Tax and duty-free allowances: exemption from valued added tax VAT and excise duty of goods imported by travellers from third countries (repeal. Directive 69/169/EEC)

2006/0021(CNS) - 22/02/2006 - Legislative proposal

PURPOSE : to lay down rules relating to the exemption from value added tax (VAT) and excise duty of goods imported in the personal luggage of persons travelling from countries or territories where the harmonised rules on VAT and excise duty, respectively, do not apply.

PROPOSED ACT : Council Directive.

CONTEXT : Council Directive 69/169/EEC of 28th May 1969 contains the harmonisation of provisions to exempt imports by travellers coming from third countries from turnover tax (VAT) and excise duty. Such a Community system of tax reductions on imports has proved necessary in respect of travel between third countries and the Community. However, it needs to be adapted to the enlargement and to the fact that the Community's external borders now include, inter alia, Russia, Ukraine and Belarus. The Commission, having received several requests by Member States for amendment of the Directive, proposes to modernise the provisions concerning tax exemptions in international travel.

CONTENT : the Commission proposes :

1)to increase the current limit of EUR 175 and to introduce at the same time a distinction between air travellers (EUR 500) and other travellers (EUR 220): it is proposed to make a distinction and therefore to apply different thresholds depending on the means of transport – land and sea transport versus air transport. The cost and effort of travelling by air would suggest that such travel is likely to be less frequently undertaken by individuals compared to those choosing to travel by land or ferry. Additionally, air passengers are by their nature limited to what they can buy and transport, i.e. they would not be able to transport bulky items. Such a distinction could prevent potential problems which Member States with a land border with third countries with a significantly lower price level might have in increasing the EUR 175 threshold. On the other hand, other Member States whose third country travellers will be almost entirely air passengers could benefit from the higher threshold. The increase of the EUR 175 threshold to EUR 220 is justified on the ground that it restores its real value at the time the threshold was last agreed (in 1994);

2) to abolish the quantitative limits for perfume, coffee and tea since they no longer reflect the real pattern of taxation of excisable goods in the EU of 25 Member States: taking into account that only a limited number of Member States levy an excise duty on these products (none on perfume, which is exempted under Community legislation, 1 on tea, 5 on coffee) the Commission takes the view that these limits, applying to travellers in 25 Member States, are no longer justified. In any event, these limits could be subsumed within the monetary threshold;

3) to introduce a quantitative limit for beer of 16 litres and increase the quantitative limit for wine from 2 to 4 litres: the Directive does not contain a limit for beer although this product is highly taxed in some Member States. On the other hand, the import of all other alcoholic beverages is subject to fixed allowances. In particular, wine is limited to two litres, yet several Member States have a zero excise rate on wine. The introduction of a quantitative restriction for beer would, therefore, be logical and could help

solve the problems which some Member States with a border with third countries with a significantly lower price level are facing. In order to provide some consistency for all alcoholic beverages, a quantitative limit for beer of 16 litres and an increase in the quantitative limit for wine from 2 to 4 litres is proposed;

4) to increase the amount on which Member States are free not to levy taxes on the import of goods: t he amount on which Member States are free not to levy taxes on the import of goods needs to be increased in order to take account of inflation and is therefore increased from EUR 5 to EUR 10;

5) to delete the option for the Member States to exclude goods falling within CN codes 7108 and 7109 from exemption: this provision is under the current scheme of VAT no more justified;

6) to revise the provisions and the structure in order to simplify and to improve the legibility of the Directive: a number of mainly textual refinements have been made to reflect current legal drafting requirements and so remove any scope for ambiguity. In addition, the third territories which are essential for the application of this Directive have been defined.

FINANCIAL IMPLICATIONS :

Theoretically, the proposal might result in a certain loss of revenue of VAT and excise duties but, simultaneously, it might also create extra revenue because of the introduction of a limit for beer. On the other hand, given that the proposal aims to reduce the administrative burdens it will free up value resources which will enable Customs authorities to focus their efforts on combating large scale smuggling, which, in turn, will off-set potentially greater losses.

Consequently, although this proposal could have a minor budgetary impact, it is considered negligible/non measurable.