

FIRST COUNCIL DIRECTIVE

of 11 April 1967

on the harmonisation of legislation of Member States concerning turnover taxes

(67/227/EEC)

THE COUNCIL OF THE EUROPEAN ECONOMIC COMMUNITY,

Having regard to the Treaty establishing the European Economic Community, and in particular Articles 99 and 100 thereof;

Having regard to the proposal from the Commission;

Having regard to the Opinion of the European Parliament;

Having regard to the Opinion of the Economic and Social Committee;

Whereas the main objective of the Treaty is to establish, within the framework of an economic union, a common market within which there is healthy competition and whose characteristics are similar to those of a domestic market;

Whereas the attainment of this objective presupposes the prior application in Member States of legislation concerning turnover taxes such as will not distort conditions of competition or hinder the free movement of goods and services within the common market;

Whereas the legislation at present in force does not meet these requirements; whereas it is therefore in the interest of the common market to achieve such harmonisation of legislation concerning turnover taxes as will eliminate, as far as possible, factors which may distort conditions of competition, whether at national or Community level, and make it possible subsequently to achieve the aim of abolishing the imposition of tax on importation and the remission of tax on exportation in trade between Member States;

Whereas, in the light of the studies made, it has become clear that such harmonisation must result in the

abolition of cumulative multi-stage taxes and in the adoption by all Member States of a common system of value added tax;

Whereas a system of value added tax achieves the highest degree of simplicity and of neutrality when the tax is levied in as general a manner as possible and when its scope covers all stages of production and distribution and the provision of services; whereas it is therefore in the interest of the common market and of Member States to adopt a common system which shall also apply to the retail trade;

Whereas, however, the application of that tax to retail trade might in some Member States meet with practical and political difficulties; whereas, therefore, Member States should be permitted, subject to prior consultation, to apply the common system only up to and including the wholesale trade stage, and to apply, as appropriate, a separate complementary tax at the retail trade stage, or at the preceding stage;

Whereas it is necessary to proceed by stages, since the harmonisation of turnover taxes will lead in Member States to substantial alterations in tax structure and will have appreciable consequences in the budgetary, economic and social fields;

Whereas the replacement of the cumulative multi-stage tax systems in force in the majority of Member States by the common system of value added tax is bound, even if the rates and exemptions are not harmonised at the same time, to result in neutrality in competition, in that within each country similar goods bear the same tax burden, whatever the length of the production and distribution chain, and that in international trade the amount of the tax burden borne by goods is known so that an exact equalisation of that amount may be ensured; whereas therefore, provision should be made, in the first stage, for adoption by all Member States of the common system of value added tax, without an

accompanying harmonisation of rates and exemptions;

Whereas it is not possible to foresee at present how and within what period the harmonisation of turnover taxes can achieve the aim of abolishing the imposition of tax on importation and the remission of tax on exportation in trade between Member States; whereas it is therefore preferable that the second stage and the measures to be taken in respect of that stage should be determined later on the basis of proposals made by the Commission to the Council;

HAS ADOPTED THIS DIRECTIVE:

Article 1

Member States shall replace their present system of turnover taxes by the common system of value added tax defined in Article 2.

In each Member State the legislation to effect this replacement shall be enacted as rapidly as possible, so that it can enter into force on a date to be fixed by the Member State in the light of the conjunctural situation; this date shall not be later than 1 January 1970.

From the entry into force of such legislation, the Member State shall not maintain or introduce any measure providing for flat-rate equalisation of turnover taxes on importation or exportation in trade between Member States.

Article 2

The principle of the common system of value added tax involves the application to goods and services of a general tax on consumption exactly proportional to the price of the goods and services, whatever the number of transactions which take place in the production and distribution process before the stage at which tax is charged.

On each transaction, value added tax, calculated on the price of the goods or services at the rate applicable to such goods or services, shall be chargeable after deduction of the amount of value added tax borne directly by the various cost components.

The common system of value added tax shall be applied up to and including the retail trade stage.

However, until the abolition of the imposition of tax on importation and the remission of tax on exportation in trade between Member States, Member States may, subject to the consultation provided for in Article 5, apply this system only up to and including the wholesale trade stage, and may apply, as appropriate, a separate complementary tax at the retail trade stage or at the preceding stage.

Article 3

The Council shall issue, on a proposal from the Commission, a second Directive concerning the structure of, and the procedure for applying, the common system of value added tax.

Article 4

In order to enable the Council to discuss this, and if possible to take decisions before the end of the transitional period, the Commission shall submit to the Council, before the end of 1968, proposals as to how and within what period the harmonisation of turnover taxes can achieve the aim of abolishing the imposition of tax on importation and the remission of tax on exportation in trade between Member States, while ensuring the neutrality of those taxes as regards the origin of the goods or services.

In this connection, particular account shall be taken of the relationship between direct and indirect taxes, which differs in the various Member States; of the effects of an alteration in tax systems on the tax and budget policy of Member States; and of the influence which tax systems have on conditions of competition and on social conditions in the Community.

Article 5

Should a Member State intend to exercise the power provided for in the last paragraph of Article 2, it shall so inform the Commission in good time, having regard to Article 102 of the Treaty.

Article 6

This Directive is addressed to the Member States.

Done at Brussels, 11 April 1967.

For the Council

The President

R. VAN ELSLANDE