1] Exchange rates as at 2 July 1979: OJ C 166 of 3. 7. 1979.

Graph 10 — *Evolution in EUA[1] of the excise duty on standard (1) and high-grade (2) petrol*



[1] Exchange rates as at 2 July 1979: OJ C 166 of 3. 7. 1979.

Graph 11 — *Evolution in EUA[1] of the excise duty on gas oil*



[1] Exchange rates as at 2 July 1979; OJ C 166 of 3. 7. 1979.

Corporation tax

43. Analysis of the corporation taxes at present in force in the Member States reveals substantial differences in each of the elements regarded as essential in taxes on profits: the scope of the tax,[1] the system, the rates of tax, the normal basis of assessment and incentive measures. In addition, a look at the development of corporation taxes in Member States over recent years shows that they are subject to the same process as taxes in general, i.e. they are frequently modified so as to meet requirements in the budgetary, economic and social field.

System and rates

44. The main change in corporation tax systems during recent years has been the transition in several Member States to the so-called tax credit system of taxation. Under this system, part or all of the corporation tax charged on distributed profits (dividends) is imputed to the shareholder against his personal income tax liability on such dividends; the aim of the system is to alleviate or eliminate the economic double taxation of dividends. Economic double taxation is a feature of the 'classical' system of taxation because this system does not provide for any link-up between taxation of the distributing company and taxation of the shareholder.

At present, a tax credit system is applied in seven Member States. Only the Netherlands and Luxembourg still apply the classic system.

Most of the Member States have thus come to use a corporation tax system of the type advocated by the Commission in the proposal for a Directive which it laid before the Council in 1975.[2] This marks substantial progress along the lines of the Commission's proposal, but there is none the less a long way to go before achieving a harmonized system.

Major differences do in fact still exist, particularly as regards the two elements which play a key role in the degree to which the economic double taxation of dividends is mitigated, namely the rates of corporation tax and the rates of the tax credit to be granted to shareholders. The differences in the rates of the tax credit are particularly conspicuous. The Commission's proposal provides that these rates should lie within a range of 45 % to 55 % of the amount of corporation tax (partial imputation system). However, the rates applied in the relevant Member States at present vary from 100 % of the tax charged on distributed profits in the Federal Republic of Germany (which means that there is full imputation of the corporation tax charged on such profits) to about 15 %-25 % of such tax in other countries (in Denmark, the tax credit is equivalent to 15 % of the amount of distributed dividends). The other Member States which have introduced the tax credit system occupy an intermediate position.

As regards the rates of the tax itself, the differences between Member States are clearly less pronounced than in the case of the rates of the tax credit, but they are nevertheless not inconsiderable. Here too, the rates applied in several Member States lie outside the range (again 45 % to 55 %) which the Commission envisaged in its proposal. The rates of corporation tax vary from 56 % in the Federal Republic of Germany (for undistributed profits) to 37 % in Denmark and 25 % in Italy (in Italy, however, corporation tax is supplemented by a local tax, called 'Ilor', amounting to 15 %, to be set off against the basis of assessment of corporation tax, so that the actual overall rate is 36.25 %).

Table 12 below outlines the situation (as at 31 December 1979) regarding the rates of corporation tax and of tax credit applying in the Member States and the rates of the withholding taxes charged on distributed dividends.

[1] The problem of scope is examined in Chapter V, point 88.
[2] OJ C 253 of 5. 11. 1975; Supplement 10/75 — Bull. EC.

Table 12 — *Corporation taxes*

(Situation at 31. 12. 1979)

Member State	Rate of corporation tax	Rate of tax credit a) as % of the gross dividend b) as % of corporation tax	Withholding tax on dividends (subject to the provisions of double taxation conventions)
Belgium	48 % (profits in excess of BFR 15 000 000)[1] (special increase by way of 'solidarity' contribution)	a) 46 % of the dividend b) 49.8 % of the tax	20 %
Denmark	37 %	a) 15 % of the dividend b) approx. 25.5 % of the tax	30 %
Federal Republic of Germany	56 %: undistributed profits 36 %: distributed profits	a) 9/16 of the dividend b) 100 % of the tax on distributed profits	25 %
France	50 %	a) 50 % of the dividend b) 50 % of the tax	0 % (residents) 25 % (non-residents)
Ireland	45 % (profits in excess of IRL 35 000)[1]	a) 30/70 of the dividend b) 52.4 % of the tax	No withholding tax
Italy	25 %: corporation tax 15 %: 'Ilor'[2] (to be set off against the basis of assessment corporation tax) Actual overall rate: 36.25 %	a) 33 1/3 of the dividend b) 100 % of corporation tax (58.6 % of the total of the two taxes)	10 % (residents) 30 % (non-residents)
Luxembourg	40 % (profits in excess of LFR 1 312 000)[1] (special increase by way of contribution to the unemployment fund)	No tax credit	15 % (no withholding tax on dividends distributed by Luxembourg holding companies)
Netherlands	48 % (profits in excess HFL 50000)[1]	No tax credit	25 %
United Kingdom	52 % (profits in excess of UKL 100 000)[1]	a) 3/7 of the dividend b) 39.6 % of the tax	No withholding tax

[1] Lower rates apply to profits below this level.
[2] Imposta locale sui redditi (local income tax).

Normal basis of assessment

45. As regards the basis of assessment for corporation tax, Member States' tax laws apply broadly the same principles defining taxable profits and the method of determining them; for example, all the national tax laws contain provisions relating to the basic elements governing the calculation of taxable profits, such as depreciation, capital gains and losses, reserves and provisions, the carryover of losses and the valuation of the other assets and liabilities.

However, as soon as one gets down to the details of national rules, differences immediately become apparent. These differences are so numerous and varied that it is not possible to provide a complete picture of them in the context of this report; instead, a number of examples of major differences will be cited for each of the elements making up the basis of assessment.

46. As far as normal depreciation is concerned (i.e. depreciation other than that serving as an incentive, such as accelerated depreciation), there are differences between Member States in, for example, the definition of assets eligible for depreciation, the value to be depreciated, the period of depreciation, the methods and percentages to be applied (e.g. straight-line or reducing-balance depreciation) to different assets and in different situations, the required link between depreciation for accounting purposes and depreciation for tax purposes, the compulsory or non-compulsory nature of depreciation for tax purposes, the provisions applicable in the case of special depreciation, the possibility of recovering unused depreciation etc.

47. Regarding the tax treatment of companies' capital gains and losses, examination of the provisions in force in the Member States shows in particular that, in some Member State, capital gains and losses are regarded as a particular form of profits and are consequently subject to specific taxation arrangements distinct from those applicable to a company's normal profits, a system which results in alleviation of the tax burden. In other Member States, by contrast, capital gains and losses are regarded as part of normal profits, though this does not prevent them being subject to reduced taxation in certain cases (e.g. in the event of the winding-up of a company). Other differences which stand out in this area relate to the chargeable event (taxation either only in the event of a capital gain being realized, or on the distribution of capital gains or indeed on their mere entry in the company accounts), exemptions, allowance for the effects of inflation in determining the taxable amount, the distinction made between long-term and short-term capital gains, the rules applicable in the event of winding-up, the rules applicable in the event of mergers, divisions or contributions of assets, and the rules applicable in the event of the compulsory realization of assets (expropriation, etc.).

48. Major differences are also evident in the valuation of company assets and liabilities, particularly the valuation of stocks. In this area, the key question is the extent to which the effects of inflation are taken into account in the valuation of assets and liabilities and, consequently, in the taxation of firms. Inflation affects company taxation because traditional accounting practices (generally applied in the tax field), which are based on historical costs, do not allow the effects of cost increases to be reflected satisfactorily in calculating profits. In other words, the use of historical costs in calculating depreciation and the value of goods sold means that fictitious profits are incorporated into taxable profits, so that taxation eats into the very substance of the firm.

Though this problem has been widely discussed in the academic and business world due to the high level of inflation over recent years, none of the countries has yet come up with any systematic and generalized solutions in the practical area of taxation. However, several Member States apply rules, notably regarding the tax treatment of stocks, to offset the unfavourable effects of the fall in the value of money. In this area too, however, the relevant provisions differ as between the Member States concerned. Whereas a systematic stock revaluation procedure is applied in France, Ireland, the United

Kingdom and the Federal Republic of Germany (though here again, the criteria applied differ in each of the countries), other methods are used in other Member States, for example the LIFO method of accounting (under which goods purchased most recently are assumed to be the goods removed first from stock), which is authorized in the Netherlands and, under certain conditions, in Italy and Luxembourg, and the base stock method (valuation of a base stock at constant prices), which may be applied in the Netherlands.

49. Examination of national rules concerned the creation of reserves and provisions and the carryover of losses shows that, in these areas, too, very many differences exist. Regarding the rules on the carryover of losses, the major differences relate to the length of the period during which a loss in one financial year may be offset against profits earned in subsequent or indeed preceding financial years. As far as the rules on tax-free reserves and provisions are concerned, the major difference is that some countries are more generous than others in determining the situations in which the creation of a reserve or provision is authorized.

Incentives

50. The use of taxation as an instrument of certain policies in the Member States has led to the introduction of special incentives in the field of taxation of corporate profits.

Originally, such incentives were introduced mainly in the economic policy area (short-term economic policy, regional policy, industrial policy) and were aimed at encouraging investment by firms and the establishment of new firms.

