System of own resources of the European Union

2018/0135(CNS) - 02/05/2018

PURPOSE: to lay down rules on the allocation of Own Resources to the Union in order to ensure the financing of the Union's annual budget.

PROPOSED ACT: Council Decision.

ROLE OF THE EUROPEAN PARLIAMENT: the Council adopts the act after consulting the European Parliament but without being obliged to follow its opinion.

BACKGROUND: 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 current Own Resources system rests on **three main categories of revenue**: (i) so-called Traditional Own Resources (mainly customs duties); (ii) a Value Added Tax-based Own Resource; and (iii) the Gross National Income-based Own Resource.

The Own Resource based on national income has over time become the main component of the system, accounting for over 70% of EU revenue.

Today, the range of **new policy priorities** with budgetary implications and the UK's withdrawal from the EU require particular attention to the architecture of the own resources system. A proposal for reform of the financing system is needed to meet the EU's economic and environmental challenges.

The Commission adopted a 'Reflection Paper on the Future of EU Finances' in June 2017. The paper proposes a range of options where **Own Resources would be linked more visibly to EU policies**, in particular the Single Market and sustainable growth. The paper stated that when introducing new Own Resources, attention should be paid to (i) their transparency, simplicity and stability; (ii) their consistency with EU policy objectives; (iii) their impact on competitiveness and sustainable growth; and (iv) their equitable breakdown among Member States.

In March 2018, the European Parliament adopted a <u>Resolution</u> on the reform of the EU's system of Own Resources. The Resolution highlights the shortcomings in the present way of financing the EU budget and makes a plea for **far-reaching reforms**, calling in particular for the introduction of different new categories of Own Resources and the discontinuation of all corrections.

This proposal is presented at the same time as the <u>proposal</u> for the next multiannual financial framework regulation for the period 2021-2027.

CONTENT: the proposed own resources decision determines: (i) the categories of Own Resources to be entered in the budget of the Union; (ii) the maximum call rates to be applied; (iii) the Own Resources ceilings; (iv) correction mechanisms (if deemed necessary) and how to finance them; and (v) certain budgetary principles.

The main elements of the new proposal are as follows:

(1) Modernisation the current own resources: the Commission proposes:

- to keep customs duties unchanged as traditional own resources for the EU, but by reducing the percentage retained by Member States as 'collection costs' to 10%;
- to maintain the own resource based on **gross national income** and maintaining its balancing function:
- simplify the own resource based on value added tax on the basis of the following principles: (i) focusing on the standard rate supplies; (ii) streamlining the procedure to calculate the VAT base; and (iii) application of a uniform call rate on the standard rated base.
- (2) A basket of new own resources: the Commission proposes to introduce three new categories of Own Resources including:
 - a share of the **common consolidated corporate tax base**: a 3 % call rate would be applied to the new common consolidated corporate tax base (to be phased in once the necessary legislation has been adopted), which could yield on average some EUR 12 billion per year;
 - a 20% share of the revenue generated by the emissions trading scheme. Depending on the forecast, average revenues could vary from EUR 1.2 to 3.0 billion per year depending on the market price for EU ETS allowances;
 - a national contribution calculated on the amount of non-recycled plastic packaging waste in each Member State (i.e. EUR 0.80 per kilo), which could yield some EUR 7 billion per year.
- (3) Revenues from EU policies: the Commission proposes that, it should be a matter of principle that revenue which is directly generated by implementing of EU policy and the enforcing common Union level rules should accrue by default to the EU budget.

The Commission mentions the European Travel and Information Authorisation System (ETIAS) as an example of revenue that could accrue to the EU budget on the basis of legal acts other than the Own Resources Decision or tax harmonisation.

(4) **Phasing out corrections**: mostly for historical reasons, a number of Member States benefited from a complex system of corrections and rebates, the most important of these mechanisms was the United Kingdom correction. Over time, the amounts of corrections and rebates have increased exceeding.

The Commission proposes to simplify and reform the current complex rebate system. However, in order to avoid a significant and sudden increase in the contributions of Member States having benefitted from corrections, lump sum reductions to their Gross National Income-based contribution are proposed, which will be **gradually phased out until 2025**.

(5) Increasing the own resources ceiling: at present, this ceiling is set at "1.20% of the sum of all the Member States' Gross National Income ". With **Brexit**, the value of the amount under this ceiling automatically will decrease by approximately 16% (i.e. the share of the United Kingdom's Gross National Income). The integration of the European Development Fund into the EU budget will need to be accompanied by an increase in the ceilings.

The Commission proposes to increase the own resources ceilings for payments and commitments to **1.29** % and **1.35** % of the EU-27 gross national income, respectively.

NB: the proposal is accompanied by a proposal for a <u>Regulation</u> laying down measures for implementing the system of the European Union's own resources and a proposal for a <u>Regulation</u> on the operational arrangements for making own resources available to the EU budget and on the Commission's accounts.