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# **DRAFT REPORT**

on reform of the European Union's system of own resources  
(2017/2053(INI))

Committee on Budgets

Co-rapporteurs: Gérard Deprez, Janusz Lewandowski

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## MOTION FOR A EUROPEAN PARLIAMENT RESOLUTION

### on reform of the European Union's system of own resources (2017/2053(INI))

*The European Parliament,*

- having regard to Articles 311 and 332(2) of the Treaty on the Functioning of the European Union,
- having regard to Articles 106a and 171 of the Treaty establishing the European Atomic Energy Community,
- having regard to Council Decision 2014/335/EU, Euratom of 26 May 2014 on the system of own resources of the European Union<sup>1</sup>,
- having regard to 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<sup>2</sup>,
- having regard to 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<sup>3</sup>,
- having regard to the Commission communication to the European Parliament and the Council of 21 September 2017 entitled ‘A Fair and Efficient Tax System in the European Union for the Digital Single Market’,
- having regard to its resolution of 29 March 2007 on the future of the European Union's own resources<sup>4</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>5</sup>,
- having regard to its resolution of 15 April 2014 entitled ‘Negotiations on the MFF 2014-2020: lessons to be learned and the way forward’<sup>6</sup>,
- having regard to its resolution of 16 April 2014 on the draft Council decision on the system of own resources<sup>7</sup>,

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<sup>1</sup> OJ L 168, 7.6.2014, p. 105.

<sup>2</sup> OJ L 168, 7.6.2014, p. 29.

<sup>3</sup> OJ L 168, 7.6.2014, p. 39.

<sup>4</sup> OJ C 27E, 31.1.2008, p. 214.

<sup>5</sup> OJ C 380E, 11.12.2012, p. 89.

<sup>6</sup> Texts adopted, P8\_TA(2014)0378.

<sup>7</sup> Texts adopted, P8\_TA(2014)0432.

- having regard to its resolution of 17 December 2014 on the system of the European Communities’ own resources<sup>8</sup>,
  - having regard to its resolution of 6 July 2016 on the preparation of the post-electoral revision of the MFF 2014-2020<sup>9</sup>,
  - having regarding to the report ‘Future financing of the EU – final report and recommendations of the High Level Group on Own Resources’ of December 2016,
  - having regard to Article 1 of the Decision of the Conference of Presidents of 12 December 2002 on the procedure for granting authorisation to draw up own-initiative reports,
  - having regard to Rule 52 of Parliament’s Rules of Procedure,
  - having regard to the report of the Committee on Budgets and the opinions of the Committee on International Trade, the Committee on Budgetary Control, the Committee on Economic and Monetary Affairs, the Committee on the Environment, Public Health and Food Safety, the Committee on Agriculture and Rural Development the Committee on Constitutional Affairs, the Committee on Budgetary Control and the Committee on the Environment, Public Health and Food Safety (A8-0000/2018),
- A. whereas, under the Treaty of Rome of 25 March 1957, the European Economic Community was to be financed by national contributions for a transitional period only, and subsequently by a system of own resources;
- B. whereas the Luxembourg European Council of April 1970 decided on a system of own resources, ending national contributions and introducing two genuine own resources, namely agricultural levies and customs duties, complemented by a third resource based on value added tax (VAT);
- C. whereas in June 1988 the European Council introduced an own resource based on Member States’ GNI, on the grounds that the revenues generated from the existing own resources were insufficient to cover total expenditure under the EU budget;
- D. whereas the share of the GNI-based resource has significantly increased over the years, and today represents the largest source of revenue of the EU budget; whereas the GNI-based contribution currently accounts for some 69 % of the EU budget, the VAT resource for around 12 %, the traditional own resources (customs duties, agricultural duties and sugar and isoglucose levies) for around 13 % and the remaining percentage is covered by other revenue, including taxes paid by EU staff or fines paid by companies in breach of competition laws;
- E. whereas, since the introduction in 1984 at the Fontainebleau European Council of the British rebate, whereby 66 % of the UK’s net contribution is reimbursed, various other

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<sup>8</sup> Texts adopted, P8\_TA(2014)0097.