During recent years, however, Member States have also increasingly used taxation in implementing other policies, such as those relating to environmental protection, energy, employment and aid to developing countries. Under these policies, the encouragement of investment still plays a key role in achieving the objectives pursued, but tax concessions are sometimes also granted on the basis of criteria other than the amount of investment. For example, in an employment policy context, the criterion used may be the number of new jobs created, so as to induce firms to carry out job-creating investment rather than investment intended to improve productivity.

Tax incentives may cover the entire territory of a country, but they may also be restricted to certain underdeveloped regions, certain branches of activity (e.g. shipbuilding or textiles) or indeed to certain activities within firms (e.g. scientific research and development and innovation).

The Member States, like a number of other countries, make intensive use of the tax instrument. The number of incentives is tending to increase and, because of political desiderata, Member States have shown a fair degree of ingenuity in developing new measures of this type. In addition, incentives are very frequently modified to meet current requirements (as is natural, since they are a policy instrument). Thus, some incentives are periodically suspended, while others, initially introduced temporarily, become permanent or vice versa, and other incentives introduced in a given sector or region are extended to other sectors or regions, or become general in their application.

51. The differences in national tax provisions described earlier in connection with the basic arrangements also apply to the provisions governing incentives. Of course, some forms of incentive are in general use throughout the Community (e.g. accelerated depreciation, though the detailed rules always differ), but others are used only in some Member States or indeed in only one Member State.

The following list gives examples of incentives which are in force in some Member States of the Community (often on condition that additional requirements are fulfilled): [1]

(i) accelerated depreciation (Belgium, Federal Republic of Germany, France, Ireland, Italy and the United Kingdom). In the United King-

[1] It should be pointed out that the extent to which provisions act as incentives sometimes depends on how they are applied. For example, accelerated depreciation may not amount to an incentive in the case of some categories of goods.

dom, and Ireland, accelerated depreciation amounts to 100 % during a single year for certain investments;

(ii) deduction from the basis of assessment of a specified percentage of investments, or of certain new investments, carried out by firms (Belgium, Ireland and the United Kingdom);

(iii) tax exemption for some premiums and subsidies granted by the State under certain policies (Belgium, Federal Republic of Germany, France and Ireland);

(iv) exemption of all or part of the profits earned by firms, or by new firms in the first few years following their establishment, provided that the firms reinvest the profits, in some cases in certain underdeveloped regions (France, Italy and Luxembourg);

(v) unlimited carryover of losses suffered by new firms during the first few years following their establishment (Belgium);

(vi) tax exemption of company profits up to a specified amount of the dividends distributed on new shares, so as to encourage investment and saving (Belgium and France);

(vii) partial or full exemption for corporate profits deriving from exports of goods manufactured within the country (Ireland);

(viii) establishment of a tax-free reserve made up of a specified percentage of the profits earned during the financial year, so as to finance future investment or certain future investments carried out by the firm (Belgium, Denmark and France);

(ix) creation of reserves temporarily exempt from tax and corresponding to a specified percentage of investment carried out in certain developing countries (Federal Republic of Germany);

(x) reduction in the rate of tax for new firms situated in certain underdeveloped regions (Italy);

(xi) reduction in the rate of tax on the profits of companies which have increased their labour force by a specified percentage during a financial year (Ireland);

(xii) reduction of the amount of tax corresponding to a percentage of certain new investments (Luxembourg).

In this context, attention should be drawn to a fundamental change to the system of incentives in the Netherlands. Incentives related to the basis of assessment were recently replaced by a system under which a fraction of the amount of new investment is set off, in the form of basic premiums and additional premiums, against the amount of tax, with any excess being refunded by the State. This system was preferred because, unlike reductions in the basis of assessment, it allows firms that do not earn sufficient profits or indeed incur losses, to benefit to the same extent as other firms from the financial aid granted by the State. It was also felt that this system was better suited to selecting the objectives to be pursued under certain policies.

Finally, this system, like subsidies, also has the advantage of being transparent and in addition allows precise calculation of the budgetary cost of the aids granted. Incentives involving the basis of assessment are, by contrast, generally opaque since the tax relief which they provide depends on the level of profits and on the level of taxation. It is therefore only after the event that firms can ascertain the exact amount of tax relief. For the same reasons, the budgetary costs of the reliefs are difficult to forecast and are therefore not under full budgetary control by parliament.

Final remarks

52. As stated in the introduction to this chapter, this analysis does not cover the other taxes, often local taxes, to which firms are liable in certain Member States, such as the business tax in France, the tax on industry and trade in the Federal Republic of Germany and the commune trade tax in Luxembourg. In 1977, these three taxes accounted for 2.6 %, 5.5 % and 3.9 % respectively of total receipts from taxes and actual social contributions in these countries.

Chapter V

Difficulties and consequences of tax harmonization

53. This chapter on the consequences of harmonization highlights the main difficulties with which Member States will have to contend. Some of these difficulties would appear to be very real; others, such as the room for manoeuvre which Member States must have in order to pursue their budgetary and economic policies, must not be overestimated.

We must therefore carry out an objective analysis of these difficulties before giving a judgment on them. It is with this in mind that this chapter has been drawn up. It consists of four sections: general remarks, value added tax, excise duties and corporation tax.

General remarks

54. The general obstacles standing is the way of tax harmonization were described in Chapter I (point 5). These mainly involve difficulties of a political and economic nature and differences in economic and social structures and in the view taken of the role of taxation in general and individual taxes in particular. Point 6 outlined the reasons which explain how, despite these obstacles, it has been possible to set harmonization in motion. One of these reasons should be restated here: major conflicts between tax harmonization and the freedom of Member States to use taxes as a budgetary and economic instrument have so far been avoided because, except in the case of capital duty, Community action has related only to the structures and bases of taxation.

55. The situation will of course change fundamentally once tax harmonization is extended to cover tax rates. Member States will then find themselves confronted with three major problems:

56. The first problem is a purely political one. It is whether Member States will agree to relinquish their autonomy in tax matters and whether national parliaments in particular will agree to give up a part of one of their fundamental prerogatives, namely the power to freely vote taxes.

It may reasonably be assumed that such willingness to relinquish sovereignty will be forthcoming only if there is a strong political resolve to make headway in the process of European integration and if substantial progress is in fact made in this direction.

57. The second problem concerns the room for manoeuvre which Member States must have if they are to be able to pursue their budgetary and economic policies. While such room for manoeuvre may narrow as integration progresses, it will not be lost altogether. The following remarks may be made in this respect;

(i) the closer alignment of VAT and excise duty rates, which is necessary if tax frontiers are to be abolished, need not necessarily result in complete standardization. As has already been pointed out, differences may remain, so that some degree of flexibility could be retained under the harmonized system;

(ii) large areas of taxation, such as personal income tax, are directly covered by the harmonization process to only a small extent if at all, and these will remain essentially within the sphere of national sovereignty; however, the strucutre of total receipts from taxes and social contributions would be affected by the convergence of tax systems;

(iii) as pointed out in the part of this chapter dealing with corporation tax, harmonization of the latter tax will not prevent Member States from using it as an economic policy instrument.

58. The third problem concerns the repercussions of harmonization on the structure of total receipts from taxes and social contributions. It is impossible to state at present what the ranges for VAT and excise duty rates will have to be. It may be assumed, however, that the ranges will be formed around the average for national

rates, so as to ensure that there will be as great a degree of balance as possible in the efforts which the various Member States will have to undertake.

At all events, if the volume of tax receipts in each country is to remain the same, Member States will have to make compensatory adjustments elsewhere (particularly in the area of personal income tax), which means modifying the structure of their total receipts from taxes and social contributions. This is likely to give rise to numerous difficulties, notably political objections, possible changes in the pattern of consumption and thus in production and trade, significant effects on the cost of living, a need to change the method of financing social security, etc.

As already stated at the end of Chapter III, sudden upheavals in the structure of total tax receipts could well prove intolerable; it will therefore not be possible to overcome these difficulties unless a prudent harmonization policy, aimed at achieving very gradual progress, is pursued.

Value added tax

59. Harmonization of national VAT rate systems is one of the basic preconditions for eliminating tax frontiers within the Community. At the same time, such harmonization is one of the most difficult problems to resolve in the Community tax harmonization process.

Harmonization of VAT rates involves three questions whose solutions may have far-reaching repercussions for each Member State:

(i) standardization of the number of rates,

(ii) standardization of the lists of goods and services subject to the different rates,

(iii) closer alignment of the levels of the rates.

Standardization of the number of rates

60. The number of VAT rates applied in each country has been selected in response to several requirements, the most important of which are those linked to social considerations (e.g. differential taxation of 'basic' and 'luxury' items), economic considerations (e.g. the development of certain industries) and budgetary considerations.

A single rate system is preferable in terms of taxation practice and neutrality, but from a social point of view a multiple rate system generally has the advantage, in raising the same amount of tax revenues, of being less regressive in relation to income. This is why, in most Member States, intense pressure is exerted in favour of having several rates. In practice, however, the impact of a multi-rate system on income redistribution depends both on the coverage of the different rates and on the structure of household consumption. It is, for instance, possible for an increased rate not to have a particularly progressive action if it is applied to goods which figure prominently in the consumption of all households: at the other extreme, the wider the range of everyday consumer products covered by reduced or zero rates, the greater will be the non regressive effect of such rates.

The higher regressivity of a single rate system can in theory be corrected by other tax measures or by direct subsidies. This has been done in Denmark which applies a single rate but which has at the same time introduced partially offsetting subsidies on a few major dairy products. Such an approach presents the advantage of greater selectivity, but requires more sophisticated techniques for social transfers, is likely to encounter political opposition and may involve administrative costs which are considered unacceptable. For these reasons, there would be great difficulties in the way of its general adoption.

