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## **REPORT**

on the proposal for a Council regulation on the methods and procedure for making available the own resource based on the value added tax (COM(2011)0737 – C7-0504/2011 – 2011/0333(CNS))

Committee on Budgets

Rapporteur: Jean-Luc Dehaene

### ***Symbols for procedures***

- \* Consultation procedure
- \*\*\* Consent procedure
- \*\*\*I Ordinary legislative procedure (first reading)
- \*\*\*II Ordinary legislative procedure (second reading)
- \*\*\*III Ordinary legislative procedure (third reading)

(The type of procedure depends on the legal basis proposed by the draft act.)

### ***Amendments to a draft act***

In amendments by Parliament, amendments to draft acts are highlighted in ***bold italics***. Highlighting in *normal italics* is an indication for the relevant departments showing parts of the draft act which may require correction when the final text is prepared – for instance, obvious errors or omissions in a language version. Suggested corrections of this kind are subject to the agreement of the departments concerned.

The heading for any amendment to an existing act that the draft act seeks to amend includes a third line identifying the existing act and a fourth line identifying the provision in that act that Parliament wishes to amend. Passages in an existing act that Parliament wishes to amend, but that the draft act has left unchanged, are highlighted in **bold**. Any deletions that Parliament wishes to make in such passages are indicated thus: [...].

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## DRAFT EUROPEAN PARLIAMENT LEGISLATIVE RESOLUTION

**on the proposal for a Council regulation on the methods and procedure for making available the own resource based on the value added tax (COM(2011)0737 – C7-0504/2011 – 2011/0333(CNS))**

**(Special legislative procedure – consultation)**

*The European Parliament,*

- having regard to the Commission proposal to the Council (COM(2011)0737),
  - having regard to Article 322 of the Treaty on the Functioning of the European Union and Article 106a of the Euratom Treaty, pursuant to which the Council consulted Parliament (C7-0504/2011),
  - having regard to Article 311 of the Treaty on the Functioning of the European Union,
  - having regard to the opinion of the Court of Auditors (Opinion No 2/2012)<sup>1</sup>,
  - having regard to its resolution of 29 March 2007 on the future of the European Union's own resources<sup>2</sup>,
  - having regard to its resolution of 8 June 2011 entitled 'Investing in the future: a new Multiannual Financial Framework (MFF) for a competitive, sustainable and inclusive Europe'<sup>3</sup>,
  - having regard to its resolution of 13 June 2012 on the Multiannual Financial Framework and own resources<sup>4</sup>,
  - having regard to its resolution of 23 October 2012 in the interests of achieving a positive outcome of the Multiannual Financial Framework 2014-2020 approval procedure<sup>5</sup>,
  - having regard to Rule 55 of its Rules of Procedure,
  - having regard to the report of the Committee on Budgets (A7-0316/2012),
- A. whereas the Treaty clearly stipulates that the Union budget is to be financed wholly from own resources;
- B. whereas the Parliament, in its abovementioned resolution of 13 June 2012, adopted by an overwhelming majority, welcomed the legislative proposals made by the Commission on 29 June 2011 on the reform of the own-resources system, including the proposals on a financial transaction tax (FTT) and a new EU VAT as own resources, which are aimed at

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<sup>1</sup> OJ C 112, 18.4.2012, p. 1.

<sup>2</sup> OJ C 27 E, 31.1.2008, p. 214

<sup>3</sup> Texts adopted, P7\_TA(2011)0266.

<sup>4</sup> Texts adopted, P7\_TA(2012)0245.

