

POLICY PAPER

The future of EU Finances: New Own Resources

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- **Reform of the EU budget is not necessarily of a technical character, rather it is a response to the growing Euroscepticism and populism within EU Member States. Besides restoring the citizens' confidence and belief in the EU, it is necessary to ascertain that the budget of the EU is prepared and sufficiently agile to react to the growing global instability, migration flows, terrorism, and ensure both internal and external security, combat climate change and the financial drop caused by the exit of the UK.**



Common Consolidated Corporate Taxes, Non-recycled Plastic Packaging Waste or income from European Emissions Trading System auctions.

Reform of the EU budget is not necessarily of a technical character, rather it is a response to the growing Euroscepticism and populism within EU Member States. Besides restoring the citizens' confidence and belief in the EU, it is necessary to ascertain that the budget of the EU is prepared and sufficiently agile to react to the growing global instability, migration flows, terrorism, and ensure both internal and external security, combat climate change and the financial drop caused by the exit of the UK. Despite the fact the EU budget has gone through multiple - mostly minor - reforms, those were inefficient in keeping it up with current times. In the context of the financial and migration crises, the budget was not prepared to react to unexpected developments... This contributed, inter alia, to loss of confidence among EU citizens and caused damage to the EU credibility¹.

Reform of the revenue side of the budget is entirely legitimate and essential yet provides only a partial solution to the situation. Revenues reform should be, in any case, accompanied by a critical re-assessment of expenditures, as was emphasized by the EU Commission in its Reflection Paper², since a close link between the

expenditures and revenues exists. Although this paper focuses exclusively on the side of revenues, it is important to underline that any reform concerning revenues would not be enough for a successful reform of the EU budget. Only a complex re-design of the whole system can restore the trust and bring about the desired results

Setting up the scene

In 2018, the Commission published the Proposal for a Council Decision on the system of Own Resources of the EU³. However, this document did not constitute the first attempt to reform the system. Over the years, many authors have focused on alternative resources of revenues for the EU Budget. In 2011, during a period of lingering financial crisis and efforts to ensure a fiscal consolidation, the European Commission proposed a concept of "new own resources". The Commission presented a draft of Financial Transactions Tax and modified VAT, which – although unsuccessful on its own – created an important stepping stone for all subsequent research. To mention the most significant of these efforts, the High-Level Group on Own Resources was established under the EU DG for Budget. In 2016, the Group presented its Final Report, introducing and evaluating new Own Resources for the EU budget. A year later, the Reflection Paper on the Future of EU Finances⁴ showed a clear understanding of the need for a close link between Own Resources and EU policies. This was followed by a debate within the EU which was focused

¹ NÚÑEZ FERRER, Jorge. 2016. CEPS POLICY INSIGHTS. *The Multiannual Financial Framework post-2020: Balancing political ambition and realism*. No. 2016-02. 2016. ISBN 978-94-6138-557-4. URL: <https://www.ceps.eu/wp-content/uploads/2016/11/PI%202016-02%20JNF%20EU%20Budget.pdf>

² COM (2017) 358 final: REFLECTION PAPER ON THE FUTURE OF EU FINANCES. In: Brussels, 2017, EUROPEAN COMMISSION. URL: <https://eur-lex.europa.eu/legal-content/EN/TXT/HTML>

³ COM (2018) 325 final. *European Commission, 2018*. Proposal for a COUNCIL DECISION on the system of Own Resources of the European Union. In: Brussels. URL: https://eur-lex.europa.eu/resource.html?uri=cellar:d7369bdc-4ed9-11e8-be1d-01aa75ed71a1.0018.02/DOC_1&format=PDF

⁴ COM (2017) 358 final: REFLECTION PAPER ON THE FUTURE OF EU FINANCES. In: Brussels, 2017, EUROPEAN COMMISSION. URL: <https://eur-lex.europa.eu/legal-content/EN/TXT/HTML>

predominantly on improving the added value of the EU and the effort to provide transparent, simple and stable Own Resources. In the same year, the European Parliament adopted a resolution pertaining to the EU's system of Own Resources⁵.

Budget implications of the upcoming Brexit, together with the elimination of the British rebate, boom of the digital economy, next Multiannual Financial Framework period – all of those are the realities the current debate on the alternative resources of revenues. Regardless of the current incentives for the reform, the Commission's proposal will face a difficult challenge. They do not only try to ensure enough revenues to cover budgetary expenses but aim to provide a system of Own Resources that will be considered a real added value of the European project, facilitating financial flows while also enabling swift adaptation to future challenges.

