On the System of Own Resources of the European Union

The European Commission (EC) has presented a new proposal on the System of Own Resources of the European Union. The aim of this proposal is to modernise existing Own Resources by:

- decreasing to 10% the percentage of the customs duties the Member States retain as "collection costs";
- decreasing the share of the Own Resource based on Gross National Income, and keeping it as the balancing resource;
- simplifying the Value Added Tax based Own Resource and increasing its share in the overall Own Resources;
- introducing a basket of new Own Resources, that will cover approximately 12 % of the budget, consisting of: a share of the relaunched Common Consolidated Corporate Tax Base; a share of the auctioning revenue of the European Emissions Trading System; a national contribution calculated on the amount of non-recycled plastic packaging waste;
- establishing the principle that future revenues arising directly from EU policies should flow to the EU budget;
- phasing out corrections;
- increase the Own Resources ceiling.

If agreed on, the provisions of this proposal shall apply from the 1st of January 2021 (except the provisions regarding the CCCTB which will apply from the second year following the date of application of national provisions).

Proponents of this proposal claim that:
- the present level of 20 % collection costs for customs duties can be considered as higher than what would actually be needed as an appropriate incentive for diligent collection of custom duties by national authorities on behalf of the Union;
- recent economic developments are creating a challenge for national authorities when it comes to measuring Gross National Income precisely, therefore new revenue components will allow to keep the GNI based Own Resource as a balancing component and reduce its weight;
- current VAT-based Own Resource requires numerous corrections and compensations as well as the cumbersome computation of a weighted average rate thus it can be reformed by focussing on the standard rated supplies; streamlining the procedure to calculate the Value Added Tax base and; applying a uniform call rate on the standard rated base;
- the 'basket' of new Own Resources which are linked to key EU policies, specifically climate change, environmental policy, plastics strategy, the circular economy and the Single Market, will provide fresh money to the EU budget.

There are multiple reasons to suggest though that the proposed reform of the System of Own Resources of the EU may not only prevent the achievement of its goals, but may also be harmful to the companies and taxpayers of the EU and to the Single Market as general.

The reform proposal ignores the core problem of the EU Finances - EU budget cannot satisfy the ever growing appetites for financing a broad range of different programmes and projects and proposed reforms do not provide a systematic change but an opportunity to extract extra revenue from taxpayers

The EU budget has been a result of political negotiations and trade-offs between member states rather than a well-grounded financing scheme of generally agreed pan-European goals. The politicized use of EU funds distorts the motivation of market participants, harms free competition, impairs an effective allocation of limited resources, incentivizes corruption, contributes to higher inflation in recipient countries and brings benefits primarily to particular interest groups rather than to all EU citizens. Failing to cooperate on mutual goals and seeking to maximize their own benefits, member states end up in a situation where funds are used inefficiently.

Policies that are funded from the EU budget are too demanding, too ambitious and therefore unrealistic. Policies are incoherent and contradictory; some of them erode European competitiveness, so the aims of every policy and their consistency need profound re-examination.

As stated in the proposal itself, the basket of new Own Resources will provide fresh funds to the EU budget and can help manage the impact arising from the withdrawal of United Kingdom - a significant net contributor to the EU budget. Therefore, the reform of new Own Resources in addition to the reform of existing ones, can be seen as an EU 'way out' of the financial hardship, that was created by the withdrawal of the UK.
Frankly, the main aim of this proposal has nothing to do with the reform of existing Own Resources. Although the withdrawal of net-contributor should mean a decrease in the overall EU budget, the aim of current proposal is to ensure, that the EU Budget revenues will increase over time.

