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## **Funding the EU Budget – Need and Options for Reform**

**Margit Schratzenstaller**

**Warsaw, May, 24<sup>th</sup> 2013**

- Introduction
- The EU's expenditures: challenges and shortcomings
- The EU system of own resources
  - The current system and its deficits
  - Options for fundamental reform
- Conclusions

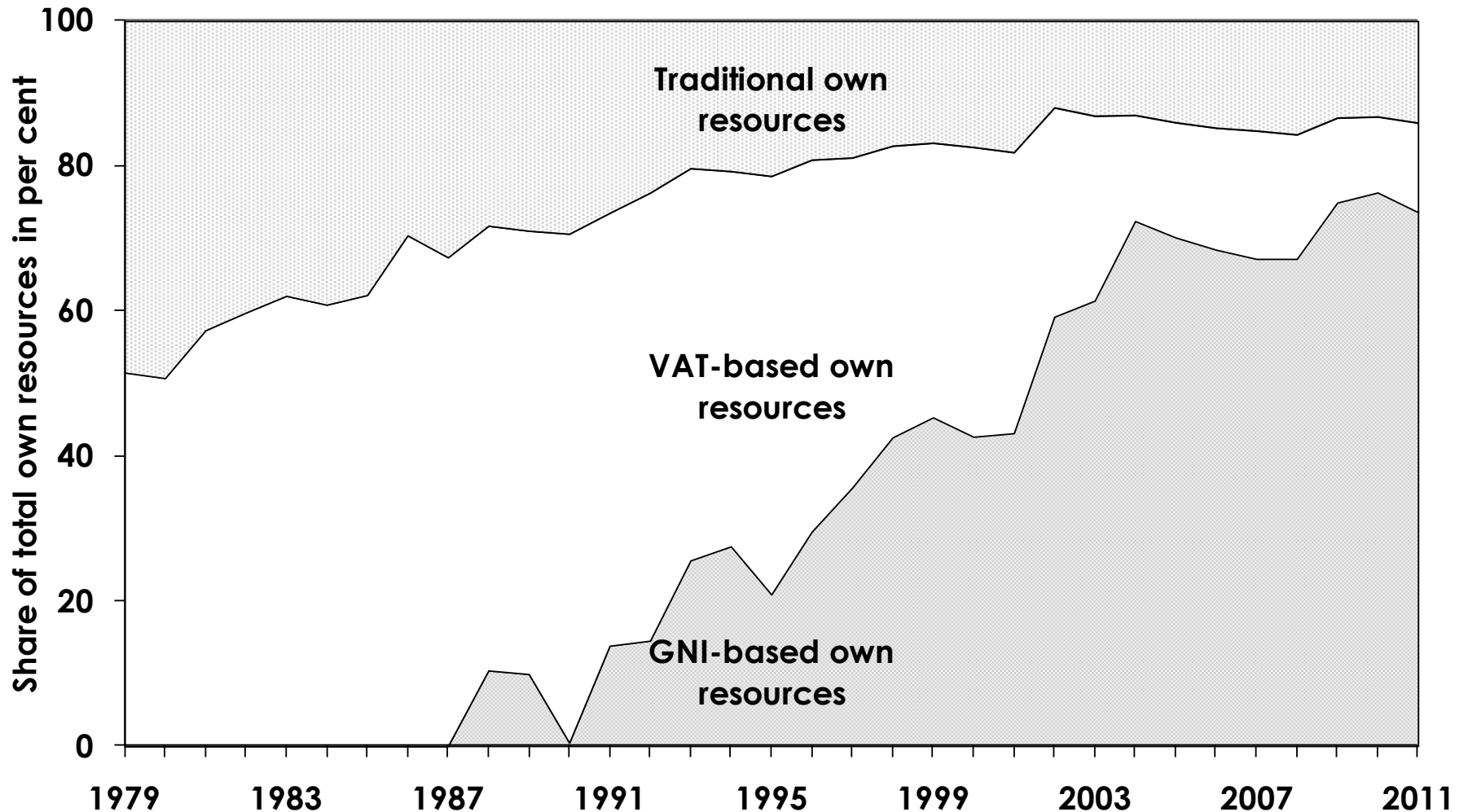
	MFF 2007-2013		Proposal European Commission		Proposal Van Rompuy November		Agreement Summit February 2013	
	In billion €	In %	In billion €	In %	In billion €	In %	In billion €	In %
Competitiveness and Infrastructure	91.5	9.2	164.3	15.7	139.5	14.4	125.6	13.1
Cohesion Policy	354.8	35.7	339.0	32.4	320.1	32.9	325.1	33.9
Sustainable Growth: Natural Resources (CAP)	420.7	42.3	390.0	37.3	372.2	38.3	373.2	38.9
Security and Citizenship	12.4	1.2	18.8	1.8	16.7	1.7	15.7	1.6
Global Europe	56.8	5.7	70.0	6.7	60.7	6.2	58.7	6.1
Administration	56.5	5.7	63.2	6.0	62.6	6.4	61.6	6.4
Compensation	0.9	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Total in € billion/share in %	993.6	100.0	1045.3	100.0	971.9	100.0	960.0	100.0
Total in % of GNI	1.12	-	1.08	-	1.01	-	1.00	-

