Collection of own resources accruing from value added tax

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Opinion No 5/2018 of the Court of Auditors.

The financing system for the EU budget has not been significantly reformed since 1988. The Commission has proposed changing this financing system for the future budget under the 2021-2027 Multi-annual Financial Framework (MFF) by:

- reforming existing own resources, which will make up 87 % of EU revenue: keeping TOR but with lower rate of collection costs, maintaining the GNI-based own resource and simplifying the own resource based on VAT;

- introducing a ‘basket’ of three new own resources, which together will make up 12 % of EU revenue: one based on the Common Consolidated Corporate Tax Base (CCCTB), one based on the European Union (EU) Emissions Trading System (ETS) and one based on plastic packaging waste that is not recycled;

- phasing out the corrections that exist in the current system;

- increasing the ceilings for own resources to overcome the impact of Brexit and the integration of European Development Fund (EDF) into the EU budget, as well as to cover financial liabilities linked to loans or financial facilities guaranteed from the EU budget.

Assessment

The proposed new EU financing system took on board a number of the key principles of the reform, but not all and the financing system remains complex. It is of the opinion that a single regulation with a comprehensive set of own resources provisions would simplify the system and make it more transparent.

The Court of Auditors considers that the proposed simplified VAT-based own resource includes assumptions on standard-rated transactions that do not adhere to some of the calculation steps described by the Commission.

The proposed simplification is based on three steps:

- Step 1: focusing on supplies which are subject to the VAT standard rate;

- Step 2: streamlining the procedure for calculating VAT bases by using simplified assumptions based on the standard-rated receipts;

- Step 3: applying a uniform call rate on the standard-rated bases to obtain the own resource.

The examination of the proposed methodology reveals that the assumptions used by the Commission to calculate the simplified VAT contributions do not adhere to the above steps (1) and (2).

The Court criticised the VAT-based own resource for the complexity of its calculation and its lack of direct link to the tax base. The Commission's new proposal for the VAT-based own resource simplifies the calculation, but still does not provide any direct link to the tax base. Such a link could, however, be obtained by applying a call rate directly to the VAT receipts.

Recommendations

The Commission should reconsider its proposal for the simplified VAT-based own resource. Should it decide to keep this source of revenue, it could:

- either clarify that the simplifications proposed do not lead to the calculation of the VAT contributions based on the standard-rated taxable bases,

- or introduce a new source of revenue based only on VAT receipts.