This can be clearly seen from the estimated evolution of the structure of EU financing provided in the proposal. Although share of existing Own Resources will diminish in 2021-2027 compared to 2018, the nominal amount will grow from 120 bln EUR to 128. Total budget revenue will grow from 145 in 2018 to 178 bln EUR in 2021-2027 - more than 22 %.[1]

The fact that the reform of the Own Resources is based on artificial grounds is illustrated by the proposal to decrease the percentage of the customs duties the Member States retain as "collection costs" by half - from 20 % to 10 %. The authors of the proposal claim, that the present level of 20 % collection costs for customs duties can be considered as higher than what would actually be needed. They present facts that only 2.1 % of imported items were subject to controls during customs clearance in 2016 but this rate varies widely among Member States. Besides, the application of simplified procedures and automation contribute to improving the cost-effectiveness of controls. They also claim that the amounts retained by Member States as collection costs do not always directly support customs activities and recent developments show that fewer human resources are available in national administrations for performing controls. Although these claims may be correct they do not substantiate the proposed cut of the collection costs. Put it simply,

[1] https://researchbriefings.parliament.uk/ResearchBriefing/Summary/CBP-7886

various Member States may have different level of collection costs, the actual level of collection costs may be lower than 20 %, but there is no data shown to support the proposal to bring the level of collection costs to 10 %. For example, national administrations may employ fewer human resources for performing controls, but they may use intelligent and expensive IT systems to support customs activities.

The calculation of the New Own Resources will face the same obstacles as does the calculation of existing national contributions

The authors of the proposal state that the need to diminish share of the existing Own Resources comes from the complexity of calculation of existing shares of Own Resources. For example, digitalisation, globalisation and other economic developments are posing challenging for national statistical authorities. Therefore larger and more frequent revisions of the 'Gross National Income' data to adequately reflect the national income of the different economies are to be expected. But GNI-based Own Resource will continue to account for a major part - 58 % of total revenue of estimated average EU budget in 2021-2027. Thus, the need to calculate GNI will still be present.

The harmonization of corporate tax base which is needed to introduce the CCCTB-based Own Resource will also incur costs of conforming to the new rules at business and state tax administrator level. Thus more complicated calculations will be performed not on the EU but at the state or company level.

Same applies to the naive belief that current proposal will allow to phase out corrections and create a simple and transparent system. As the EU budget is a result of political negotiations and trade-offs between member states rather than a well-grounded financing scheme of generally agreed pan-European goals, corrections may still be added to the proposed system in the future.

Also, Corporate tax base is far less stable than the VAT and GNI. The EU budget should not rely on unpredictable and unstable basis.

The statement that present proposal does not create any new tax for EU citizens is misleading and deceptive

Although, the EU does not have the direct power to levy taxes, certain provision of the proposal may lead to the increase of tax burden of the EU citizens and companies. Imposing of the CCCTB would create considerable compliance costs, prevent companies from exploiting the advantages of different tariffs in different Member States, disproportionately and artificially expand the CIT base in some Member States, thus increasing the tax burden. Also, 3 % call rate for the EU may lead to a direct increase of CIT as Member Stated may try to keep their net CIT revenue at the same level.

The same applies to the proposed 20 % contribution from the EU Emissions Trading System to the Union Budget and EUR 0.8/kg call rate on the non-recycled plastic packaging waste reported each year to Eurostat. In order to keep their net budgetary revenues at the same level, Member States may transpose the contribution as tax to the producers of non-recycled packaging waste. Thus increasing the risk of tax fraud, misreporting and increase in actual plastic pollution.

Also, CO_2 emissions and states' recycling capacity are closely related to the "development" of the economy. New EU member states are less efficient, thus their contributions will not be spread "equally" or fairly.

The EU budget revenue reform is inseparable from the EU budget spending reform

The balancing power of the GNI based own resource ensures that not only the general budget of the EU is always balanced at the stage of adoption - it also determines the constant growth of the expenditure side of the general budget of the EU.

Policies that are funded from the EU budget are too demanding, too ambitious and therefore unrealistic. Policies are incoherent and contradictory; some of them erode European competitiveness, so the aims of every policy and their consistency need profound re-examination.

Given that the single market and economic freedoms bring real and tangible benefits to all EU citizens and to all member states, and that this was the major aspiration for founding the EU, the EU budget should be strictly in line with the goal of implementing and strengthening the common market. And vice versa, no funding is justified if it hampers the free movement of capital, technology, goods, services and people. The current situation of the budget is a result of a gradual departure away from the original values of the Common Market behind the EU's foundation.

