EU Tax Law

Indirect taxation – Glossary

Value added tax – Specific type of turnover tax levied at each stage of the production and distribution process. In its purest form, VAT is ultimately a tax on all final consumption expenditures on goods and services. Although, in the end, VAT bears on final consumption, suppliers of goods and services are liable to remit it to the tax authorities. VAT is a percentage tax levied on the price each supplier charges to his customer.

VAT normally utilizes a system of input VAT deductions to place the ultimate and real burden of the tax on the final consumer and to relieve intermediate suppliers of any tax cost. Under the tax deduction system, VAT is calculated by applying the applicable rate to the appropriate taxable base of goods or services; it is then reduced by the VAT (as indicated on the invoices delivered to the purchaser) which has directly affected the cost of the various elements constituting the price of the goods or services. In practice, there are substantial deviations from this form, because of the existence of various tax rates, exemptions for certain goods and services and necessary provisions concerning importation and exportation. Efforts have been made in the EU to harmonize the VAT systems of its Member States, mainly by means of Directives. However, full harmonization has never been achieved.

Consumption tax – A tax whose base is expenditure on consumption rather than income. A consumption tax is generally an indirect tax (where the taxpayer is not the person on whom the economic burden of the tax is expected to fall). It may cover a wide range of goods and services (VAT)or be imposed on selected items only (excise duties).

Destination principle – Term used in the context of VAT systems to describe the principle under which VAT is paid on import, i.e. in the country where the purchaser physically receives the goods and at the rate that would have applied had the goods been purchased from a domestic supplier. This reflects the idea of a tax on consumption. The tax on imports and any rebate on tax on exports required to implement this principle are referred to as border tax adjustments.

Neutrality principle–For VAT purposes, the neutrality principle has been defined in terms of neutrality in competition, which means that similar goods bear the same tax burden, whatever the length of the production and distribution chain and, in international trade, the amount of the tax burden borne by goods is known so that the exact equalization of that amount may be ensured. The neutrality principle also means that no double taxation/non-taxation may occur.

Excise duties - An exciseduty or excise tax is an inland tax on the sale, or production for sale, of specific goods or a tax on a good produced for sale, or sold, within a country or licenses for specific activities. An excise is considered an indirect tax, meaning that the producer or seller who pays the tax to the government is expected to try to recover or shift the tax by raising the price paid by the buyer. Excises are typically imposed in addition to another indirect tax such as a sales tax or value added tax (VAT). In common terminology (but not necessarily in law), an excise is distinguished from a sales tax or VAT in three ways: (i) an excise typically applies to a narrower range of products; (ii) an excise is typically heavier, accounting for a higher fraction of the retail price of the targeted products; and (iii) an excise is typically a per unit tax, costing a specific amount for a volume or unit of the item purchased, whereas a sales tax or VAT is an *ad valorem* tax and proportional to the price of the good.

Typical examples of excise duties are taxes on gasoline and other fuels, and taxes on tobacco and alcohol (sometimes referred to as sin tax).