- **Stronger reduction of expenditure share of CAP and shift of CAP towards second pillar based on ecological and employment goals**
- **„Greening“ of direct payments within CAP**
- **Stronger focus of cohesion funds on „poorer“ member states and coupling with ecological and employment goals**
- **Linking cohesion funds with efforts to improve competitiveness and to reduce macroeconomic imbalances**
- **Stronger increase of expenditure share for research and innovation**

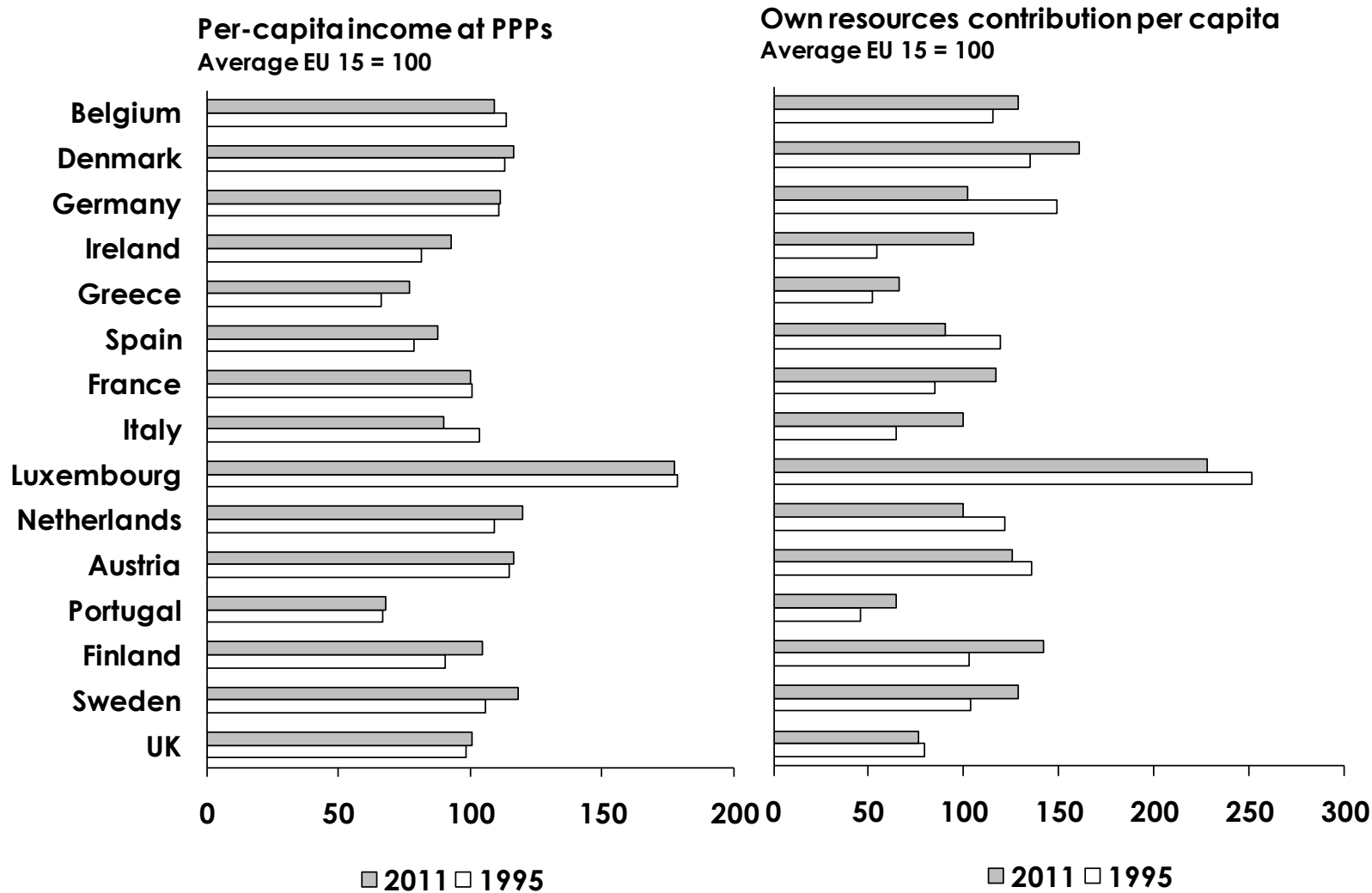
- **Very limited and decreasing revenue autonomy**
  - **EU is not allowed to incur debt**
  - **No own EU taxes**
  - **Increasing dependence on de facto national contributions**
  