Cohesion can only be achieved by the removal of regulatory barriers to flexibility and free movement of factors of production within the common market, as well as the improvement of the physical conditions to free movement; thus, EU funds should only focus on infrastructure that links member states together, i.e. pan-European transportation links, and only if they truly create increased functioning of the single market.

Competitiveness policy should create market conditions conducive to free competition. Any public "competition" projects or publicly subsidized private (profit-seeking) projects are not acceptable. Competitiveness Policy includes some programs, such as the implementation of pan-European transport projects that improve market conditions; therefore these programs should be included in the future finances.

There is hardly any social and economic justification for the Common Agricultural Policy and rural development programs. The investment into creating a "good" CAP (which makes up 37% of 2014-2020 budget) is a waste of time and other limited resources because it is in all aspects unjustifiable: the member states have different problems, however the common policy applies the same mechanisms of subsidies to all states; the system itself is rigid and cannot respond to changing global conditions; it does not bring mutual benefits, yet leads to mutual problems and costs. Therefore all efforts should focus on the creation of a sound exit mechanism from this destructive use of public resources.

Conclusions

- There are multiple reasons to suggest though that the proposed reform of the System of Own Resources of the EU may not only prevent the achievement of its intrinsic goals, but may also be harmful to the companies and taxpayers of the EU and to the Single Market as general.
- Proposed reforms do not provide a systematic change but an opportunity to maintain the increasing level of EU budget revenues, although a significant net contributor is withdrawing from the Union.
- The calculation of the New Own Resources will face the same obstacles as does the calculation of existing national contributions.
- The introduction of new Own Resources may lead to an increase of tax burden for EU taxpayers.

Recommendations:

We agree, that the present EU budget revenue system is too complex and the use of multiple revenue streams is inefficient and unjustified. The VAT and GNI-based revenue streams overlap, causing double taxation of the value added component.

The EU budget revenue sources must be reformed and built on the following maxims: national contributions to ensure democracy; proportionality to encourage fairness and neutrality; simplicity and transparency to create accountability; and a low administrative burden to increase the effectiveness of payments.

The employment of these maxims dictates the following changes on the revenue side:

1) to eliminate the VAT-based revenue stream;
2) to rely on member states' contributions based on equal proportions of GNI;
3) to diminish the financial role of the traditional "own" resources, leaving them as a temporary regulatory tool and to move towards deeper liberalisation of trade;
4) to abstain from creating new sources of revenue;
5) to eliminate "corrections of payments" or rebates.

We believe, that it is time to reform the notion that the EU budget is driven by the expenditure side rather than determined by the availability of revenue. Adjusting the revenue side of the budget is mostly automatically depending on the expenditure level, creates constant pressure to raise taxes for the EU taxpayers.

EU budget spending must go in line with the following maxims: EU funds for EU goals; goals, not interests of particular groups, ensure efficiency; financing may bring desired results, yet redistribution is a result in itself. The application of these principles implies an essential reform (and perhaps the abolition of some) of the current policies.

On the EU budget expenditure side there is a crucial need for the following actions:

1) to create a sound exit mechanism from CAP and rural development policies and annually reduce contributions to the EU budget by the amount previously allocated to these policies;

2) to redesign the Cohesion Policy, focusing it on removal of barriers to flexibility of the markets and free movement of factors of production inside the EU market and improvement of infrastructure linking member states;
3) to abstain from financing highly uncertain goals, such as climate change control and mitigation, Galileo, etc.;
4) to rely on the private financing of innovation, research and development and not to increase present EU budget funding for these purposes;
5) to supplement the Union's external actions with the promotion of free market reforms in non-EU countries;
6) to avoid the financing of profit-seeking private companies regardless of their region, economic activity or project;
7) to avoid unrealistic and potentially harmful large scale investment programs such as the Juncker's Investment Plan.

To conclude, only a fundamental budget reform, not a reform of the budget's structure, may change Europe. Accordingly, the EU budget must be reduced if an agreement on common needs or attainable goals is not reached.