61. This de facto situation and the political, economic and social considerations which underlie it make it difficult to achieve Community agreement on any type of solution. The heated discussions on the problem of zero-rating when the proposal for the Sixth VAT Directive was being examined give some indication of the difficulty of the task which the Community will have to face in this respect.

Standardization of the lists of goods and services subject to the different rates

62. As stated in Chapter IV, the lists of goods and services subject to the different rates at present in force at national level reveal a number of similarities. For example, foodstuffs are given preferential treatment in all the countries, either by means of reduced rates, or, as in Denmark, by means of direct aids.

There are none the less major differences of classification as between Member States which apply the same number of rates, and such differences are not fortuitous but are the result of national traditions and constraints.

63. Any change in the coverage of the various national VAT rates is likely to have repercussions in the budgetary, economic and social fields.[1]

Even so, in several cases, some Member States have in the past not only made adjustments in the categories of goods and services coming under a particular rate, but have also made large-scale changes involving either the abolition of rates or the introduction of new rates. In France and Belgium, for example, the 'intermediate' rates have been abolished; in the United Kingdom, on the other hand, a 'higher' rate was introduced, but was subsequently abolished while the standard rate was increased by seven percentage points. In addition, changes in classification have sometimes been made for short-term economic policy reasons and have, in such cases, been temporary in character.

Harmonization would, of course, make such changes impossible and might therefore be regarded as a major political and economic constraint. This impression would hardly be tempered by the fact that it would still be possible in future to carry out changes of classification, since such changes would only be possible at Community level subject to a Council decision and would no longer be the responsibility of individual governments.

Closer alignment of the levels of rates

64. Whatever the number of rates which might be adopted in the context of harmonization, and even if it is accepted that total standardization of these rates is not essential in eliminating tax frontiers and that some differences could be tolerated, closer alignment of rates is likely to alter the financial equilibria of those Member States whose rates differ appreciably from the average level opted for at Community level.

The adjustments in the structure of total receipts from taxes and social contributions which these countries will have to make in order to offset any decrease or increase in their VAT revenue are likely to have a significant effect on practically all the economic aggregates: consumer price levels, compensation of employees, the volume of consumption, of investment, of the output of firms and of exports, the balance of payments and the distribution of incomes.

65. Furthermore, since one of the features of the Community is the high degree of interdependence of Member States' economies, the effects of harmonizing rates and of the consequent offsetting measures taken at national level will not normally be confined to the economies of individual Member States, but may also make themselves felt in the other Member States.

66. In each Member State, the scale of the repercussions of closer alignment of rates will of course depend on the extent to which rates will have to be altered; however, in specific national situations, adjustments in the level of value-added taxation which are in themselves of little significance could produce 'perverse' social and economic effects. In a period of high inflation, for example, a slight increase in VAT rates may produce a disproportionately large increase in consumer prices, while a decrease in the VAT burden may in some cases not be passed on in full to the final consumer.

[1] It should be noted that on 17 May 1979 the Finance Committee of the German Bundestag requested the Federal Government to push for Community harmonization of the coverage of VAT rates.

67. Analysis of the budgetary, economic and social repercussions which might arise in each Member State from closer alignment of VAT rates must be based on detailed studies, and these are at present either not available or not up to date. Moreover, such studies cannot have any real value until such time as realistic hypotheses (on the level, number and coverage of the rates) have been formulated by the Community institutions. This presupposes detailed discussions beforehand at Community level and the emergence of some degree of political consensus.

In addition, to be complete, such studies would have to include examination of possible arrangements to offset in whole or in part the effects of closer alignment of VAT rates, i.e. the studies would have to cover measures relating to other taxes, measures relating to social security and measures in other fields, and this would extend the problem beyond the bounds of taxation.

68. Until such time as studies along these lines become available, all that can be done is to make a very rough assessment of the extent to which closer alignment of VAT rates would directly affect the budgets of the various Member States.

If it is assumed, purely by way of illustration and without making any value judgment, that:

(a) two rates would be applied in each country: a reduced rate for foodstuffs (the products listed in the first 21 chapters of the Common Customs Tariff) and a standard rate for other products and for all services;

(b) each Member State would have to set the level of the two national rates within the limits of two 'ranges', i.e. 15 % to 17 % for the standard rate and 3 % to 5 % for the reduced rate;

and if account is taken of the present situation regarding VAT rates and the very incomplete data at present available, the following may be expected to happen:

(a) Belgium, Ireland, Italy, the Netherlands and the Federal Republic of Germany would probably be able to keep the budgetary effects of the operation to a minimum;

(b) Denmark and France would see a very significant drop in VAT receipts, with the fall amounting to some 20 % in the case of Denmark and some 10 % in the case of France;

(c) Luxembourg and the United Kingdom would see a substantial increase in their VAT receipts, amounting to some 20 % in the case of Luxembourg and some 30 % in the case of the United Kingdom.

These estimates are of a strictly budgetary nature and have nothing to do with assessing the increases or decreases in receipts from an economic or social point of view.

Before drawing conclusions from these estimates, it should not be forgotten that, in this area, any forecast (even if fairly detailed and carefully worked out) based on the situation obtaining at a given moment runs the risk of being partially or totally invalidated by actual developments in the various national economies and, above all, by changes made in tax structures. Tax structures can in fact change radically, even from one month to the next, as a result of decisions taken by Member States exercising their full sovereignty, since there are at present no Community rules limiting sovereignty in this area.

For example, no estimate carried out in 1978 could have foreseen that in 1979 the standard rate of VAT in the United Kingdom would be increased from 8 % to 15 % and that, consequently, one of the major obstacles to closer alignment of VAT rates (the extremely low level of the VAT burden in the United Kingdom compared with the other Member States) would be sharply reduced.

69. The extent to which closer alignment of VAT rates would affect the overall tax burden might, on the basis of the assumptions and rough estimates outlined above, be minimal in the case of some Member States, but more appreciable in the case of others, with an increase of about 0.5-1 % in total receipts from taxes and social contributions in the case of the Federal

Republic of Germany, an increase of 2-3 % in the case of the United Kingdom, but decreases of about 2-3 % in the case of Luxembourg and an increase of 3-4 % in the case of France and about 3-4 % in the case of Denmark.

In the case of these last two countries, this would represent a shortfall in tax revenue which could be offset only with some difficulty, since the receipts lost in the VAT area would have to be recouped elsewhere.

However, Member States already have experience of very considerable changes in their tax structures. For example, in the Federal Republic of Germany, the relative share of VAT receipts fell in 1973 by 1.5 percentage points, while the share of income taxes rose by 2.5 percentage points; in France, the proportion of receipts from taxes on consumption fell in 1974 by 3.4 percentage points, while the share of direct taxes increased by 2.4 percentage points; the same shift occurred in Italy in 1975 (VAT receipts down 3 percentage points and receipts from direct taxes up 2 percentage points); in the Netherlands, the proportion of total receipts from taxes and social contributions accounted for by taxes on consumption fell in 1974 by 1.9 percentage points, while the share of social contributions increased by 1.7 percentage points; in Denmark, receipts from indirect taxes fell in 1971 by 6.5 percentage points (with VAT alone accounting for 2.6 percentage points in this decrease), but this was more than offset by the increase in direct taxes (up 6.8 percentage points).

70. In conclusion, the following points may be made:

(i) closer alignment of VAT rates may have large-scale repercussions for those Member States whose present rates differ most from whatever Community range is adopted;[1]

(ii) the differences between rates are for the moment tending to narrow rather to widen, but this is probably mere coincidence and there are no grounds for assuming that this trend will continue if no Community action is taken;

(iii) the inevitable budgetary, economic and social repercussions of harmonizing rates could be mitigated somewhat if, as would indeed appear essential, the operation were carried out gradually over time;

(iv) the changes in national tax structures resulting from Community harmonization would not be much larger in scale than those resulting from adjustments already carried out by Member States with regard to the number, or the coverage, or the level of VAT rates.

71. Closer alignment of VAT rates will of course have one other repercussion: it will very severely restrict the Member States' capacity to manipulate these rates for short-term economic policy purposes.

In this context, it has already been pointed out in Chapter IV that:

(i) such manipulation does not represent a particularly flexible instrument;

(ii) probably for this reason, Member States have only very rarely made use of this instrument during recent years;

(iii) VAT is a not very effective instrument, since the objectives pursued in using it for short-term economic policy purposes have not always been achieved, or have only been partially achieved.

Consequently, the problem of freedom to use VAT rates for short-term economic policy purposes should not be regarded as an obstacle to their closer alignment.

Excise duties

72. The harmonization of excises has in general been examined in the context of the abolition of fiscal frontiers. The Commission has proposed that, by the time that objective is

[1] The level of national rates may of course change considerably between now and such time as the rates are brought more closely into line.

achieved, the structures of the five major excises — on wine, beer, alcohol, tobacco and mineral oils — should be harmonized; that the rates of these excises should either be harmonized or brought relatively close together; that other taxes giving rise to frontier controls, to charges on imports and to rebates on exports — most of which are of minor budgetary importance — should be abolished; and that other taxes not directly affecting trade across frontiers (e.g. taxes on entertainments) may be retained under national control.

73. In fact, contained within this latter category are a number of taxes which have, or may have, considerable impact upon particular economic sectors. In particular, there are the taxes levied in most Member States on insurance premiums. It is of course possible to envisage limited adaptations of such taxes to make them consistent with the abolition of fiscal frontiers. However, the continued non-harmonization of such taxes is clearly inconsistent with the full establishment of a common market for insurance. Similarly, in the field of capital transactions, the differing tax treatment of share transfers gives rise to distortions which, as freedom of capital movements increases, will have to be tackled. (The Commission recalls its 1975 proposal for a partial harmonization of such taxes, which the Council has yet to examine, even at the technical level.) It might likewise be argued that the existence of widely differing systems of registration taxes for passenger cars in the Community could form an obstacle to the full establishment of a common market for such cars.