The following section focuses on the present proposal made by the European Commission (COM (2018) 325 final), currently under consideration within the EU institutions.

The Commission's New Proposal: COM (2018) 325 final

In general, the Commission aims to increase clarity, fairness, and transparency of the EU budget. The proposal consists of two parts. Firstly, they propose modernization of the existing Own Resources. Secondly, a

basket of new Own Resources is introduced. New ways of designing the budget in a way that would yield more benefits than just financial ones, including phasing out of corrections, increasing the Own Resources ceiling⁶, establishing a new principle that all future revenues arising from EU policies would go directly to the EU budget. Third is a critical assessment of the proposal, together with recommendations.

Modernization of existing Own Resources

Maintaining Traditional Own Resources while Lowering their Collection Costs from 20 % to 10

Traditional Own Resources naturally arise from the customs union⁷, one of the pillars of the Single Market, and thus their remaining even in the system of Own Resources cannot be disputed. The Commission considers the present level of 20 % collection costs for customs duties to be higher than necessary, suggesting instead to bring the level down to the traditionally used 10%⁸. Economic changes, largely due to increasing globalization and development and integration of new technologies within the EU, are an engine for modernization of customs procedures. Such modernization should enhance economic activity and growth, as well as increase the safety and security of the EU citizens⁹. Thus, financial means arising from the customs union should serve the Member States to invest in

⁵ P8_TA (2018)0076: *European Parliament. Reform of the European Union's system of own resources*. In: 2018. URL: http://www.europarl.europa.eu/doceo/document/TA-8-2018-0076_EN.pdf

⁶ For payments up to 1,29 % and for commitments to 1,35 % of the EU-27 gross national income.

⁷ Together with the common external commercial and trade policies.

⁸ In the past Member States were allowed to withhold 10 % until 2002. Then the level was raised to 25 % in 2013, later the level was fixed at the present level of 20 %.

⁹ EVROPSKÝ ÚČETNÍ DVŮR. 2018. *Zvláštní zpráva č. 26: Řada zpoždění s realizací celních informačních systémů: kde se stala chyba?* 2018. URL: https://www.eca.europa.eu/Lists/ECADocuments/SR18_26/SR_CU_STOMS_IT_CS.pdf

customs IT systems and customs equipment, which is contrary to the proposed cost reduction.

The current level is undisputedly higher than is, in actuality, needed, and we may qualify it as a hidden rebate for a certain Member States. In theory, all revenues resulting from the customs union should belong to the EU budget. Since lower collection costs can be considered as reasonable and legitimate, simplified procedures and automatization should be encouraged to improve the cost-effectiveness of controls. Still, a resistance from the Member States, especially those with the highest amount of custom proceedings, such as the Netherlands or Germany, can be expected.

Maintaining the GNI-based Own Resource and Keeping It as a Balancing Resource Only

The Commission is well-aware of the Gross national income (GNI) and its role as a means of ensuring the stability of the EU budget and its sufficiency. Still, the Commission suggests a reduction of its part within the EU budget by implementing a basket of new Own Resources: GNI Own Resource should only fulfill a role of an automatic stabilizer (balancing resource) of the budget, not a major part of revenues¹⁰. Although in conflict with the article 201 of the Rome Agreement¹¹, the idea of leaving the GNI Own Resource in the system before the system becomes fully

able to finance the EU policies through the real and “genuine” Own Resources is appealing. It is crucial to mention that some Member States are willing to keep the GNI as the only resource of the EU budget, but the Commission’s proposal should prevail, as it aims to secure a financial means linked to key European policies and thus united common priorities.

Simplifying the Own Resource based on the Value Added Tax

To ensure the free movement of goods and services, the Member States accepted harmonization of the indirect taxation. Methodological changes were made over the years; therefore, the current system applies a uniform tax rate 30 %¹² levied on a harmonized VAT base, while the measuring base is capped at 50 % GNI to remedy the regressive aspect of the VAT resource¹³. The cap serves as a means of remedying the discriminatory effect this could have on less well-off Member States.

The VAT-based Own Resource was often considered as a potentially major stream of revenues to the Budget, in particular, because of its broad base, although this expectation never materialized: in 2018, revenues from VAT covered only 11 %¹⁴ of the whole EU budget. The Commission has reported an increasing number of tax frauds and tax evasion, and a gap between the expected and actual collected tax revenues¹⁵. In 2016, the

¹⁰ GNI covers 66 % of the whole EU Budget EUROPEAN COMMISSION. 2019. *EU Budget 2018 FINANCIAL REPORT*. Luxembourg: Publications Office of the European Union, 2019. ISBN 978-92-76-03079-9. ISSN 2443-7891. doi: 10.2761/027405. URL:

https://ec.europa.eu/info/sites/info/files/about_the_european_commission/eu_budget/financial_report_web.pdf

¹¹ Article 201 of the Treaty, which stated: “Without prejudice to other revenue, the budget shall be financed wholly from own resources.” From the legal point of view, the use of GNI is not acceptable because of the clear incongruity with respective Article.

