THE UNION'S REVENUE

The EU budget is financed mainly (99%) from own resources. Annual revenue must completely cover annual expenditure. Budget revenue is determined by the Council after consultation of the European Parliament. The decision on the system of own resources needs to be ratified by the Member States.

LEGAL BASIS

— Articles 311 and 332(2) of the Treaty on the Functioning of the European Union and Articles 106a and 171 of the Treaty establishing the European Atomic Energy Community;

— Council Decision 2014/335/EU, Euratom of 26 May 2014 on the system of own resources of the European Union[1], Council Regulation (EU, Euratom) No 608/2014 of 26 May 2014 laying down implementing measures for the system of own resources of the European Union[2], and Council Regulation (EU, Euratom) No 609/2014 of 26 May 2014 on the methods and procedure for making available the traditional, VAT and GNI-based own resources and on the measures to meet cash requirements[3]. Following ratification, these legal acts entered into force on 1 October 2016 and apply retroactively as from 1 January 2014.

OBJECTIVE

To provide the European Union with financial autonomy within the bounds of budgetary discipline.

OPERATION

While the European Coal and Steel Community (ECSC) was granted its own resources from the start, the European Economic Community (EEC) and the European Atomic Energy Community (Euratom) were initially financed by contributions from the Member States. The Own Resources Decision of 21 April 1970 provided the EEC with its own resources. Own resources to cover annual payment appropriations are currently limited to a maximum of 1.20% of EU gross national income (GNI)[4]. In practice, the current multiannual financial framework (MFF) 2014-2020 (1.4.3) sets the ceiling at around 1%

[1]OJ L 168, 7.6.2014, p. 105.
[2]OJ L 168, 7.6.2014, p. 29.
[3]OJ L 168, 7.6.2014, p. 39.
[4]Technical adjustment of the financial framework for 2018 in line with movements in GNI (ESA 2010), COM(2017)0473, 15.9.2017.

of EU GNI. As the budget must balance, expenditure is also constrained by this ceiling (1.4.3).

REVENUE

1. ‘Traditional’ own resources

These consist of customs duties, agricultural duties and sugar and isoglucose levies. They were created by the 1970 decision and have been collected ever since. In 2016, ‘traditional’ own resources represented 14% of total revenue[5].

2. The VAT-based own resource

This currently consists of the transfer to the Union of a percentage of the estimated VAT collected by the Member States. Although provided for in the 1970 decision, this resource was not applied until the VAT systems of the Member States were harmonised in 1979. The VAT resource accounted for 10.9% of total revenue in 2016.

3. The GNI-based own resource

This own resource consists of a levy on Member States’ GNI of a uniform percentage set in each year’s budget procedure and was created by Council Decision 88/376/EEC. Originally it was only to be collected if the other own resources did not fully cover expenditure, but it now finances the bulk of the EU budget. The GNI-based resource has tripled since the late 1990s, and in 2016, it represented 65.4% of EU revenue.

4. Other revenue and the balance carried over from the previous year

Other revenue includes taxes paid by EU staff on their salaries, contributions from non-EU countries to certain EU programmes, and fines paid by companies that are found to be in breach of competition laws or other laws. The balance from each financial year is entered in the budget for the following year as revenue in the case of a surplus. Other revenue, balances and technical adjustments amounted in 2016 to 9.7% of total revenue.

5. Correction mechanisms

Correcting budgetary imbalances between Member States’ contributions is also part of the current own resources system. The ‘UK rebate’ agreed in 1984 consists of a reduction in the United Kingdom’s contribution equivalent to two thirds of the difference between its contribution (excluding traditional own resources) and what it receives back from the budget. This rebate was adjusted in 2007 in order gradually to exclude non-agricultural expenditure in Member States having acceded since 2004 from the calculation. This correction is financed by all the other Member States, except for Germany, the Netherlands, Austria and Sweden, which benefit from a reduction in their contributions to the financing of the UK rebate. Germany, the Netherlands, Austria and Sweden also benefited from a reduced rate of call of VAT for the 2007-2013 period, and the Netherlands and Sweden benefited from a reduction in their GNI contributions for the same period.

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[5]Consolidated annual accounts of the European Union – Financial year 2016

As regards current correction mechanisms, the existing correction mechanism for the UK and the financing thereof are being continued, as are the reduced rates of call of the VAT-based own resource for the 2014-2020 period for Germany, the Netherlands and Sweden (0.15%) and gross reductions in the annual GNI contribution for the 2014-2020 period for Denmark (EUR 130 million), the Netherlands (EUR 695 million) and Sweden (EUR 185 million), and for the 2014-2016 period for Austria (EUR 30 million in 2014, EUR 20 million in 2015 and EUR 10 million in 2016). As to collection costs for traditional own resources, the percentage that may be retained by Member States has been reduced from 25% to 20%. The latest adjustment to the system of own resources concerns a modification of the implementing decision so as to allow Member States to postpone until 1 September of the following year the making available of exceptionally high amounts resulting from adjustments to the own resources based on VAT and GNI.

