In France in 1954, the Value-Added Tax (VAT) system was introduced in over 150 countries. In spite of its regressive tax burden, this has been one of the main sources of tax revenue in many countries. The first transmission of the VAT system was witnessed in European countries between the late 1960s and 1970s. The directives of the European Economic Community (EEC) Council adopted in April 1967 that a common VAT system would be applied across the board within the EEC. Then deci-
sion was an element which helped spread the VAT system throughout the world.

The VAT system as a neutral tax

Organization of the European Community – Ordoliberalism -

In the administrative unit responsible for questions on fiscal policy is the Directorate C – tax policy in the Directorate-General for Competition (DG IV). This administrative position of the unit is crucial in determining the direction of fiscal policy of the Commission.

Hans von der Groeben, the first German commissioner responsible for the competition policy, organised the DG IV and placed the introduction of the VAT system in France as a political tool for social justice. They argued that a suitable tax system should be induced from the concept of a common market.

HOW did fiscal neutrality become a goal of the Commission’s fiscal policy? Why was the VAT system adopted as an ideal tax for the common market?

Empirical Justification – France as Founder of the VAT

The French government was not open to fiscal harmonization and the abolition of the tax frontier for a common market. However, its experience of the VAT system provides a veritable example for the Commission, who pushed for the introduction of the VAT system in the Community. However, the introduction of the VAT system in France had not been supported by the idea of ordoliberalism. The French VAT system is an important feature of French history.

Fiscal neutrality = justice

Indeed, already in the 1920s, fiscal neutrality was an important principle for French tax policy. But this idea has been supported by its specific social and economic structure. In short, the idea of fiscal neutrality is a political tool for social justice. For this reason, the French government worked on reforming its sales tax system in the 1920s onwards to assure fiscal neutrality. As a result, sales tax became a main tax resource for the French government.

Introduction of the VAT system

In 1954, Maurice Lang, a fiscal administrator, proposed a sales tax that was payable on purchases of goods or services intended for intermediate consumption, gross fixed capital formation or for resale where a producer was permitted to deduct from its own VAT liability the government at the VAT invoiced to his customers. This tax was favourable to French economic modernisation, which was crucial for the French in the 1950s.

Theoretical Justification

International Tax Experts Network

Conclusion

The introduction of a common VAT system in the EEC is a veritable example of a new idea that can realize a free trade within Member-States. However, if we investi-
gate the path to a creation of a common VAT system from the historical development, we could see other meanings of the introduction of this system: fiscal neutrality and partial abandonment of government fiscal political power.

How could these crucial changes in the modern fiscal history be shared by Member-States ?