¹² Exception of Germany, the Netherlands, and Sweden. These have a reduced call rate.

¹³ The regressive character of VAT is connected with a higher average propensity to consume in relatively poorer states in comparison to richer ones.

¹⁴ EUROPEAN COMMISSION. 2019. *EU Budget 2018 FINANCIAL REPORT*. Luxembourg: Publications Office of the European Union, 2019. ISBN 978-92-76-03079-9. ISSN 2443-7891. doi: 10.2761/027405. URL:

https://ec.europa.eu/info/sites/info/files/about_the_european_commission/eu_budget/financial_report_web.pdf

¹⁵ DIRECTORATE GENERAL TAXATION AND CUSTOMS UNION. *Study and Reports on the VAT Gap in the EU-28 Member States: 2019 Final Report*. TAXUD/2015/CC/131. Warsaw: Center for Social and Economic Research, 2019. URL: https://ec.europa.eu/taxation_customs/sites/taxation/files/vat-gap-full-report-2019_en.pdf

Commission proposed an Action plan on Common VAT area in the EU16, and discussed possible modifications of the VAT own resource.

One of the modifications proposes a simplified uniform call rate of 1 % on the standard rated base¹⁷. The Commission argues that this will result in higher transparency, accountability, and simplification of the overall calculations. A problematic part is narrowing the tax base of VAT Own Resource to only the standard rated base. Tax bases for application of the standard call rate slightly differ from Member State to Member States, leading to some skepticism from the Member States with a wider standard rate base¹⁸. Due to a narrower tax base, a higher call rate needs to be applied to ensure that (at least) the same amount of revenues from VAT will be earned for the EU budget. Moreover, the above-mentioned ceiling of 50 % of GNI as a correction mechanism is not applied in the modified VAT Own Resource as the narrower base would not exceed this ceiling. No correction to remedy the regressive aspects of GNI is being provided in its stead.¹⁹

The future of the VAT-based Own Resource is not guaranteed. Many Member States are thinking negatively about the VAT Own Resource as well as the modified version of VAT, and some of them call for removing it from the system altogether. Multiple alternatives as to modifications of the VAT are being discussed (e.g. weighted average of call rates). To sum up, the original potential of

the VAT to become a major Own Resource has not been fulfilled, and with the current situation, there is a high chance of its elimination as an Own Resource entirely.

Phasing out corrections

The EU Commission has proposed to gradually phase out all corrections and rebates by 2025²⁰. Corrections are politically a very sensitive topic, thus the elimination is suggested to be a gradual process rather than a one-off, ensuring that the national contribution will not grow sharply and be politically accepted. The upcoming withdrawal of the United Kingdom is a unique opportunity to eliminate the outdated system of rebates and corrections, which was started with the British Rebate some 34 years ago. This part of a proposal can be unequivocally supported.

In the second part of the Commission's proposal, a basket of new Own Resources is proposed to be included in the Own Resource system.

Balancing Political Ambition and Realism: New Own Resources

A Common Consolidated Corporate Tax Base-based Own resource (CCCTB)

At the very beginning of the CCCTB project, the main aim had been to ensure fair competition within the single market. In its 2016 form, the CCCTB is presented as a useful tool that could help the EU to tackle tax frauds,

¹⁶ COM (2017) 566 final. *COMMUNICATION FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT, THE COUNCIL AND THE EUROPEAN ECONOMIC AND SOCIAL COMMITTEE: On the follow-up to the Action Plan on VAT Towards a single EU VAT area - Time to act*. In: Brussels, 2017. URL: <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52017DC0566&from=CS>

¹⁷ COM (2018) 325 final. *European Commission, 2018. Proposal for a COUNCIL DECISION on the system of Own Resources of the European Union*. In: Brussels. URL: https://eur-lex.europa.eu/resource.html?uri=cellar:d7369bdc-4ed9-11e8-be1d-01aa75ed71a1.0018.02/DOC_1&format=PDF