- **EU revenues stem from**
  - **Traditional own resources (agricultural tariffs, sugar customs duties, general tariffs)**
  - **GNI-based own resources**
  - **VAT-based own resources**

- **Traditional own resources**
  - Introduced in 1968, only revenue source until 1980
  - Collected by MS on behalf of EU and transferred directly to EU (minus discount of 25%)
- **VAT-based own resources**
  - Introduced in 1979, uniform call rate of harmonised VAT base (limited to 50% of national GNI – capping)
  - Call rate originally 1%, currently 0,3%
- **GNI-based own resources**
  - Introduced in 1988, residual financing source
  - Uniform call rate, updated yearly

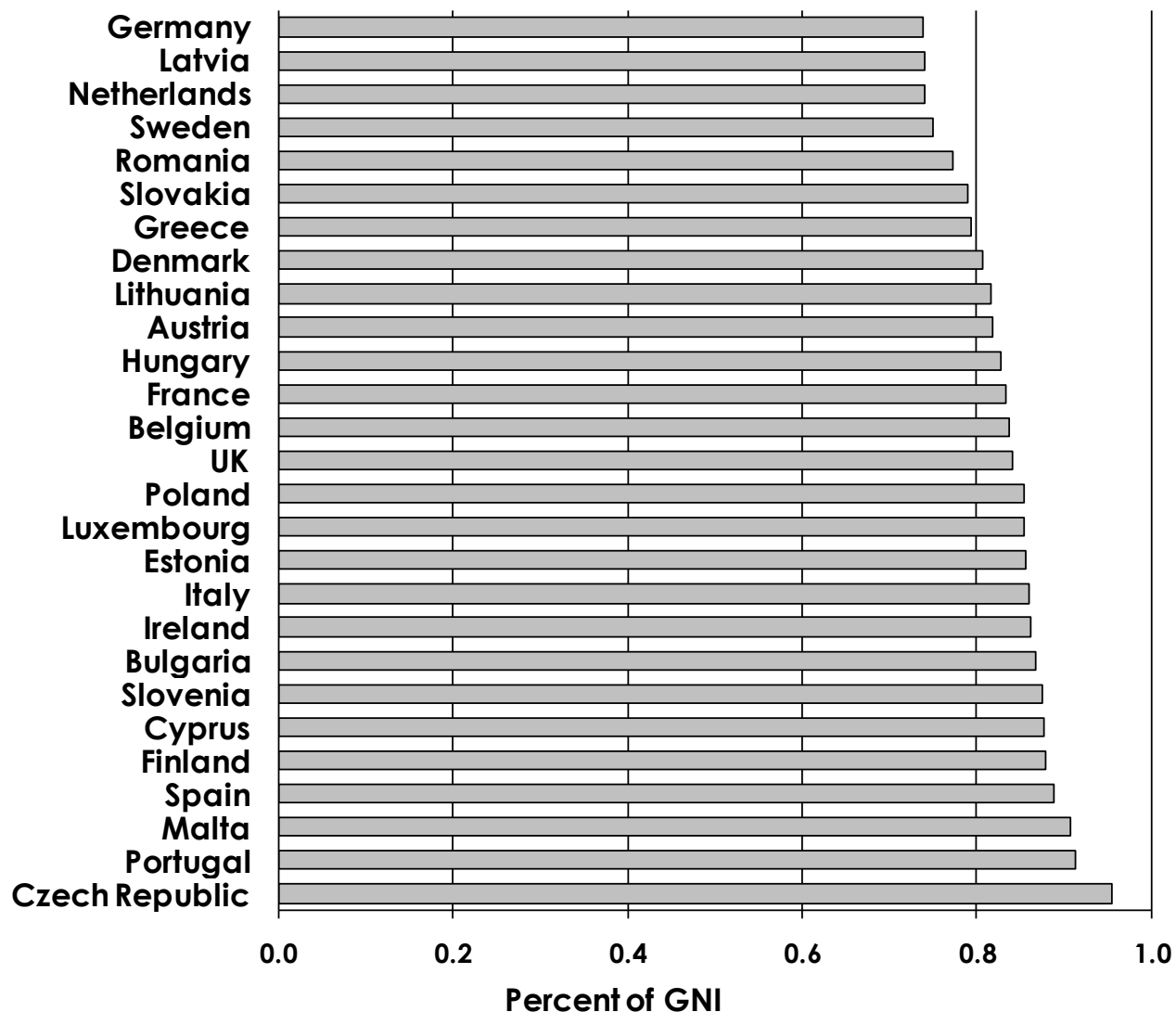
# Composition of own resources



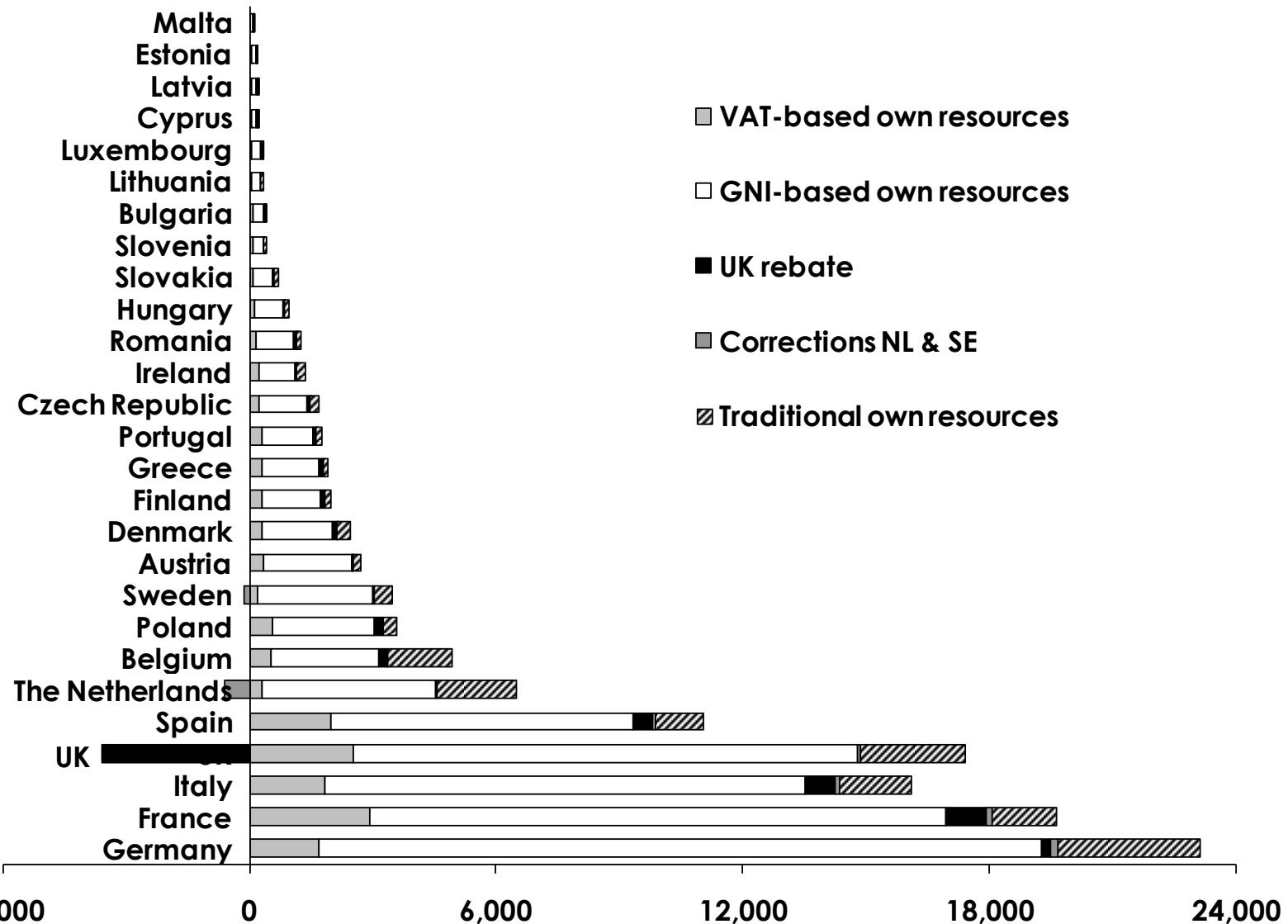
# GNI and national contributions per capita