<sup>5</sup> Texts adopted, P7\_TA (2012)XXXX.

reducing the share of Member States' GNI-based contributions to the EU budget to 40 % by 2020, thereby contributing to the consolidation efforts of Member States;

- C. whereas the Parliament, in its abovementioned resolution of 23 October 2012, expressed a strong belief that the VAT is one of the conditions for the necessary political agreement on Own resources and that an agreement on the reform of VAT as own resource, as well as its implementing modalities, must be concluded together with the agreement on the MFF;
- D. whereas, for the first time, the Treaty requires Parliament's consent to implementing measures for the system of the Union's own resources, and whereas Parliament has clearly expressed its will to exercise its prerogative in that regard in the negotiations on the reform of the own-resources system;
- E. whereas the Committee of the Regions and the European Economic and Social Committee, in their opinions on the Commission proposals for an own-resources reform, welcome the proposal for a new VAT own resource<sup>1</sup>;
- F. whereas Parliament has several times reiterated its position that a reform of the own-resources system of the Union is needed, in particular in relation to the existing VAT resource, with the aim of reverting to its initial idea of that resource being a genuine own resource and not a pure statistical device<sup>2</sup>;
- G. whereas Parliament welcomes the attempted simplification of the VAT calculation method and the fact that the Commission's proposal improves the transparency of the VAT own resource;
- H. whereas, the Parliament considers among the strongest advantages of the new VAT proposal its transparency, fairness to taxpayers in all Member States, improved simplicity and potential to turn into a genuine own resource directly accruing to the EU budget in the future;
- I. whereas Parliament considers that any genuine own resource should accrue directly to the Union budget;
  - 1. Approves the Commission proposal;
  - 2. Calls on the Council to notify Parliament if it intends to depart from the text approved by Parliament;
  - 3. Asks the Council to consult Parliament again if it intends to substantially amend the text approved by Parliament;

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<sup>1</sup> Opinion of the Committee of the Regions on the new Multiannual financial framework 2014 - 2020, adopted at the 93d Plenary Session of 14-15 December 2011.

Opinion of the European Economic and Social Committee on the system of own resources, adopted at the Plenary session of 29 March 2012.

<sup>2</sup> See Parliament's resolution of 29 March 2007 on the future of the European Union's own resources (OJ C 27 E, 31.1.2008, p. 214).

4. Calls on the Commission to come up with concrete proposal how to further reform the VAT own resource so that it accrues directly to the Union budget already in the 2014 - 2020 period or in a further revision of the own resources system;
5. Calls for a practical follow-up to the Commission's Green Paper on the future of VAT and concrete measures that will ensure a higher degree of harmonisation of the VAT systems in the Member States, since it is only such harmonisation that can provide the basis for making the VAT a genuine own resource, accruing directly to the Union budget in the future;
6. Instructs its President to forward its position to the Council, the Commission and the national parliaments.

## EXPLANATORY STATEMENT

At its inception in 1970, the VAT-based own resource was designed as a potentially genuine own resource, under the assumption that a continuous process of harmonisation of national VAT legislation would eventually render the national VAT assessment bases fully harmonised. However, it has gradually been transformed to a complex and opaque statistical device that actually represents another form of GNI contribution and is transferred from national budgets. The VAT-based own resource represents 11,2% of revenue in the budget 2011.

On 29 June 2011 the Commission presented its proposals for a new Multiannual Financial Framework 2014 - 2020 jointly with a set of proposals on the reform of the Union's own resources system. Those include a proposal for the VII Own Resources Decision (ORD) that call for the abolition of the existing VAT own resource and its replacement by a new EU VAT resource that is depicted in detail in the proposal for a Council Regulation on the methods and procedures for making available the own resource based on the VAT, which is the subject of the present report.

### Contents of the current Commission Proposal

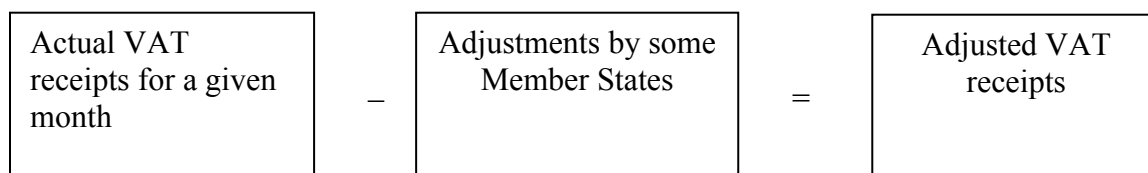
The draft regulation for making the VAT own resource available is necessary to define the method Member States should use to calculate this new resource as well as the procedures for its transfer into the EU budget.

