System of own resources of the EU

2011/0183(CNS) - 29/06/2011 - Initial legislative proposal

PURPOSE: reform the system of own resources of the European Union.

PROPOSED ACT: Council Decision.

BACKGROUND: the public consultation launched to prepare the EU Budget Review generated many contributions related to the functioning of the Union's financing system. These indicated a high degree of satisfaction with traditional own resources and with the existence of a residual resource to ensure budgetary stability and balanced budgets. However, a large number of respondents identified a need to eliminate all correction mechanisms and to end the own resource based on Value Added Tax (VAT). The consultation also revealed very different views on the introduction of new own resources.

The own resources system of the Union must ensure adequate resources for the orderly development of the policies of the Union, subject to the need for strict budgetary discipline. The development of the own resources system can and should also contribute to wider budgetary consolidation efforts undertaken in Member States and participate, to the greatest extent possible, in the development of the policies of the Union.

The Commission highlighted that the difficulties encountered in achieving agreements on budgetary matters in the EU in the 21st century partly result from an inadequate organisation of EU public finances. For many years, EU financing has primarily been treated as an accounting mechanism with two main objectives: ensuring sufficient financing of EU expenditures and incorporating the increasing number of correcting mechanisms. This approach has reached its limits. It is now time to envisage a different approach to EU financing.

IMPACT ASSESSMENT: no impact assessment was carried out.

LEGAL BASIS: the third paragraph of Article 311 of the Treaty on the Functioning of the European Union, in conjunction with the Treaty establishing the European Atomic Energy Community, and in particular Article 106a. Article 311(3) TFEU provides that the Council may establish new categories of own resources or abolish an existing category in the context of an own resources Decision. This opens the door to reducing the number of existing own resources and to creating new ones.

CONTENT: the Commission proposals make full use of these new possibilities by proposing the **elimination of the VAT-based own resource and the creation of new own resources**, and by proposing a **new organisation of implementing measures for the own resources system**.

The opportunity offered by this new framework has been taken to make the system sufficiently flexible within the framework and limits set out by the own resource Decision by placing all the practical arrangements for the Union's resources which should be governed by a more streamlined procedure in an <u>implementing regulation</u> rather than in the Decision itself.

The proposed own resources Decision includes three main elements: (i) the simplification of Member States' contributions; (ii) the introduction of new own resources and; (iii) the reform of correction mechanisms.

(1) Simplifying Member States' contributions: the Commission proposes that the VAT-based own resource be eliminated on 31 December 2013. Its removal will considerably simplify the national

contributions and reduce the administrative burden for both the Commission and Member States. Should the Decision enter into force at a later date, this provision will be enacted on retroactive basis, following a common practice in past revisions of the own resources decisions. Following the ending of the VAT-based own resource, further activity will be required. Final extinction of all VAT-based own resource related activities will take several years.

- (2) Introducing new own resources: the Commission proposes:
 - the introduction of a financial transaction tax own resource from 1 January 2018 at the latest: Financial transaction taxation (FTT) could constitute a new revenue stream, which
 - could reduce the existing Member State contributions, give national governments extra room for manoeuvre and contribute to the general budgetary consolidation effort. A financial transaction tax that could be collected at EU level would reduce the *juste retour* problems observed in the current system. The EU initiative will constitute a first step towards the application of a FTT at global level.
 - the creation of a new VAT resource from 1 January 2018 at the latest: the development of a new VAT resource would bring a new impetus to the development of the Internal market by reinforcing harmonization of national VAT systems. The new initiative will include the elimination of a number of exemptions or exceptions which are detrimental to the proper functioning of the Internal market and the measures to reduce VAT fraud in the EU.

These own resources could be introduced at EU level **during the 2014-2020 period** following a suitable period of technical preparation. Combining these own resources would bring additional advantages compared to introducing only one new own resource. The timing of introduction of these new own resources reflects the time needed for completing the legal framework, and adopting and implementing the relevant legislation.

The new own resources would finance around 40% of EU expenditures. Traditional own resources would account for close to 20% of the total. The GNI-based own resource would remain the single most important resource financing about 40% of the budget.

- (3) **Reforming the correction mechanisms**: the 1984 Fontainebleau European Council set out important guiding principles to ensure fairness in the EU budget. It acknowledged, nevertheless, that "any member State sustaining a budgetary burden which is excessive in relation to its relative prosperity may benefit from a correction at the appropriate time".
 - **Firstly**, the objective situation of a number of Member States has evolved strongly over time. However, it would appear that a limited number of Member States, including the United Kingdom, will still be faced with a budgetary burden that might be considered excessive when compared to their relative prosperity. This Decision therefore proposes the **inclusion of temporary corrections in favour of Germany the Netherlands, Sweden and the United Kingdom from 2014**. These corrections must reflect, inter alia, the important developments in the financing of the EU set out in this Decision, the evolution of expenditure proposed in the financial framework including the completion of the phasing-in of expenditure in those Member States which acceded to the EU in 2004 and 2007, and the high level of prosperity achieved by the above-mentioned Member States.
 - Secondly, the new system of correction must be transparent and simple, genuinely open to public and parliamentary scrutiny, predictable and efficient. It must also ensure an equal treatment of the Member States. The Commission therefore proposes a new system of lump sums to replace all pre-existing correction mechanisms as of 1 January 2014. In the same spirit of transparency and fairness, the Commission proposes the elimination of the hidden correction consisting in the retention, by way of collection costs, of 25% of the amounts collected by the Member States for traditional own resources. In view of the proposal to incorporate the corrections into lump sums, the retention should be restricted to 10%, in line with the system in place until 2000.

BUDGETARY IMPLICATIONS: this proposal has no implications for the EU budget.