[lex.europa.eu/resource.html?uri=cellar:d7369bdc-4ed9-11e8-be1d-01aa75ed71a1.0018.02/DOC_1&format=PDF](https://eur-lex.europa.eu/resource.html?uri=cellar:d7369bdc-4ed9-11e8-be1d-01aa75ed71a1.0018.02/DOC_1&format=PDF)

¹⁸ Ireland,

¹⁹ Analytical assessments can be found in: KÖNIG, Petr a Lubor LACINA. *Rozpočet a politiky Evropské unie*. V Praze: C.H. Beck, 2004. Beckova edice ekonomie. ISBN 80-7179-846-0

²⁰ COM (2018) 325 final. *European Commission, 2018. Proposal for a COUNCIL DECISION on the system of Own Resources of the European Union*. In: Brussels. URL: https://eur-lex.europa.eu/resource.html?uri=cellar:d7369bdc-4ed9-11e8-be1d-01aa75ed71a1.0018.02/DOC_1&format=PDF

arbitrations, and evasions – currently one of common political priorities. Moreover, the CCCTB is predicted to increase the competitiveness of the EU enterprises on the global market. Value Added Tax, together with the CCCTB, are the two main areas where an effective solution can be achieved only at the EU level. Supranational companies, employing aggressive tax planning, pay approx. 3,5% less taxes than similar national companies, which is problematic.

The CCCTB Own Resource, as presented above, is the most ambitious project in the history of tax harmonization within the EU. The Member States have mostly a very reserved attitude towards harmonization of corporate taxation due to a fear of losing fiscal sovereignty. In 2011, the EU Commission presented the CCCTB system, which was rejected, and subsequently amended in the Action plan²¹, resulting in a modified version of CCCTB.22 In the original proposal, the Commission suggested a fully voluntary system. In comparison, in the proposal from 2016, the CCCTB is mandatory for enterprises with turnover over 750 million euros per year and voluntary for other companies. The justification is the following: big multinational companies are more likely to be engaged in aggressive tax planning, thus CCCTB is proposed to be obligatory. On the other hand, it could be a voluntary alternative for smaller companies, offering general simplification and a decrease of the excessive bureaucratic burden.

The fundamental idea of the CCCTB is to harmonize the corporate tax base and provide redistribution of the group tax bases between the Member States using

an allocation formula. The aim is to tax the profit in the country of origin. Harmonization of the call rates among the Member States is not considered.

Even though the proposal is ambitious and unique since no framework has been established yet, the Commission is trying to shoot for the moon. So far, there is no harmonized system of corporate taxation, thus it is very hasty to consider it as a realistic new Own Resource. At the same time, it is possible to appreciate the Commission's effort to trigger a debate on the subject that may lead to a plan of action at a European level. The CCCTB is an idea, however, it is too early to consider it as a realistic option for a new own resource and it will most probably not be included in the system soon.

EU Emissions Trading System-based Own Resource

The EU Emissions Trading System, as a common instrument to fight a climate change, has been created within the EU. In 2013, the EU ETS came into its so-called third phase, using auctioning as a default method for allocating allowances (instead of free allocations). In the beginning, EU ETS was not considered as a possible Own Resource, while now, one can clearly see a link between EU policies and possible sources of revenues. In a theory, we can see an analogy with the traditional Own Resources as a genuine Own Resource, and thus it is not a surprise that the Commission proposed the contribution from the EU ETS to the EU budget as one of the resources.

The system is fully established and harmonized on the EU level, anchored in the common climate objectives, though revenues flow to national budgets. Moreover, the

²¹ A fair and Efficient Corporate Tax System in the European Union: 5 key Areas for an Action (COM (2015) 302 final).

²² *European Commission, 2015. COMMUNICATION FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT AND THE COUNCIL: A Fair and Efficient Corporate Tax System in the*

European Union: 5 Key Areas for Action. In: Brussels, 2015, {SWD (2015) 121 final}, COM (2015) 302 final. URL: <https://eur-lex.europa.eu/legal-content/CS/TXT/?uri=CELEX%3A52015DC0302>

proposed new Own Resource fully corresponds with the definition of an Own Resource as such. The contribution is suggested as a share of 20 % of revenues from the total allowances. As mentioned above, the revenues currently flow to national budgets where 50 % of the revenues must be used to tackle the climate change²³. Nonetheless, the environmental lobby is concerned that this will mean a decrease of funding for these activities.