74. However, the excises remain the major issue to be resolved in abolishing fiscal frontiers, and it is here that the major consequences of harmonization arise for the Member States.

The most important of these consequences are:

(i) conflicts between the harmonized excise structure and accepted social priorities;

(ii) possible changes in consumption patterns, to the detriment of domestic producers;

(iii) changes in tax revenues;

(iv) loss of flexibility in short-term economic policy.

Conflicts with social priorities

75. The Commission recognizes the political sensitivity of introducing taxes on goods traditionally tax-free (e.g. table wine in Italy and the Federal Republic of Germany) or of abolishing taxes on goods traditionally taxed (e.g. coffee in the Federal Republic of Germany, sugar in Belgium). Reaction to such changes may often be further exacerbated, if compensating changes have to be made in other taxes in order to maintain revenue.

There is no easy or quick solution to such problems. Commission proposals have sought to bring such changes about over a relatively lengthy timescale, so that the likely effects could be fully discussed in advance and absorbed in a gradual manner. The Commission approach has been to invite the Member States to agree at Community level on the excise system which objectively fits their joint needs, and to fix deadlines for its implementation. National adaptation could then proceed at a speed and in a manner best suited to individual circumstances. However, such an approach is manifestly unworkable, so long as individual Member States regard their existing social priorities as given, and incapable — even over time — of change.

Changes in consumption patterns

76. The potential effects of tax changes on consumption patterns are selfevident. The situation in relation to the harmonization of excises is in some respects similar to that which arose in abolishing intra-Community customs duties and in creating the common external tariff. In theory, of course, removal of protective customs duties is a dissimilar process from the harmonization of excises, which are — supposedly — neutral between domestic production and imports.

In practice, however, many of the excises are so structured as to have a more or less protective effect. Some features are blatantly discriminatory and have been attacked accordingly by the Commission under Article 169. In addition, a high excise rate, a particular excise structure, and other, non-fiscal factors, may often combine to achieve effects which, if not demonstrably protective, certainly make access to certain markets unattractive or difficult.

77. Basically, this problem arises from what may be described as a symbiotic relationship between national industries and national excises. Under the considerable pressure of high tax incidence, and usually over a lengthy period, each has adapted to the other. Consequently, many producers of excise goods have become either wholly dependent on their domestic market (and its unique excise structure) or have at least become dependent on a stable and relatively profitable domestic base as the foundation of their total market.

Of course this is by no means invariably the case: there are many producers within the excise industries who are heavily export-oriented. Nevertheless, preoccupation with protection of the domestic base is a widespread phenomenon amongst excise producers. A broad advance in harmonizing the excises will require that the majority, rather than the minority as at present, begin to regard the Community as a whole as their domestic market.

Changes in tax revenues

78. Budgetary constraints are perhaps the most frequently cited constraints on excise harmonization. The budgetary problem may arise in one of three ways. First, there is the effect of abolishing existing excises (the case of coffee in the Federal Republic of Germany) or of introducing a new one (the case of table wine in the Federal Republic of Germany and Italy). In the great majority of cases, such changes in the tax base are of marginal budgetary importance. Moreover, as the examples of coffee and table wine in the Federal Republic of Germany show, they may prove to be self-cancelling in revenue terms. Finally, given a reasonable period of adaptation, there is no reason why changes in the tax base should reduce the overall taxable capacity of a given economy. It may therefore be concluded that the problems which arise from such changes, although frequently presented as budgetary problems, are in reality problems of category (i) referred to above — that is, conflicts between the harmonization process and national social priorities.

79. Secondly, harmonization of the structures of individual excise may give rise to changed tax receipts. For example, the proposed exemption from the alcohol excise for alcohol used in perfumes and the like could give rise to reduced tax receipts in a number of the Member States. Here again, the budgetary effects of such changes are in most cases marginal, even negligible. And the Commission has proposed that harmonization of tax structures should precede harmonization of tax rates, precisely in order that changes in tax revenues arising from changes in coverage or in exemptions from each excise can, if necessary, be corrected by changes in the basic rate of the excise concerned. In fact, as in the preceding point, these supposed budgetary problems prove on closer examination to relate, not to tax receipts, but to long-established social priorities.

80. Thirdly, and most importantly, there are the potential effects on revenue of harmonizing or at least of approximating the rates of the five excises to be retained in the harmonized system. This process could present sizeable budgetary problems; it could influence, as discussed in Chapter III, the overall balance between direct and indirect taxation in individual Member States. However, the overall problem is not as considerable as may be suggested. Given the differing degree of reliance of the Member States on revenue from VAT and from the excises, both overall and individually, the budgetary effects of harmonizing the rates of each excise could be to some extent selfcancelling, or could in part be compensated by the effects of harmonizing VAT rates.

81. The problems presented in harmonizing the rates of each of the five major excises vary

considerably. As regards the tobacco excise, cigarettes account for about 90 % of the total yield, and tax rates already fall within a relatively narrow range, the highest rate being roughly one and a half times the lowest. The yield of the mineral oils excise arises overwhelmingly (up to 95 %) from road fuels. Absolute variations in the rates on petrol (a range of roughly one to two) and diesel oil (a range of roughly one to eight) are greater than for cigarettes.

Nevertheless, the rates of each of these excises are likely to be subject in the future to two factors which should encourage convergence of the basic rates. First, the production costs of cigarettes are already very similar in most of the Member States. This trend is likely to continue with increasing concentration. In the case of road fuels, production costs are also very similar throughout the Community and this trend will be reinforced by the continuing rise in crude oil prices relative to transport and refining costs. Secondly, notwithstanding the absence of common policies in relation to these products, the generally accepted health risks from cigarettes and the need to conserve oil impose similar constraints on the policy of all the Member States in taxing each of them. For any Member States to pursue a policy of actively reducing the incidence of excises on cigarettes now seems excluded. For road fuels, the situation is more complex. The effects of conservation policies seem likely to be towards a movement in excise, over time, in the same direction. However, the situation of the United Kingdom, which at present benefits from large revenues from oil production, is radically different from that of the other Member States.

As regards the rates on alcoholic drinks, the differences between rates can be very large indeed. For example, in absolute terms, the highest basic alcohol rate (in Denmark) is almost forty times the lowest rate (in Italy). In some Member States, a heavy tax burden on all alcoholic drinks is long-established. In these countries, there is a long-standing preoccupation and perhaps a growing concern over alcoholism. These attitudes are reflected in a trend towards increasing excise rates. In other Member States, however, attitudes are less clear-cut. The conflict between the implications for health of high alcohol consumption and the implications for producers of reducing consumption is frequently resolved in favour of relatively low rates. But even in these countries, it seems likely that the long-term trend must be upwards.

Conjunctural flexibility

82. All the Member States make use of selective changes in tax rates as a means of conjunctural management of demand. The use of the excises for these purposes is common in some Member States, relatively rare in others. However, there seems to have been an increased awareness in recent years of the damaging effects on the excise industries of sudden or over-frequent changes in excise rates. This factor, together with an increased emphasis on monetary and incomes policies seems, to have resulted in a reduced reliance on changes in excise rates for purposes of demand management.

Nevertheless, no Minister of Finance can welcome a reduction in the variety of fiscal instruments at his disposal. The harmonization of excise rates, particularly if carried out in parallel with the harmonization of VAT rates, must considerably reduce the scope for manoeuvre in fiscal policies.

83. That said, it is important to distinguish between the effects of the process of harmonizing the rates and the effects once harmonization has been completed. During the harmonization process, the constraints on Member States will be largely in terms of the direction of rates changes. For example, assuming that a Community level had been selected (but not yet applied) for the excise on beer, Member States would remain free to change their existing rate, provided the change was in the direction of the Community level. For most Member States and for most of their excises, during the movement towards harmonized rates, their freedom to manipulate excise rates would be reduced, but by no means removed. Even at the final stage of abolition of fiscal frontiers, it is probably

that some margin between individual excise rates will be tolerable. Such a margin could well be used by Member States from time to time for demand management purposes. Nor should the possibility be excluded of Member States temporarily exceeding the permitted level for a particular excise, on condition of course that trade was unimpeded. Even at the final stage, therefore, the 'excise option' will not disappear entirely from the range of fiscal instruments available to national Finance Ministers.

84. In order to place in a wider perspective the possible consequences of harmonization for tax revenues and for demand management, certain general conclusions which can be drawn from Table 5 in Chapter IV should be set down here. They are as follows:

(a) All the Member States have allowed some or all of their excise rates to fall relative to the general price level. This suggests that, during a period of sustained inflation, the excise base in the Member States is likely to be more or less eroded by a failure of governments to secure increases in the specific excise rates at least in line with inflation.

(b) In no Member State is the approach to increases in excise rates consistent, whether to increases overall in relation to the general price level, to increases in particular excises in relation to declared social, health and conservation policies, or in relation to increases in the rates levied on competing products.

(c) In the absence of Community policies to govern the evolution of excise rates, whether absolutely or relatively, and on the assumption of continuing inflation in the medium term, the divergencies between rates now apparent are likely to subsist and may well increase in certain cases.

85. There are some obvious inferences to be drawn. The first is that, although free from Community constraints, Member States find it difficult to pursue in consistent fashion even the most basic objective of the excises — that is, the raising of government revenue.