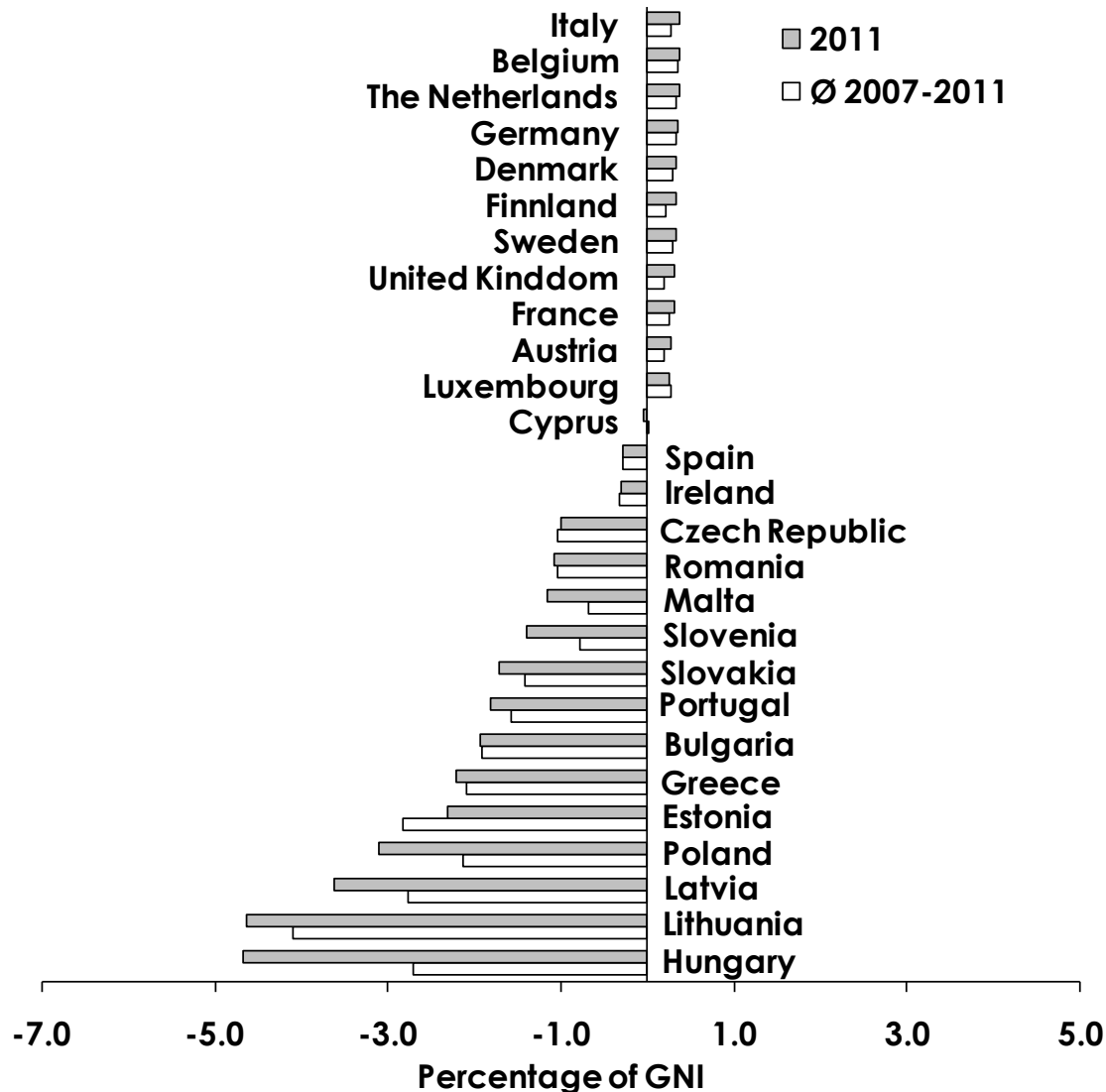




# Own resources payments to EU, 2011



# Net contributions by member states



## Own resources payments % GNI

	1995	2000	2005	2006	2007	2008	2009	2010	2011
	Percentage of GNI								
Belgium	1.21	1.32	1.34	1.29	1.29	1.32	1.38	1.33	1.31
Bulgaria				0.00	1.02	1.08	1.14	1.00	1.05
Czech Republic	—	—	1.06	0.92	0.95	0.95	1.04	1.08	1.17
Denmark	0.94	0.99	0.95	0.98	0.96	0.96	1.09	0.99	0.99
Germany	1.11	1.07	0.90	0.87	0.88	0.89	0.85	0.94	0.89
Estonia	—	—	1.00	1.03	1.18	1.04	1.18	1.05	1.05
Ireland	1.44	1.20	1.05	0.95	0.96	1.01	1.15	1.08	1.07
Greece	1.06	1.05	1.01	0.90	1.39	1.03	1.07	1.04	0.91
Spain	0.82	1.03	1.06	1.01	0.96	0.94	1.09	0.97	1.05
France	0.99	0.99	0.98	0.91	0.88	0.92	1.05	0.99	0.96
Italy	0.76	0.93	0.96	0.90	0.90	0.97	1.02	0.99	1.02
Cyprus	—	—	1.15	1.10	1.14	1.06	1.24	1.09	1.08