The proposed share of 20 % can be considered as a politically acceptable compromise, though a much higher percentage of revenues from the total allowances would be viable as well. Mostly, it is the possible volatility of the new own resource that is being criticized, as it is going to be dependent on the market price of the permits (emission allowances). According to the Commission, such concerns are unfounded: to the contrary, the Commission expects an increasing potential of this resource.²⁴

Plastic Packaging Waste-based Own Resource

Plastic packaging waste-based Own Resource was certainly the most surprising section of the Commission's proposal. No mentioning can be found in any previous neither academic research nor non-academic debate. Not even the final report of the High-level Group on Own Resources did consider such an option. Even though the revenue is not defined as a tax, in theory, it corresponds with the Pigouvian taxation²⁵. The revenue is by its nature

an environmental tax that has the biggest support through all EU institutions as well as the Member States, and the potential to become a new Own Resource is very encouraging. A huge benefit is an already existing framework, and link with the European strategy for Plastics in Circular Economy²⁶.

One aspect that is often criticized is its potentially decreasing volume and probable disappearance from the system. However, the aim of the Commission is to increase plastics sustainability and trigger the Member States to collectively contribute to tackling the environmental problems in accordance with the European Strategy for Plastics in Circular Economy, thus the potential disappearance is expected and desired.

Scant attention has been paid to different methodologies of collection of the relevant data in each Member State. Therefore, it is first necessary to harmonize the methodology to avoid discrimination of any Member State. Economic development is connected to the efficiency of recycling systems, thus some relatively poorer Member States with less technologically developed recycling systems would be burdened with higher payments. However, considering the political support, existing framework and applicability, the plastic packaging waste-

²³ EVROPSKÝ ÚČETNÍ DVŮR. *FINANCOVÁNÍ OPATŘENÍ V OBLASTI KLIMATU EVROPSKOU UNIÍ V KONTEXTU VNĚJŠÍ POMOCI: Zvláštní zpráva č. 17 2013*. Lucemburk: Úřad pro publikace Evropské unie, 2014. ISBN 978-92-9241-585-3. ISSN 1831-0788. doi: 10.2865/16672. Dostupné také z: https://www.eca.europa.eu/Lists/ECADocuments/SR13_17/QJAB13018CSC.pdf

²⁴ These expectations are confirmed by the fact that EU carbon prices rose more than five-fold over the past two years (as a result of the Market Stability Reserve).

KRUKOWSKA, Ewa. BLOOMBERG. *Price of Carbon Set to Rise in EU as Supply of Permits Shrinks: Climate Changed*. 2019. Dostupné také z: [https://www.bloomberg.com/news/articles/2019-](https://www.bloomberg.com/news/articles/2019-05-15/price-of-carbon-set-to-rise-in-eu-as-supply-of-permits-shrinks)

[05-15/price-of-carbon-set-to-rise-in-eu-as-supply-of-permits-shrinks](https://www.bloomberg.com/news/articles/2019-05-15/price-of-carbon-set-to-rise-in-eu-as-supply-of-permits-shrinks)

²⁵ In this case the aim is to increase the amount of recycled plastic packaging waste not a decrease of a peculiar consumption.

²⁶ COM (2018) 28 final). EUROPEAN COMMISSION. *COMMUNICATION FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT, THE COUNCIL, THE EUROPEAN ECONOMIC AND SOCIAL COMMITTEE AND THE COMMITTEE OF THE REGIONS: A European Strategy for Plastics in a Circular Economy*. Brussels, 2018. URL: <https://eur-lex.europa.eu/legal-content/EN/TXT/?qid=1516265440535&uri=COM:2018:28:FIN>

based Own resource can be recommended as an appropriate and transparent alternative.

Conclusion

To conclude, even though the Commission's proposal is extremely ambitious, it can be considered as hasty and unrealistic in many of its aspects. One can appreciate the effort to trigger a discussion and bring new alternatives that would support the common policies with independent and genuine EU sources of income. Including new own resources into the system is considered by many Member States to be a complication of the system, bringing with it even higher unpredictability caused by the GNI acting as a balancing resource. In 2019, the debate regarding new Own Resources has subsided, as many Member States exhibited skeptical and passive attitudes. Many of those would prefer to keep the GNI resource while discarding the others entirely.

Multiple alternative revenues were proposed to be included in the system, such as financial transaction tax, seigniorage, motor fuel levy, bank levy. Current negotiations also include a single market levy, aviation tax, or a carbon border tax. Globalization, together with technological development, caused profound changes in the structure of enterprises (most importantly, the ascent of internet commerce), meaning that taxation of the digital economy is one of the most pressing challenges.

Nonetheless, the first Budget for the EU27 can also be considered to be a window of opportunity for the EU to create a new transparent, simple, and stable basket of resources strengthening the added value of the EU funding. To reach a solution, the EU will need to balance the political ambition and realism.



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