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# **Impact of the EU Adhesion on the Indirect Taxes for the Intra - Community Imports**

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## **Abstract**

The adhesion to the European Union imposed to Romania major changes for the main indirect taxes. In this article we study the implications of these changes on the imports from EU. We conclude that the most significant effect the settlements had regarding the payment of VAT for the intra – Community acquisitions.

**Keywords: Intra - Community imports, Value added tax, tariff, European Union Adhesion**  
**JEL Classification: F10, F15, H32**

## **1. Introduction**

The impact of the indirect taxes, especially of the tariffs applied on the imports, was approached in a few theories of the international trade. The tariffs are included in the imported goods prices, influencing their competitiveness. When a tariff is raised, the importers have two alternatives: first to increase the price, that could lead to the demand decrease and the second one is to maintain the price unchanged, accepting a profit diminution. Generally, the other indirect taxes have the same rates for the domestic and the imported goods. However, the calculus base of them could also include tariffs of the imported goods.

The tariffs are used by governments in order to protect the domestic producers against the foreign competition. Anyway, the freedom of action in this field is quite limited. Any raise of the tariffs could lead to contra measures from the affected countries (Winters, 1992). In the recent decades, the process of international trade liberalization stimulated the general reduction of the tariffs. Trade blocs appeared that include countries agreeing to minimize or to eliminate the tariffs against trade with each other. Some countries are grouped in Customs Unions which have common external tariffs. Depending on the old tariffs levels and on the new common external tariff, a Custom Union could bring major changes on the foreign trade of the member states (Tavares, 2006).

The European Union is not only a Custom Union but also a common market and an Economic Union. Inside it was established a common VAT system that is compulsory for the member states. This system includes general settlements regarding the intra – Community acquisitions taxation (Keen and Lockwood, 2007).

## **2. Changes brought by the adhesion in the indirect taxes from Romania**

Besides adopting the common external tariff, a new member state of the EU has the obligation to also harmonize the indirect taxes with the ones from the other member states (Diaconescu). For Romania, the adhesion to the EU brought changes for the tariffs, excises and for the VAT.

Beginning with 1<sup>st</sup> January 2007 in Romania there were eliminated the tariffs for the acquisitions inside de Community and it was adopted the Common external tariff. Before the adhesion Romania had concluded an Agreement of free trade with the EU, according to which the European merchandise benefited of a Preferential Customs Regime. From the tariffs point of view, this situation made that adhesion not bringing considerable changes for the imports of Romania from the other EU member states. On the other side, the imports from the outside EU countries were significantly affected by the Common External Tariff introduction.

The obligation of harmonization of the excises with the ones applied in the rest of the EU will have significant implications on the way of establishing the tax base. However, Romania received a quite long period of time in order to make its excises compatible to the ones from EU.

Until the adhesion VAT for the imported goods, no matter their origin, became, in general, payable at the date the customs duty appeared. In the situation the imported goods were not sold the VAT paid at Customs could represent a claim to the public budget, whose redeeming could last quite long time. By the adhesion Romania became part of a Common VAT system. For the intra – Community acquisitions VAT becomes payable only in the moment the merchandise was sold in Romania.

## **3. Case study: the effects of VAT change on an intra – Community import**

In order to analyze the effects the VAT regime change we present the case of an intra – Community acquisitions, comparing it with the situation before adhesion. We take into consideration an import of merchandise from Italy, with a price Ex Works of 120 000 EUR, realized at 30 October 2007. The total of the auxiliary expenses (transport, insurance, handling a.s.o.) was of 2 000 EUR and the exchange rate at the date of the external invoice issuance represents 3.30 RON / EUR. There are not Customs formalities and it is not due VAT at Customs because the merchandise has an EU origin.

The taxable value for VAT corresponding to the acquisitions is given by the equivalent in RON of the sum between the Italian supplier price and the auxiliary expenses, meaning 402 600 RON. The importer will register in accounting both input VAT and as output VAT a sum calculated by applying the quota of 19 percent on the taxable value, meaning 76 494 RON (see table 1). Registering simultaneously as input VAT and as output VAT will make the importer not have any debts at the public budget until the moment of selling the merchandise.