Secondly, governments should devote a sustained effort to explaining to the public the effect of inflation in reducing the incidence of the excises. In the field of direct taxes, the phenomenon of fiscal drag has become well-known, to such a point that more or less regular corrections to income tax allowances, to take account of inflation, are regarded as the norm rather than the exception amongst the Member States. By contrast, fiscal boost — the declining incidence of excises with inflation — is much less widely understood. In their own interests, Member States should take steps to correct this situation.

Thirdly, the inconsistencies in excise policies in all Member States suggest an inability on the part of national governments to maintain a coherent excise system in the face of individual pressure groups. Moreover, with each added inconsistency, the greater the inequities of the system and the greater the difficulty in resisting demands for further changes. In such a situation, every excise industry has an incentive to apply the maximum pressure for tax concessions in its favour. Equally, no excise industry can plan for future with any reasonable degree of certainty.

86. It seems not unreasonable to conclude that the result of national control over the excises is a significant degree of inconsistency and inequity, both as regards structure and the evolution of tax rates. Against such a background, suggestions that a Community excise system would impose constraints on the Member States seems an argument in favour of, rather than against, such a measure. Moreover, it would be naive to suppose that Community policies for sectors which are subject to substantial excise burdens such as energy, transport, alcohol, wine — can be created or sustained in the absence of common policies in relation to the excises themselves.

In any case, as earlier paragraphs show, the constraints on budgetary policy and on demand management would probably be considerably less severe than is often suggested. Finally, once structures have been harmonized, the system of harmonized rates could be implemented over a relatively long period, and even at the final stage, some margin of flexibility

could be retained. But most important would be the creation of a fixed framework, within which both governments and industries could work and plan for the future. It seems at least possible that the certainty offered by such a framework would considerably outweigh such budgetary and conjunctural constraints as it might impose.

Corporation tax

87. Harmonization of the systems of corporation tax means introducing: a common scope of application; a common tax system; similar rates of tax; a common basis of assessment.

It also means a common solution to the problem of taxing profits earned abroad through permanent establishments and subsidiaries.

Scope of application

88. It is important to establish who is liable to corporation tax. At present, the situation is as follows:

(i) sole proprietorships are never liable to corporation tax;

(ii) all limited companies are subject to the tax;

(iii) in the case of partnerships, the situation varies from one Member State to another: in the Federal Republic of Germany, for instance, they are never liable to corporation tax; in France they are not normally subject to corporation tax but may opt for taxation, and in Belgium they are subject to the tax but, in certain cases, may apply not to be:

For competition purposes, it would be desirable for the Member States to adopt a common position on this matter, but any attempt to resolve the problem by way of harmonization would probably be doomed to failure: for one thing, there can be no question of seeking to harmonize personal income taxes, to which sole proprietorships are liable; for another, partnerships pose complex legal problems of definition and form, both of which vary widely between Member States.

It may therefore be argued that it would be better to retain the fundamental principles currently adhered to by the Member States, but at the same time make it possible for partnerships (and perhaps sole proprietorships) to opt for inclusion in the scope of corporation tax. A solution of this kind would not require any major recasting of national legislation and, as a result, would have only limited repercussions.

Harmonization of systems and closer alignment of rates

89. As stated in the previous chapter, the 1975 proposal for a Directive provides for the introduction in all Member States of a common partial imputation system, a single rate of corporation tax in the 45-55 % bracket and a tax credit of between 45 % and 55 % of the amount of corporation tax.

The analysis made in the previous chapter of the different bodies of national legislation governing company taxation reveals that substantial differences still exist between Member States as regards systems of company taxation, tax rates and, in countries applying an imputation system, the rates of the tax credit. It is evident, therefore, that introduction of the partial imputation system in the manner provided for in the proposal would have sharply differing repercussions from one Member State to another.

90. In the Member States (Belgium, France, Ireland and the United Kingdom) which apply a partial imputation system together with tax rates and tax credits falling within the brackets proposed by the Commission, or very close to them, the repercussions would be fairly minor since the changes needed in national legislation would be mainly technical.

In contrast, the changes required in the other Member States would have much wider reper-

cussions, involving either a radical change in the tax system or adjustments — in many cases major adjustments — in tax rates or in the rates of the tax credit.

91. A radical change would have to be made to the tax system in the two Member States that currently apply the 'classical' system, that is to say, Luxembourg and the Netherlands. In Luxembourg, the rate of tax (currently 40 %) would also have to be substantially increased to bring it within the bracket set. In the Netherlands it would not be strictly necessary to increase the rate of tax (now at 48 %) in order to comply with the proposal, but the rate would have to be increased if the fall in budgetary revenue resulting from introduction of a tax credit had to be made good through the corporations tax system.

92. The rate of corporation tax has already been raised in Denmark (the rate is now 40 %)[1] and would also have to be raised in Italy (where the combined impact of corporation tax and local company taxes [ILOR] works out at 36.25 %). In the Federal Republic of Germany, the present two-rate system (56 % for undistributed profits and 36 % for distributed profits) would have to be abandoned.

93. The tax credit would also have to be adjusted. In Denmark, for instance, the rate (equal to around 25 % of the tax) would have to be increased, while it would have to be reduced in Italy and the Federal Republic of Germany, where it is equal to 58.6 % and 100 % respectively of the aggregate amount of tax charged on distributed profits.

94. The Member States concerned may well have serious reservations about increasing the rate of corporation tax on the grounds that, in the present economic situation, such a move might aggravate the already precarious financial position of a good many companies.

The Member States that would have to reduce their tax credit can also be expected to have serious reservations, since some investors might as a consequence shun the share market, thereby making it more difficult for companies to launch new issues as a way of raising capital.

This danger may, however, be mitigated if compensation is offered to companies, say, in the form of an adjustment in corporation tax rates or in any other taxes levied on their profits.

95. Thought would also have to be given to the budgetary repercussions of the adjustments the Member States would have to make.

Generally speaking, corporation tax plays a rather modest budgetary role compared with the other main types of tax.[2] Consequently, the adjustments necessitated by harmonization would presumably have only a limited impact on tax receipts, all the more so in that, where most Member States are concerned, these adjustments, i.e. a higher rate of tax and a higher tax credit, would have opposite budgetary effects: in other words, they should tend to cancel each other out, at least in part.

No exact evaluation can be given, however, since a quantitative analysis of the budgetary effect is beset with the difficulties of attempting to assess the impact of certain factors that are not easily quantifiable. Among these factors should be mentioned:

(i) the impact of the introduction of a partial imputation system or a change in the tax rates and/or tax credit rates on the ratio of distributed profits (dividends) to non-distributed profits (reserves);

(ii) the international dispersal of shareholders in a company distributing dividends. As the number of shareholders who reside in other Member States or in non-member countries and who are, under tax conventions, eligible for tax credit increases, the budgetary repercussions become more marked, since the tax credit is an item of taxable income in the shareholder's country of residence, while cost to the

[1] The rate of 37 % in force at 31 December 1979 (point 44) was raised to 40 % in 1980.

[2] In Luxembourg, however, it accounted for 13.41 % of total tax receipts and actual social contributions in 1977.

budget of the tax credit is, as a rule, borne by the country in which the company distributing dividends is established;

(iii) the amount of dividends distributed to shareholders who are not eligible for the tax credit because either they do not declare the dividends, or they are resident in non-member countries not applying a tax credit or they are parent companies which do not redistribute dividends.

96. There could also be consequences affecting the use of corporation tax rates to implement certain policies (short-term economic, structural, regional, etc.). Although in recent years Member States have only very occasionally used corporation tax rates for this purpose and have hardly ever adjusted the rate for budgetary reasons, the 1975 proposal for a Directive allows for this eventuality. Under Article 3, Member States may:

(i) apply a rate outside the bracket or even complete exemption, either permanently or for a limited period in particular cases and for well-defined reasons of economic, regional or social policy (having followed a consultation procedure);

(ii) increase or reduce corporation tax temporarily for the purpose of regulating the economy.

These provisions can, therefore, be reasonably expected to satisfy requirements in a balanced way, i.e. to guarantee neutrality on the capital market and with regard to competition by keeping rates within a narrow band; and to create the conditions necessary for implementing policies which require some flexibility of rates in certain cases.

97. The above observations regarding the rates of corporation tax or tax credits do, of course, take on an additional dimension if we consider the longer-term hypothesis of an even closer alignment of rates.

Common basis of assessment[1]

98. Since no harmonization measure has yet been proposed in this field, discussion of the implications of such measures in the Member States would be premature and purely speculative.

On this matter, we should look closely at the particular role played by incentives. Incentives are a vital element of some of the policies pursued by the Member States and their alignment would certainly further the integration of the common market as soon as their policy objectives can be defined at Community level. However, it must be emphasized this would only concern incentives in the context of a macroeconomic policy. Where variations in the basis of assessment are considered from the microeconomic angle, for example, from a regional or sectoral viewpoint, this gives rise to problems of compatibility with other Community policies such as that pursued in relation to state aids.

For the time being, therefore, harmonization of national legislation relating to the basis of assessment will have to be confined to tax measures proper that are designed to safeguard the stability or potential of companies and, generally speaking, are regarded as 'normal' measures. This is, none the less, a daunting task, since the basis of assessment covers a vast field and national legislation differs markedly in many respects between the Member States. It will probably take many years to complete such harmonization.