The underlying principle of the Commission's proposal is that the new EU VAT own resource is based on a share of the VAT on supplies of good and services, acquisitions and importations "subject to a standard rate of VAT in every Member State". Therefore, it is based on the actual harmonisation that already exists in those good and services with a standard rate across the EU. In addition, the new system moves the largest share of calculations currently done by Member States to the European Commission.

### 2.1. Method of Calculation of the new VAT OR

The new procedure can be set out in the following steps:

#### ***Step I: Adjusted VAT receipts***



- The method uses as starting point the **actual VAT receipt figures** held by the Member States;



- Several Member States would need to correct figures to exclude, for instance, interest and penalties or make adjustment to take account of the overseas territories or the specific VAT treatment granted.

***Step II: Apply "uniform percentage" to adjusted VAT receipts***

$$\begin{array}{|c|} \hline \text{Adjusted VAT} \\ \text{receipts} \\ \hline \end{array} \times \begin{array}{|c|} \hline \text{Uniform Percentage} \\ \hline \end{array} = \begin{array}{|c|} \hline \text{Assumed VAT receipts} \\ \text{from standard rated} \\ \text{supplies to final} \\ \text{consumption} \\ \hline \end{array}$$

- The **uniform percentage** is a single percentage applicable all over the EU. It will be calculated by dividing the EU-wide average proportion of VAT receipts accruing from standard-rated supplies by final consumption (made to households and entities not subject to deduct the VAT they have been charged) in all Member States. It will be calculated via a major statistical study undertaken by the Commission in close cooperation with the Member States and will be set for the whole MFF period.

***Step III: Calculate VAT own resources base***

$$\begin{array}{|c|} \hline \text{Assumed VAT receipts} \\ \text{from standard rated} \\ \text{supplies to final} \\ \text{consumption} \\ \hline \end{array} \div \begin{array}{|c|} \hline \text{Standard VAT rate} \\ \text{applied in the Member} \\ \text{State} \\ \hline \end{array} = \begin{array}{|c|} \hline \text{VAT own resources} \\ \text{(standard rate) base} \\ \hline \end{array}$$

- The value of the "assumed VAT receipts" should be divided by the actual **standard-rate applied in the country** (this standard rate varies between Member States - it should be a percentage between 15 and 27%). This will create the VAT own resources base.

***Step IV: Calculate the monthly VAT OR contribution***

$$\begin{array}{|c|} \hline \text{VAT own} \\ \text{resources base} \\ \hline \end{array} \times \begin{array}{|c|} \hline \text{Percentage set out in} \\ \text{the implementing} \\ \text{Council Regulation} \\ \hline \end{array} = \begin{array}{|c|} \hline \text{VAT own resources} \\ \text{monthly contribution} \\ \text{of the Member State} \\ \hline \end{array}$$

- A percentage set out in the implementing Council Regulation on own resources<sup>1</sup> should be applied to the actual value of the VAT own resources base (maximum rate (2%) is set in ORD with operative rate (1%) in implementing Regulation).
- This will determine the VAT OR monthly contribution of the Member State.

<sup>1</sup> COM(2011)740

## Assessment by the Rapporteur

### Advantages

- A significantly simpler VAT calculation, which no longer requires the calculation of:
  - a weighted average VAT rate,
  - an intermediate base calculation,
  - any of the compensations to the intermediate base currently required.
- More transparent: only goods and services taxed by the standard VAT rate in all MS will be used for the calculation and only real actual receipts obtained by Members will be used.
- There will be less corrections to the VAT base for some Member States (only fines and penalties, refunds to non-taxable persons, receipts from non-EU territories, account for multiple standard rates), compared to the currently existing 22 compensations.
- There will be no compensations given that only goods and services taxed with the standard VAT rate will be used for the calculations.
- Equal treatment of all EU Member States - there will be a uniform percentage applicable to all Member States, contrary to the current different call in rates
- Less administrative burden on Member States. This will be largely assumed by the European Commission.
- Focus on materiality. The new resource will be based on actual receipts and not statistics.
- No capping will be applied.
- It seems to be reliable and predictable over time.
- It is flexible to adapt to any future reform of the VAT tax without any changes be introduced to the current OR proposal.