Latvia	—	—	1.03	1.00	0.98	0.95	1.08	0.95	0.90
Lithuania	—	—	1.02	0.99	0.98	1.05	1.18	0.99	1.02
Luxembourg	1.14	0.97	0.93	0.84	0.98	0.87	1.14	0.91	0.96
Hungary	—	—	1.01	0.92	0.94	0.96	1.04	1.03	0.99
Malta	—	—	1.15	1.03	1.09	1.07	1.20	1.09	1.14
Netherlands	1.28	1.29	1.17	1.11	1.08	1.15	0.60	0.96	0.97
Austria	0.98	1.01	0.88	0.86	0.82	0.78	0.85	0.92	0.90
Poland	—	—	1.00	0.92	0.94	0.98	1.05	1.07	1.01
Portugal	1.00	1.05	1.05	0.88	0.89	0.88	1.01	1.11	1.05
Romania				0.00	0.91	0.90	1.15	0.93	0.91
Slovenia	—	—	1.01	0.91	1.06	1.13	1.24	1.11	1.14
Slovakia	—	—	0.97	0.93	0.98	0.94	1.15	1.00	1.02
Finland	0.92	0.95	0.94	0.93	0.91	0.92	1.03	0.93	1.01
Sweden	0.89	1.01	0.92	0.84	0.84	0.93	0.62	0.91	0.84
United Kingdom	1.07	0.89	0.67	0.63	0.64	0.55	0.64	0.86	0.79
EU25 /EU27	1.02	1.01	0.93	0.87	0.89	0.89	0.93	0.97	0.95
Own resources ceiling	1.21	1.24	1.24	1.24	1.24	1.24	1.24	1.23	1.23