99. Another specific problem that will have to be considered is the possible adjustment of taxable profits to take account of inflation. This problem, which assumes importance at times of fairly rapid inflation, is difficult to resolve on several counts:

(i) opinions differ as to the very principle involved; one school of thought holds that allowance should be made for inflation in determining taxable profits, whereas another takes the opposing view;

[1] It is worth noting that, generally speaking, the rules on the basis of assessment are the same in all Member States, regardless of a company's status.

(ii) if it is thought that allowance should be made for inflation, then it must be decided whether the taxable profits should be adjusted constantly or periodically (at varying intervals);

(iii) once the method has been chosen, the different technical possibilities must be examined and finally common arrangements must be agreed upon.

Problems arising from the taxation of profits earned abroad

100. At present, the Member States fall into two groups when it comes to taxing profits earned abroad through permanent establishments or subsidiaries: None of the six founder Member States of the Community charges tax on profits earned through permanent establishments or subsidiaries located in another founder Member State. They apply what is known as the exemption method. The three other Member States, however, tax profits earned through such permanent establishments and profits distributed by foreign subsidiaries to their national parent company, but allow the amount of foreign tax (up to the amount of corresponding national tax) to be deducted from national tax by applying what is known as the imputation method.

The two methods do not always produce the same results. With the imputation system, for instance, if a lower rate of tax is charged abroad, the resulting benefit does not, as a rule, accrue to the company, but to the Treasury. On the other hand, the imputation system allows systematic account to be taken of losses made abroad through permanent establishments, while this is not normally possible with the exemption method.

In the proposals for Directives concerning company mergers and the treatment of parent companies and subsidiaries, the Commission has, for reasons to do with competition, already come out in favour of the exemption method, on the grounds that the level of taxation of companies carrying on their activity on the territory of a particular Member State must not be a function of either their country of origin or the source of their capital. In its proposal for a Regulation on the Statute for European Companies, the Commission has also made provision for a system which, using the exemption method, takes account of losses made abroad through establishments or subsidiaries. This system could be extended to all types of company.

In the short term, the two methods could probably be allowed to exist side by side. In the longer term, one or the other will have to be chosen. When this happens, some Member States will have to abandon a fundamental principle of their tax law, and this will create difficulties.

Chapter VI

Conclusions

101. In the foregoing chapters, the Commission has indicated the main tax measures that are needed in the next few years if a genuine common market is to be established and a greater degree of integration achieved and has identified, through an analysis of the taxation structure in the Member States, the main difficulties to be overcome if these measures are to be successful.

102. To conclude this report, the Commission would like to reiterate its conviction that, with the prospect before us of closer integration, all efforts must be directed to the ultimate achievement of two fundamental objectives, namely:

(a) in the field of indirect taxation, the elimination of tax frontiers, that is to say, the abolition in respect of trade between Member States of the taxation of imports, the remission of tax on exports and frontier checks, with a view to constructing a genuine single market within the Community;

(b) in the field of direct taxation, the closer alignment of company tax burdens to ensure that companies in different Member States can enjoy conditions of fair competition and that capital movements are not prompted by tax considerations.

103. The abolition of tax frontiers entails fairly close alignment of VAT and excise duty rates. If company tax burdens are to be more closely aligned, harmonization of corporation tax should, in essence, focus on the rates of tax and the basis of assessment. With regard to the basis of assessment, which covers a vast field, the first requirement will be to draw up 'normal' permanent measures. 'Incentives' aimed at promoting investment can be disregarded in this context: their use will have to be coordinated as part of Community economic policy, but this will be a longer-term objective. Such moves towards harmonization will not preclude the tackling of other problems such as whether the wealth tax on enterprises should be made general throughout the Community or abolished in the countries where it now applies.

104. The measures advocated by the Commission can be brought to fruition only if certain preconditions are met:

(a) in the VAT field, harmonization of the basis of assessment, already partially achieved with the adoption of the Sixth Directive, must first be completed. To this end, the Council must act on the Commission proposals before it and the Commission must put forward further proposals aimed at rescinding a number of derogations from the principle of a uniform basis of assessment. A decision will then have to be taken as to whether the common VAT system should have one rate or several.[1] In the latter case, a list of the goods and services chargeable at the various rates will have to be drawn up. Lastly, a financial compensation mechanism will have to be devised under which VAT receipts are allocated to the country of destination;

(b) in the field of excise duties, the Council must firstly adopt the Commission's proposals concerning the four excise duties other than that on tobacco to be retained and harmonized (those on beer, spirits, wine and mineral oils) and any other duties must be abolished or prohibited, except those not entailing frontier checks, such as entertainments or betting tax. In addition, present moves towards harmonizing the structure of excise duties on manufactured tobacco must be completed. Solutions must also be found to the problem of financial compensation between Member States where excise duties are levied in the country of origin and to the problem of cooperation between tax administrations where excise duties are levied in the country of consumption;

(c) in the field of company taxation, it is essential that the Council adopt the 1975 proposal for a Directive concerning the harmonization of systems of company taxation and of withholding taxes on dividends.

(1) At the moment, the number of rates ranges from one in Denmark to eight in Italy.

105. The analysis of the taxation structure made in Chapter III shows that there are marked and, in some cases, very substantial differences in the extremes of the overall tax burden, the structure of total receipts from taxes and social contributions, and the relative weight of the various taxes, and that these remained virtually unchanged during the reference period 1973-77. There has not, therefore, been any spontaneous movement towards alignment of Member States' tax systems.

106. The general difficulties to be resolved — political, economic, social and budgetary — are spelt out in Chapter II (point 5) and in Chapter V (points 54 to 58). The difficulties posed by the individual taxes concerned are analysed in Chapter V. To these manifold and daunting obstacles must be added the problems inherent in the further enlargement of the Community to take in three new Member States.

107. Notwithstanding all these difficulties, the measures advocated are surely within our reach, provided:

(a) there emerges a strong political resolve to make substantial headway in the construction of Europe: without it, the numerous constraints imposed by tax harmonization will not be tolerated by the Member States;

(b) that harmonization is a very gradual, stage-by-stage process avoiding sudden upheavals with unacceptable repercussions for the Member States. If the changes needed are to be acceptable, it is also essential that progress in the construction of Europe and progress in tax harmonization are kept broadly in step.

108. The development of common policies, together with its corollary, namely an expanding Community Budget, may help to smooth the path towards tax harmonization if the Community employs the instrument of taxation for economic or budgetary policy purposes.

109. Experience has shown that any change in the tax structures of a Member State is a matter of controversy, but also that where justified at national level, reforms — even far-reaching reforms — can be carried out expeditiously. A further lesson that experience has taught is that the Community interest is generally disregarded when national tax policies are being framed.

The failure to take account of the Community interest is an obstacle to tax harmonization and indeed may accentuate the divergences between tax systems. In the Commission's view, this situation must be remedied. If there is to be a maximum degree of convergence between tax systems, the Community interest must serve as a benchmark for any adjustments to them.

The Commission accordingly considers that the idea must be revived of some form of prior consultation[1] on the most important measures planned by the national authorities in the fields covered by tax harmonization. A prior consultation procedure of this kind would enable all the bodies involved in the national decision-making process to take into account the Community dimension of tax problems.

110. Lastly, the Commission feels that the time is not ripe for setting a schedule for the measures to be taken. The magnitude of the task and the present uncertainty as to how fast the Community can progress towards economic and monetary union rule out the possibility of fixing any definite deadlines. The Commission simply hopes that the present difficulties facing Europe will be resolved in a Community spirit so that a welcome new impetus can be given to the building of Europe.

(1) This idea was mooted in the 1975 Action Programme for Taxation: Bull. EC 7/8-1975, points 1401 to 1404; Bull. EC 9-1975, Part Three.

Annexes

Table 13 — *Federal Republic of Germany*

Taxes and social contributions	1973		1974		1975		1976		1977	
	a	b	a	b	a	b	a	b	a	b
Personal income taxes (including local taxes and withholding taxes)	27.72	10.43	29.00	10.96	27.44	10.22	27.70	10.67	28.29	11.26
Corporation tax	3.51	1.32	3.14	1.19	2.82	1.05	3.36	1.30	4.13	1.64
Wealth taxes (including estate duties)	2.81	1.06	2.70	1.02	2.80	1.04	2.97	1.14	2.95	1.18
Total	34.04	12.81	34.84	13.17	33.06	12.32	34.03	13.11	35.37	14.08
VAT	14.41	5.42	13.91	5.26	14.07	5.24	13.48	5.19	13.13	5.23
Excise duty on beer	0.37	0.14	0.34	0.13	0.33	0.12	0.30	0.12	0.27	0.11
Excise duty on wine	0.09	0.04	0.09	0.03	0.09	0.03	0.10	0.04	0.09	0.04
Excise duty on spirits	0.92	0.35	0.88	0.33	0.81	0.30	0.78	0.30	0.79	0.31
Excise duty on tobacco	2.57	0.97	2.40	0.91	2.31	0.86	2.16	0.83	2.05	0.82
Excise duty on mineral oils	4.80	1.81	4.30	1.63	4.46	1.66	4.18	1.61	4.02	1,60
Total of these excise duties	8.75	3.29	8.01	3.03	8.00	2.98	7.52	2.90	7.22	2.88
Other taxes	9.84	3.70	9.51	3.60	9.06	3.38	9.13	3.51	9.08	3.61
Total of national taxes	67.04	25.23	66.27	25.06	64.19	23.92	64.16	24.71	64.80	25.80
Various levies accruing to the European Communities	0.91	0.34	1.04	0.39	1.14	0.42	1.14	0.44	1.13	0.45
Total tax receipts	67.95	25.57	67.31	25.45	65.33	24.34	65.30	25.15	65.93	26.25
Actual social contributions	32.05	12.06	32.69	12.36	34.67	12.92	34.70	13.37	34.07	13.50
General total	100.00	37.63	100.00	37.81	100.00	37.26	100.00	38.52	100.00	39.81

a = share of the various taxes or contributions in total receipts from taxes and social contributions
b = share of the various taxes or contributions in GDP (at market prices)