TOWARDS THE REFORM OF EU OWN RESOURCES

The Treaty of Lisbon states that the budget should be financed wholly from own resources, and empowers the Council, after consulting Parliament, to unanimously adopt a decision on the system of own resources of the Union, including the possibility of establishing new categories of own resources and abolishing existing ones. Any such decision would need to be ratified by the Member States. However, the implementing measures in respect of such a decision may now be adopted by the Council only after it has obtained the consent of Parliament. This can be seen as a step in the direction of extending the Community method to the area of the Union's own resources.

A high-level group, composed of representatives of Parliament, the Council and the European Commission and chaired by Mario Monti, undertook from 2014 onwards a general review of the own resources system in dialogue with national parliaments.

The Monti group presented its final report in January 2017. For two years, the group had reflected on more transparent, simple, fair and democratically accountable ways to finance the European budget. The main conclusion is that the EU budget needs reform, both on the revenue and on the expenditure side, to address current challenges and to achieve tangible results for European citizens.

In its Reflection Paper on the Future of EU Finances, presented in June 2017, the Commission presented five scenarios and their implications regarding revenue.

On 2 May 2018, the Commission made proposals to simplify the current VAT-based own resource and to introduce a basket of new own resources:

— 20% of the revenues from the Emissions Trading System;

— A 3% call rate applied to the new Common Consolidated Corporate Tax Base (to be phased in once the necessary legislation has been adopted);

— A national contribution calculated on the amount of non-recycled plastic packaging waste in each Member State (EUR 0.80 per kilo).

The Commission estimates that these new own resources would represent about 12% of the total EU budget and could contribute revenues of up to EUR 22 billion per year.

The Commission proposes to phase out the current rebates over a period of five years and thereafter to eliminate all rebates and to reduce from 20% to 10% the share of customs revenues that Member States keep to cover collection costs.

ROLE OF THE EUROPEAN PARLIAMENT

In a number of resolutions over the past few years (e.g. that of 17 December 2014 on the system of the European Communities' own resources), Parliament has highlighted problems with the own resources system, particularly regarding its excessive complexity. It has put forward proposals to ensure that the Union is financially independent and pushed for a reform to make revenue collection simpler, more transparent and more democratic.

Building on the new provisions of the Treaty of Lisbon, Parliament has repeatedly called for an in-depth reform of the system of own resources, for example in its resolution of 15 April 2014 on negotiations on the MFF 2014-2020: lessons to be learned and the way forward.

In its legislative resolution of 16 April 2014 on the draft Council decision on the system of own resources, Parliament highlighted the importance of the high-level group on own resources, the Monti group, which was established as a result of Parliament's insistence during the negotiations on the MFF for 2014-2020, by calling on it to take action.

In its resolution of 6 July 2016 entitled 'Preparation of the post-electoral revision of the MFF 2014-2020: Parliament's input ahead of the Commission's proposal', Parliament called on the Commission to present, by the end of 2017, an ambitious legislative package on own resources as of 2021, with simplicity, fairness and transparency as guiding principles. In its resolution of 26 October 2016 on the mid-term revision of the MFF 2014-2020, Parliament again stressed the need to reduce the share of the GNI contributions and called for the VAT resource to be either substantially reformed or scrapped altogether. Parliament also called for the introduction of one or several new own resources, as well as the phasing out of all forms of rebates.

In its resolution of 24 October 2017 on the Reflection Paper on the Future of EU Finances, Parliament reiterated its commitment to a fully-fledged reform of the EU's own resources system and stressed that any such system should include a balanced basket of new EU own resources designed to support EU policy objectives that should be introduced progressively to provide fairer and more stable EU finances.

In its resolution of 14 March 2018 on reform of the European Union's system of own resources, Parliament listed the reasons for reforming the current own resources system, including the need to address the shortcomings of the existing system and to enable the EU to finance its policies and meet new challenges. Parliament called for an acceptable and balanced system of own resources and outlined the principles and assumptions governing the setting-up of a new own resources system, listed the criteria used to identify new own resources and proposed a basket of possible new own resources.

In its resolution of 30 May 2018 on the 2021-2027 multiannual financial framework and own resources, Parliament welcomed the Commission proposals of 2 May 2018 on own resources and recalled its position that no agreement can be reached with Parliament on the next MFF without corresponding headway being made on own resources.

In their draft interim report of 26 September 2018 on the proposal for a Council regulation on the Multiannual Financial Framework 2021-2027 – Parliament's position with a view to an agreement, rapporteurs of Parliament's Committee on Budgets also made detailed suggestions for modernising existing own resources and introducing new ones, and pointed to the need for an increase in the own resources ceilings to maintain the credibility of the EU budget.

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