**Table 1 – Calculus of the VAT registered for an intra – Community acquisition**

<b>Element of calculus</b>	<b>Value</b>
Ex – Works price	120 000 EUR
Auxiliary expenses	2 000 EUR
Exchange rate	3.30 RON / EUR
Taxable value for the registered VAT	402 600 RON
Registered VAT	76 494 RON

We suppose that at 24 December 2007 the importer succeeded in selling the whole stock of merchandise to Romanian clients with a price of 150 000 EUR (this price does not include the output VAT).

The taxable value for the output VAT, given by the price multiplied by the exchange rate from the invoice issuance date, will represent 498 000 RON. Applying the quota of 19 percent it results the importer will have after the sale as debt to the public budget the sum of 94 620 RON (see table 2).

**Table 2 – The due VAT calculus of the importer for the merchandise sale**

<b>Element of calculus</b>	<b>Value</b>
Price of merchandise sale	150 000 EUR
Exchange rate	3.30 RON / EUR
Taxable base for the output VAT	498 000 RON
Output VAT	94 620 RON

In order to compare with the situation before the adhesion we will take into consideration an import with the same price and at the same exchange rate, but realized at 30 October 2006. Being an import from EU a tariff is not paid. The registered VAT will have the same value of 76 494 RON but it will have to be paid at Customs (see table 3).

**Table 3 – Calculus of VAT paid at Customs for an imported before the adhesion merchandise**

<b>Element of calculus</b>	<b>Value</b>
Ex – Works price	120 000 EUR
Auxiliary expenses	2 000 EUR
Exchange rate	3.30 RON / EUR
Taxable value for the payable at Customs VAT	402 600 RON
Payable at Customs VAT	76 494 RON

We follow our study with supposing that at 24 December 2006 the importer sold the whole quantity of merchandise with the same price of 150 000 EUR. The output VAT will represent

94 620 RON. Deducting from this sum the paid at Customs VAT we obtain the debt of the importer to the budget, meaning 18 126 RON (see table 4).

It resulted in both situations the importer pays the same VAT. The difference is given by the moments of payment. At the import after the adhesion the VAT will be paid only after the merchandise sale. Before the adhesion the importer should have paid at Customs the VAT corresponding to the acquisition expenses while the rest of VAT would have been paid after the merchandise sale. Moreover, if the importer would not have succeeded to sell the merchandise the VAT redeeming the VAT paid at Customs (by demand of reimbursement or by compensation with output VAT from other operations) could have taken quite a long time. For the importers the fact they do not have to pay VAT at Customs before selling the merchandise could represent a considerable advantage.

**Table 4 – Calculus of VAT due by an importer for the merchandise sale before the adhesion**

<b>Element of calculus</b>	<b>Value</b>
Merchandise price of sale	150 000 EUR
Exchange rate	3.30 RON / EUR
Taxable value for output VAT	498 000 RON
Output VAT	94 620 RON
Input VAT	76 494 RON
Payable VAT	18 126 RON

#### **4. Conclusions**

In this paper we approached the changes the EU adhesion brought for the indirect taxes applied to the intra – Community imports of Romania. Although our country became member of a Custom Union, the tariffs for the intra – Community imports did not suffer significant changes. The main reason is that Romania had already concluded a Free Trade Agreement with EU giving to the European imports a Preferential Customs Regime. Nor for the excises significant changes did not intervene for now because Romania has a long period of time for introducing the European practices in this field. The most important effect of the adhesion on the intra – Community imports taxation concerns the VAT. The importers have no more the obligation of payment before selling the merchandise, this representing a considerable advantage.

It is very difficult to appreciate the impact of the new settlements of the VAT on the intra – Community imports. Beginning with 1<sup>st</sup> January 2007 they increased, but for this evolution other factors may be taken into consideration: the transport costs reduction, the Customs formalities simplification a.s.o. Taking all these into account, the impact new settlements of VAT on the intra – Community acquisitions can not be neglected.

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