Table 14 — *Belgium*

Taxes and social contributions	1973		1974		1975		1976		1977	
	a	b	a	b	a	b	a	b	a	b
Personal income taxes (including local taxes and withholding taxes)	27.20	10.41	29.29	11.43	31.74	13.39	31.46	13.32	33.05	14.56
Corporation tax	8.00	3.05	7.67	2.99	7.19	3.03	6.56	2.77	6.15	2.70
Wealth taxes (including estate duties)	0.81	0.30	0.68	0.26	0.69	0.26	0.71	0.30	0.80	0.34
Total	36.01	13.76	37.64	14.68	39.62	16.68	38.74	16.39	40.00	17.60
VAT	17.60	6.71	17.99	7.03	15.56	6.56	17.11	7.24	16.54	7.29
Excise duty on beer	0.40	0.15	0.46	0.17	0.38	0.15	0.36	0.14	0.30	0.13
Excise duty on wine	0.20	0.06	0.13	0.04	0.12	0.05	0.19	0.08	0.19	0.08
Excise duty on spirits	0.50	0.19	0.47	0.18	0.48	0.19	0.48	0.20	0.46	0.20
Excise duty on tobacco	1.55	0.58	1.32	0.51	1.38	0.58	1.42	0.59	1.43	0.62
Excise duty on mineral oils	4.80	1.81	3.73	1.45	3.94	1.66	3.64	1.53	3.33	1.46
Total of these excise duties	7.45	2.79	6.11	2.35	6.30	2.63	6.09	2.54	5.71	2.49
Other taxes	6.08	2.32	5.68	2.22	5.24	2.20	5.21	2.20	5.15	2.26
Total of national taxes	67.10	25.58	67.42	26.31	66.72	28.07	67.15	28.37	67.40	29.64
Various levies accruing to the European Communities	1.35	0.51	1.37	0.53	1.43	0.60	1.19	0.50	1.92	0.84
Total tax receipts	68.75	26.09	68.79	26.84	68.15	28.67	68.34	28.87	69.32	30.48
Actual social contributions	31.55	12.04	31.21	12.20	31.85	14.44	31.66	13.41	30.68	13.56
General total	100.00	38.13	100.00	39.04	100.00	43.11	100.00	42.28	100.00	44.04

a = share of the various taxes or contributions in total receipts from taxes and social contributions
b = share of the various taxes or contributions in GDP (at market prices)

Table 15 — *Denmark*

Taxes and social contributions	1973		1974		1975		1976		1977	
	a	b	a	b	a	b	a	b	a	b
Personal income taxes (including local taxes and withholding taxes)	52.39	22.25	56.74	25.32	54.14	22.16	52.58	22.19	50.72	21.60
Corporation tax	3.12	1.32	3.21	1.43	3.16	1.29	3.81	1.61	3.08	1.31
Wealth taxes (including estate duties)	5.48	2.33	5.30	2.36	5.65	2.31	4.84	2.04	5.04	2.15
Total	60.99	25.90	65.24	29.11	62.95	25.76	61.23	25.84	58.84	25.06
VAT	17.86	7.58	17.07	7.62	17.13	7.01	17.57	7.42	18.95	8.07
Excise duty on beer	1.73	0.74	1.71	0.76	1.84	0.75	1.65	0.70	1.59	0.68
Excise duty on wine	0.32	0.14	0.33	0.15	0.41	0.17	0.43	0.18	0.45	0.19
Excise duty on spirits	1.13	0.48	1.07	0.48	1.24	0.51	1.23	0.52	1.26	0.54
Excise duty on tobacco	3.54	1.50	3.16	5.41	3.36	1.38	3.21	1.35	3.29	1.40
Excise duty on mineral oils	2.34	0.99	1.97	0.88	2.13	0.87	2.11	0.89	2.54	1.08
Total of these excise duties	9.06	3.85	8.24	3.68	8.98	3.68	8.63	3.64	9.13	3.89
Other taxes	9.78	4.15	7.76	3.46	9.04	3.70	10.57	4.46	11.02	4.70
Total of national taxes	97.69	41.48	98.31	43.87	98.10	40.15	98.00	41.36	97.94	41.72
Various levies accruing to the European Communities	0.37	0.16	0.43	0.19	0.56	0.23	0.72	0.30	0.82	0.35
Total tax receipts	98.06	41.64	98.74	44.06	98.66	40.38	98.72	41.66	98.76	42.07
Actual social contributions	1.94	0.82	1.26	0.56	1.34	0.55	1.28	0.54	1.24	0.53
General total	100.00	42.46	100.00	44.62	100.00	40.93	100.00	42.20	100.00	42.60

a = share of the various taxes or contributions in total receipts from taxes and social contributions.
b = share of the various taxes or contributions in GDP (at market prices)

Table 16 — *France*

Taxes and social contributions	1973		1974		1975		1976		1977	
	a	b	a	b	a	b	a	b	a	b
Personal income taxes (including local taxes and withholding taxes)	9.65	3.43	11.35	4.11	10.76	4.02	11.41	4.49	12.15	4.79
Corporation tax	5.75	2.04	7.66	2.77	4.90	1.83	5.55	2.17	5.40	2.14
Wealth taxes (including estate duties)	0.57	0.20	0.62	0.21	0.74	0.27	0.48	0.18	0.43	0.18
Total	15.97	5.67	19.63	7.09	16.40	6.12	17.44	6.84	17.98	7.11
VAT	24.04	8.56	24.65	8.94	23.05	8.62	23.49	8.70	21.17	8.32
Excise duty on beer	0.08	0.02	0.06	0.02	0.06	0.02	0.04	0.01	0.04	0,01
Excise duty on wine	0.11	0.04	0.09	0.03	0.09	0.03	0.06	0.02	0.06	0.02
Excise duty on spirits	0.89	0.31	0.86	0.31	0.85	0.31	0.79	0.31	0.78	0.31
Excise duty on tobacco	1.55	0.55	1.29	0.46	1.11	0.41	1.00	0.39	0.75	0.29
Excise duty on mineral oils	4.48	1.59	4.07	1.48	3.73	1.47	3.26	1.28	3.78	1.50
Total of these excise duties	7.11	2.51	6.37	2.30	5.84	2.24	5.15	2.01	5.41	2.13
Other taxes	14.64	5.21	10.01	3.63	13.21	4.94	13.07	5.15	12.78	5.03
Total of national taxes	61.76	21.99	60.66	21.96	58.50	21.92	59.15	22.70	57.34	22.58
Various levies accruing to the European Communities	0.64	0.25	0.68	0.24	0.62	0.23	0.65	0.25	0.74	0.29
Total tax receipts	62.40	22.22	61.34	22.20	60.12	22.15	59.80	22.95	58.08	22.87
Actual social contributions	37.60	13.39	38.66	14.02	40.88	18.23	40.20	15.84	41.92	16.47
General total	100.00	35.61	100.00	36.22	100.00	39.38	100.00	38.79	100.00	39.34

a = share of the various taxes or contributions in total receipts from taxes and social contributions
b = share of the various taxes or contributions in GDP (at market prices)

Table 17 — *Ireland*

Taxes and social contributions	1973		1974		1975		1976		1977	
	a	b	a	b	a	b	a	b	a	b
Personal income taxes (including local taxes and withholding taxes)	25.78	8.27	26.12	8.63	27.22	9.07	27.82	10.25	27.63	9.72
Corporation tax	2.65	0.85	2.60	0.86	2.18	0.73	1.78	0.66	4.11	1.44
Wealth taxes (including estate duties)	10.23	3.28	9.93	3.28	8.55	2.85	7.74	2.85	6.70	2.36
Total	38.66	12.40	38.65	12.77	37.95	12.65	37.34	13.76	38.44	13.52
VAT	15.94	5.11	15.82	5.23	14.39	4.79	15.31	5.64	16.99	5.98
Excise duty on beer	5.57	1.79	5.16	1.71	5.42	1.80	5.50	2.03	5.14	1.81
Excise duty on wine	0.30	0.09	0.26	0.09	0.30	0.10	0.31	0.11	0.29	0.10
Excise duty on spirits	4.64	1.49	4.46	1.47	3.95	1.32	3.74	1.38	3.60	1.27
Excise duty on tobacco	7.64	2.45	6.95	2.30	6.61	2.20	5.89	2.17	4.67	1.64
Excise duty on mineral oils	6.62	2.12	6.19	2.04	7.41	2.47	7.68	2.83	7.50	2.64
Total of these excise duties	24.77	7.94	23.02	7.61	23.69	7.89	23.12	8.52	21.20	7.46
Other taxes	9.07	2.91	8.56	2.83	6.70	2.23	6.60	2.44	6.49	2.28
Total of national taxes	88.44	28.36	86.05	28.44	82.73	27.56	82.37	30.36	83.12	29.24
Various levies accruing to the European Communities	0.71	0.23	0.80	0.26	2.26	0.75	3.27	1.20	3.95	1.39
Total tax receipts	89.15	28.59	86.85	28.70	84.99	28.31	85.64	31.56	87.07	30.63
Actual social contributions	10.85	3.48	13.15	4.35	15.01	5.00	14.36	5.30	12.93	4.55
General total	100.00	32.07	100.00	33.05	100.00	33.31	100.00	36.86	100.00	35.18

a = share of the various taxes or contributions in total receipts from taxes and social contributions
b = share of the various taxes or contributions in GDP (at market prices)

