

Markets

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EU Raises Travelers' Duty Free Allowance

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BRUSSELS, Belgium — European Union finance ministers on Tuesday approved new higher limits for travelers' duty free allowances.

The new limit of 300 euros (\$393) for people entering the EU by land or sea and 430 euros (\$564) for air passengers replaces the current 175 euros (\$229) limit for the amount of goods travelers can take with them without facing EU customs duty.

The increases are designed to match inflation since levels were last calculated in 1994, with lower levels for land borders to regulate cross-border alcohol shopping.

However, an attempt to do the same for EU minimum alcohol taxes foundered as the Czech delegation vetoed the plan.

"We could not accept a proposal to increase the minimum of excise tax for beer and the reason is that today there is no minimum for wine," Czech Finance Minister Vlastimil Tlustý told reporters. "Beer is part of food, wine is part of food," he said, describing different rates as discrimination against the Czechs' prized beer.

Unable to reach a deal, ministers asked the European Commission to look at how all kinds of alcohol — including wine — is taxed and to report back in early 2007.

This puts wine in the spotlight but EU Taxation Commissioner Laszlo Kovacs acknowledged that getting unanimous support for a wine tax would be difficult.

The European Commission originally suggested a maximum 31 percent increase in the duties, saying this would just add 1 euro cent per half-liter of beer in some countries where rates are below the EU minimum. Most countries tax alcohol at a higher level.

The Czechs rolled two kegs of beer into the meeting as they sought to win equal rates for beer and wine. Negotiations won a lower 4.5 percent rate for beer but that did not satisfy them. Their suggestion to leave beer out of the tax increase fell on stony ground, Tlustý said.

Taxation is always a difficult issue, with each EU government setting its own levies and agreeing only on some basic standards that can only be changed if all nations agree. A single veto can wreck any deal.


Ministers also ordered Poland to do more to rein in a budget deficit that will next year climb above the 3 percent of gross domestic product limit set by EU rules as it counts the cost of pension reform. They told Warsaw to re-examine its draft budget for 2007, saying current action is "insufficient" to cut public debt by the end of 2007.

There was no deal on a bid to simplify value added tax but ministers agreed to re-examine the issue and aim for agreement by next June.

A British attempt to clamp down on value added tax fraud was pulled from the agenda after London failed to calm French fears over its plans to charge sales tax to the final customer for computer chips, mobile phones and personal digital assistants to end tax refund scams that it says have cost the British Treasury hundreds of millions of pounds.

This carousel fraud is easy to do because the current system allows refunds throughout the supply chain. However, the "reverse charge" Britain is seeking may force criminals to shift operations to other countries or other products and could set a precedent for a VAT overhaul.



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