### Disadvantages

- Still relatively complicated methodology done in 4 steps, involving complex calculations.
- More administrative burden for the Commission.
- The proposed simplification of the calculation method might not be able to taken into account the differences between the VAT systems existing in Member States.
- The new VAT will still not be an own resource directly accruing to the EU budget but will pass through national treasuries.

### Conclusions

The new EU VAT own resource proposal represents undoubtedly an important improvement to the current system and has serious potential to develop into a stable and reliable genuine own resource for the Union's budget. The VAT own resource should be part of a general

reform of the own resources system, which should substantially decrease the overall level of national contributions by Member States.

Your rapporteur supports, therefore, the Commission proposal to abolish the current VAT own resources and to create a new EU VAT own resource.

Your rapporteur would like to also underline that one of the fundamental criteria of a genuine VAT own resource should be to accrue directly to the EU budget without first being collected by national administrations. Unfortunately, neither the existing system, nor the Commission proposals envisage this solution for the VAT. If this condition cannot be met for the upcoming 2014 - 2020 MFF, then your Rapporteur calls on the Commission to consider this option for the next period, when the own resources system should be further reformed with the aim of achieving full financing of the EU budget from own resources, as stipulated in Article 311 of the TFEU.

Your rapporteur stresses the importance that the European Parliament attaches to the reform of the own resources system, including the relevant proposals on VAT. In its plenary resolution on the MFF and own resources of 13 June 2012, the European Parliament states that it is not prepared to give its consent to the next MFF regulation without a political agreement on reform of the own resources system.

## PROCEDURE

<b>Title</b>	Own resource based on the value added tax		
<b>References</b>	COM(2011)0737 – C7-0504/2011 – 2011/0333(CNS)		
<b>Date of consulting Parliament</b>	12.12.2011		
<b>Committee responsible</b> Date announced in plenary	BUDG 15.12.2011		
<b>Committee(s) asked for opinion(s)</b> Date announced in plenary	CONT 15.12.2011	ECON 15.12.2011	JURI 15.12.2011
<b>Not delivering opinions</b> Date of decision	CONT 6.12.2011	ECON 29.11.2011	JURI 19.12.2011
<b>Rapporteur(s)</b> Date appointed	Jean-Luc Dehaene 5.12.2011		
<b>Date adopted</b>	10.10.2012		
<b>Result of final vote</b>	+: -: 0:	35 1 2	
<b>Members present for the final vote</b>	Marta Andreasen, Reimer Böge, Zuzana Brzobohatá, Jean Louis Cottigny, Jean-Luc Dehaene, Göran Färm, José Manuel Fernandes, Eider Gardiazábal Rubial, Salvador Garriga Polledo, Jens Geier, Ingeborg Gräßle, Jutta Haug, Monika Hohlmeier, Sidonia Elżbieta Jędrzejewska, Anne E. Jensen, Ivailo Kalfin, Alain Lamassoure, Giovanni La Via, Jan Mulder, Juan Andrés Naranjo Escobar, Dominique Riquet, Potito Salatto, Alda Sousa, Helga Trüpel, Derek Vaughan, Angelika Werthmann		
<b>Substitute(s) present for the final vote</b>	Alexander Alvaro, Maria Da Graça Carvalho, Edit Herczog, Peter Jahr, Jürgen Klute, Paul Rübig, Georgios Stavrakakis, Nils Torvalds		
<b>Substitute(s) under Rule 187(2) present for the final vote</b>	Phil Bennion, Nikos Chrysogelos, Norbert Glante, Róza Gräfin von Thun und Hohenstein		
<b>Date tabled</b>	12.10.2012		