Table 18 — *Italy*

Taxes and social contributions	1973		1974		1975		1976		1977	
	a	b	a	b	a	b	a	b	a	b
Personal income taxes (including local taxes and with-holding taxes)	15.04	4.61	16.31	5.17	19.14	5.99	21.30	7.11	23.39	8.02
Corporation tax	1.34	0.46	1.73	0.53	2.51	0.78	2.11	0.76	2.57	0.98
Wealth taxes (including estate duties)	0.48	0.14	0.29	0.09	0.20	0.06	0.19	0.06	0.18	0.06
Total	16.86	5.21	18.33	5.79	21.85	6.83	23.60	7.93	26.14	9.06
VAT	15.12	4.67	17.10	5.25	14.19	4.44	14.58	4.96	15.30	5.35
Excise duty on beer	0.16	0.05	0.10	0.03	0.07	0.02	0.09	0.03	0.11	0.04
Excise duty on wine	—	—	—	—	—	—	—	—	—	—
Excise duty on spirits	0.50	0.15	0.42	0.13	0.29	0.09	0.28	0.11	0.27	0.09
Excise duty on tobacco	2.94	0.90	2.77	0.84	2.77	0.86	2.32	0.76	2.16	0.74
Excise duty on mineral oils	8.14	2.46	7.78	2.38	9.38	2.93	7.72	2.54	8.12	2.82
Total of these excise duties	11.74	3.56	11.07	3.38	12.51	3.91	10.48	3.44	10.66	3.69
Other taxes	14.01	4.46	11.46	3.59	8.81	2.75	8.30	2.73	7.32	2.52
Total of national taxes	57.73	17.90	57.96	18.01	57.36	17.93	56.96	19.06	59.42	20.62
Various levies accruing to the European Communities	1.04	0.31	1.04	0.32	1.03	0.32	1.22	0.41	1.55	0.53
Total tax receipts	58.77	18.21	59.00	18.33	58.39	18.25	58.18	19.47	60.97	21.15
Actual social contributions	41.23	12.38	41.00	12.75	41.61	14.10	41.82	13.78	39.03	13.38
General total	100.00	30.59	100.00	31.08	100.00	32.35	100.00	33.25	100.00	34.53

a = share of the various taxes or contributions in total receipts from taxes and social contributions
b = share of the various taxes or contributions in GDP (at market prices)

Table 19 — *Luxembourg*

Taxes and social contributions	1973		1974		1975		1976		1977	
	a	b	a	b	a	b	a	b	a	b
Personal income taxes (including local taxes and withholding taxes	22.24	7.83	21.85	8.01	22.89	10.15	21.45	10.00	22.31	11.06
Corporation tax	11.52	4.06	15.50	5.69	10.56	4.68	12.15	5.66	13.41	6.67
Wealth taxes (including estate duties)	1.72	0.60	1.23	0.45	1.05	0.46	1.14	0.53	1.23	0.60
Total	35.48	12.49	38.58	14.15	34.50	15.29	34.74	16.19	36.95	18.33
VAT	10.87	3.89	9.64	3.53	10.75	4.77	10.18	4.74	9.29	4.59
Excise duty on beer	0.32	0.11	0.37	0.13	0.41	0.18	0.37	0.17	0.32	0.16
Excise duty on wine	0.19	0.06	0.15	0.05	0.19	0.08	0.16	0.06	0.15	0.07
Excise duty on spirits	0.72	0.25	0.63	0.22	0.65	0.27	0.60	0.28	0.55	0.27
Excise duty on tobacco	1.92	0.67	1.57	0.57	2.03	0.90	2.06	0.95	2.00	0.99
Excise duty on mineral oils	4.64	1.63	3.47	1.27	4.09	1.81	3.77	1.75	3.39	1.67
Total of these excise duties	7.79	2.72	6.19	2.24	7.37	3.24	6.96	3.21	6.41	3.16
Other taxes	16.99	5.99	16.30	5.98	15.86	7.04	14.99	6.99	15.73	7.78
Total of national taxes	71.13	25.03	70.71	25.90	68.48	30.34	66.87	31.13	68.38	33.86
Various levies accruing to the European Communities	0.89	0.31	0.97	0.35	0.72	0.32	0.64	0.29	0.73	0.26
Total tax receipts	72.02	25.34	71.68	26.25	69.20	30.66	67.51	31.42	69.11	34.12
Actual social contributions	27.98	9.87	28.32	10.39	30.80	13.66	32.49	15.15	30.89	15.27
General total	100.00	35.21	100.00	36.64	100.00	44.32	100.00	46.57	100.00	49.39

a = share of the various taxes or contributions in total receipts from taxes and social contributions
b = share of the various taxes or contributions in GDP (at market prices)

Table 20 — *Netherlands*

Taxes and social contributions	1973		1974		1975		1976		1977	
	a	b	a	b	a	b	a	b	a	b
Personal income taxes (including local taxes and withholding taxes)	26.70	11.87	26.87	12.13	26.40	12.28	26.42	12.32	25.86	12.17
Corporation tax	6.67	2.97	6.64	3.00	7.60	3.53	6.86	3.20	6.65	3.13
Wealth taxes (including estate duties)	1.43	0.64	1.56	0.70	1.30	0.61	1.51	0.71	1.89	0.89
Total	34.80	15.48	35.07	15.83	35.30	16.42	34.79	16.23	34.40	16.19
VAT	14.92	6.63	14.04	6.34	14.13	6.58	14.72	6.87	15.68	7.38
Excise duty on beer	0.28	0.13	0.26	0.12	0.24	0.11	0.23	0.10	0.21	0.10
Excise duty on wine	0.12	0.05	0.10	0.05	0.09	0.04	0.13	0.06	0.14	0.07
Excise duty on spirits	0.72	0.32	0.71	0.32	0.72	0.33	0.72	0.34	0.70	0.33
Excise duty on tobacco	1.39	0.62	1.32	0.59	1.24	0.58	1.20	0.56	1.18	0.55
Excise duty on mineral oils	3.17	1.41	2.91	1.31	2.80	1.30	2.59	1.21	2.50	1.18
Total of these excise duties	5.68	2.53	5.30	2.39	5.09	2.36	4.87	2.27	4.73	2.23
Other taxes	5.38	2.39	4.76	2.15	4.36	2.03	4.77	2.22	4.99	2.35
Total of national taxes	60.78	27.03	59.17	26.71	58.88	27.39	59.15	27.59	59.80	28.15
Various levies accruing to the European Communities	1.33	0.59	1.27	0.57	1.63	0.76	2.04	0.95	2.04	0.96
Total tax receipts	62.11	27.62	60.44	27.28	60.51	28.15	61.19	28.54	61.84	29.11
Actual social contributions	37.89	16.85	39.56	17.85	39.49	18.37	38.81	18.10	38.16	17.96
General Total	100.00	44.47	100.00	45.13	100.00	46.52	100.00	46.64	100.00	47.07

a = share of the various taxes or contributions in total receipts from taxes and social contributions
b = share of the various taxes or contributions in GDP (at market prices)

Table 21 — *United Kingdom*

Taxes and social contributions	1973		1974		1975		1976		1977	
	a	b	a	b	a	b	a	b	a	b
Personal income taxes (including local taxes and withholding taxes)	29.86	10.04	30.86	11.34	35.94	13.57	36.94	13.58	34.21	12.59
Corporation tax	7.57	2.55	9.43	3.46	5.83	2.20	4.58	1.69	5.58	2.05
Wealth taxes (including estate duties)	13.78	4.63	12.89	4.73	12.92	4.88	12.41	4.56	12.13	4.46
Total	51.21	17.22	53.18	19.53	54.69	20.65	53.93	19.83	51.92	19.10
VAT	6.76	2.27	8.61	3.16	8.52	3.21	8.53	3.14	8.22	3.03
Excise duty on beer	1.61	0.54	1.42	0.52	1.59	0.60	1.72	0.63	1.69	0.62
Excise duty on wine	0.41	0.14	0.41	0.15	0.51	0.19	0.57	0.21	0.53	0.20
Excise duty on spirits	1.99	0.67	1.85	0.68	1.71	0.65	1.91	0.70	1.60	0.59
Excise duty on tobacco	4.51	1.52	4.26	1.57	4.09	1.54	4.02	1.48	4.39	1.62
Excise duty on mineral oils	6.55	2.20	5.04	1.85	3.81	1.44	4.21	1.55	4.49	1.65
Total of these excise duties	15.07	5.07	11.98	4.77	11.71	4.42	12.43	4.57	12.70	4.68
Other taxes	3.18	3.09	6.98	2.56	5.42	2.05	4.09	1.50	6.47	2.38
Total of national taxes	82.22	27.65	81.75	30.02	80.34	30.33	78.98	29.04	79.31	29.19
Various levies accruing to the European Communities	0.71	0.24	0.70	0.26	0.88	0.33	1.22	0.45	1.29	0.47
Total tax receipts	82.93	27.89	82.45	30.28	81.22	30.66	80.20	29.49	80.60	29.66
Actual social contributions	17.07	5.74	17.55	6.45	18.78	7.09	19.80	7.28	19.40	7.14
General total	100.00	33.63	100.00	36.73	100.00	37.75	100.00	36.77	100.00	36.80

a = share of the various taxes or contributions in total receipts from taxes and social contributions
b = share of the various taxes or contributions in GDP (at market prices)

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The report is a general discussion paper on the role of taxation in the process of European integration.

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