- **Controversiality of size and structure of EU budget**
- **Neglect of „European value added“ and dominance of national interests**
- **System of own resources does not contribute to EU policies**
- **Increasing complexity, decreasing political legitimacy**
- **Equity concerns**

- **Elimination of VAT-based own resource**
- **Introduction of EU taxes**
- **Reinforcement of own EU tax revenues through GNI-based own resources**
- **Elimination of UK rebate and related correction mechanisms**

- **Degree of regional attribution**
- **Cross-border negative externalities**
- **Mobility of tax base**
- **Short-term volatility of revenues**
- **Long-term yield (revenue elasticity)**
- **Visibility**
- **Equity of gross burden at national level**

# Candidates for new own resources

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European Commission (1998)	European Commission (2004)	European Commission (2010)
CO <sub>2</sub> or energy tax	EU energy tax	taxes on the financial sector (financial transaction tax and financial activity tax)
modified value added tax	EU value added tax	revenues from auctioning under the greenhouse gas Emissions Trading System
excises on tobacco, alcohol and mineral oil	EU corporate income tax	charge related to air transport
EU corporate income tax		EU VAT
tax on transport and telecommunication services		EU energy tax
income tax; interest income tax		EU corporate income tax
tax on ECB gains from seignorage		



Tax base (tax)	Key features	Potential revenues per year	In % of EU expenditures per year <sup>1)</sup>
<b>Financial transactions</b> (Financial Transaction Tax – FTT)	0.1% tax rate on transactions of bonds and shares, 0.01% tax rate on transactions of derivatives	€ 20 billion (by 2020)	15
	0.1% tax rate on transactions of bonds, shares and foreign currency, 0.01% tax rate on transactions of derivatives	€ 50 billion (by 2020)	36
<b>Sum of profit and remuneration of financial institutions</b> (Financial Activities Tax – FAT)	5% tax rate on sum of profit and remuneration of financial institutions according to the addition-method FAT applied at source no fully harmonized tax centrally collected at EU level, but revenue-sharing between member states and EU	€ 24.6 billion (2009)	18
<b>Charge related to air transport</b> (Departure Tax or Flight Duty Tax)	tax on passengers flying from an EU airport, differentiated according to distance and class of travel (Departure Tax)	€ 20 billion (by 2020)	15
	tax on flights (Flight Duty Tax) decentralized or centralized collection possible		
<b>Consumption</b> (EU Value Added Tax – VAT)	1% tax rate on goods and services subject to standard tax rate	€ 20.9 billion to € 50.4 billion (2009)	15
	decentralized collection and transfer to EU		
<b>Energy consumption</b> <b>CO2 emissions</b> (EU Energy Levy, EU CO2 Levy)	Single EU tax rate on quantities of energy products released for consumption based on their energy content	No estimates available	-
	Minimum rate of CO2-related taxation defined in revised ETD		
	Decentralized or centralized collection possible		
<b>Profits of incorporated firms</b> (EU Corporate Income Tax – CIT)	Less than 2% tax rate on national corporate income tax base	€ 15 billion	11
	decentralized collection and transfer to EU		

S: European Commission (2010, 2011A, 2011B); own compilation. – <sup>1)</sup> Expenditures per year calculated as average of total expenditures for the period 2014 to 2020.

	Regional attribution	negative cross-border externalities	mobility of tax base	short-term volatility	long-term yield (revenue elasticity)	visibility	equity of gross burden at national level
<b>Financial Transaction Tax</b>	+	+	+	-	+	-	-
<b>Financial Activities Tax</b>	+	+	+	-	+	-	-
<b>Departure/Flight Duty Tax</b>	-	+	+	+	+	+	-
<b>Value Added Tax</b>	-	-	-	-	+	+	?
<b>Energy Levy/CO2 Levy</b>	-	+	-	+	+	+	?
<b>Corporate Income Tax</b>	+	-	+	-	+	-	-

Source: own. - ... + speaks rather in favour of being used as an EU tax. ... - speaks rather against being used as an EU tax.