<sup>9</sup> Texts adopted, P8\_TA(2016)0309.

rebates and correction mechanisms have been progressively introduced in order to address the so-called ‘operating budgetary balances’ of certain Member States; whereas such corrections may concern principally either a reduction on the financing of the UK correction, or a gross reduction in the annual GNI contribution;

- F. whereas Parliament has highlighted in a number of resolutions over the past decade the problems and complexity of the EU’s own resources system and has called repeatedly for an in-depth reform to render the system simpler, more transparent and more democratic, including the introduction of new and genuine own resources that should, progressively and to the extent possible, replace the GNI-based contributions;
- G. whereas in 2011 the Commission put forward an ambitious legislative package on own resources<sup>10</sup>, presented jointly with the 2014-2020 MFF proposals, with a view to achieving the simplification of Member States’ contributions, the introduction of new own resources – a reformed VAT and a Financial Transaction Tax (FTT) – and the reform of correction mechanisms; whereas these proposals were not taken on board by the Council;
- H. whereas, as a result of the 2014-2020 MFF negotiations, a High Level Group on Own Resources (HLGOR) was established, including representatives of all three main EU institutions and chaired by Mario Monti; whereas in December 2016 the HLGOR presented its final report and recommendations, which represent the basis for the elaboration of Parliament’s position as set out in the present report;
1. Notes that the Commission will present its proposals on the post-2020 MFF by May 2018; expects that the future MFF proposed by the Commission will include ambitious proposals to revise the Own Resources Decision and all related legislative acts, as well as to introduce new own resources; underlines that both the expenditure and the revenue side of the next MFF will be treated as a single package in the upcoming negotiations between the Council and Parliament;
  2. Presents this report in order to express its position on the main elements of the reform of the EU’s system of own resources, including the composition of a basket of new own resources, as well as the elements of the current system that should remain in place; expects that the Commission will take due account of Parliament’s position in the preparation of its proposals on the own resources legislative package; is convinced of the imperative need to make significant progress on the revenue side of the EU budget, in order to facilitate an agreement on the next MFF;

### **I. Legal framework and decision-making process**

3. Recalls that Article 311 TFEU states: ‘The Union shall provide itself with the means necessary to attain its objectives and carry out its policies. Without prejudice to other revenue, the budget shall be financed wholly from own resources’; stresses, therefore, that the legal requirement to provide the EU budget with genuine own resources derives directly from the Treaty;

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<sup>10</sup> COM(2011)0510

4. Recalls that Article 310 TFEU stipulates that ‘the revenue and expenditure shown in the budget shall be in balance’; notes, accordingly, that the revenue should cover the totality of expenditure, as adopted every year by the budgetary authority; stresses that the EU budget cannot run an annual deficit or be financed by borrowing money on the financial markets;
5. Notes that the main legislative act setting out the provisions relating to the own resources system, the so-called Own Resources Decision (ORD), is adopted by the Council acting unanimously after consulting Parliament, and that this decision is subject to ratification by all Member States; underlines that this is one of the heaviest legislative procedures foreseen in the Treaty;
6. Notes that, in this legislative act, the Council sets inter alia the ceiling of own resources, and may establish new categories of own resources or abolish an existing category; underlines that even if the ORD has no expiry date, it is directly linked to the respective MFF that sets the maximum level of expenditure for the same period it covers;
7. Recalls that the Treaty of Lisbon introduced new provisions regarding the implementing legislation on own resources, providing for the possibility of the Council adopting a regulation by qualified majority after obtaining the consent of Parliament; regrets, however, that several implementing provisions, especially those relating to the calculation of the GNI resources, still remain in the ORD;
8. Recalls that Member States are responsible for their fiscal policies, and underlines that the power to levy taxes lies at the heart of Member States’ sovereignty;

## **II. Reasons for reforming the current own resources system**

### ***i. Need to address shortcomings of the existing system***

9. Stresses that the current system of own resources is highly complex, non-transparent and totally incomprehensible to the EU citizens; points in particular to the opacity of the calculations relating to the national rebates and correction mechanisms which apply to the system of own resources or the statistical VAT-based resource; stresses, moreover, that this system is not subject to any effective parliamentary control and in essence lacks democratic legitimacy and accountability;
10. Underlines that the way the system of own resources has evolved, gradually replacing genuine own resources by the so-called ‘national contributions’, places a disproportionate emphasis on net balances between Member States, thus largely ignoring the European added value; notes that the total share of national contributions to the EU budget, calculated either on the basis of GNI or as a percentage of the statistical VAT-based resource, represents around 83 % of total EU revenue;
11. Is convinced that the dominance of the GNI resource has reinforced the budgetary logic of ‘fair return’ that has prevailed in the debates in the Council, on both the revenue and expenditure sides of the EU budget; recalls, in this context, the introduction of the British rebate and a series of related debates and other correction mechanisms on the revenue

side, on the one hand, as well as the inability to agree on a sufficient level of appropriations for the EU budget in the annual budgetary procedure, on the other hand;

12. Considers, in particular, that the decision on the size of the annual EU budget is affected by financial considerations at national level and that the budgetary negotiations often result in a zero-sum game between net payers and net beneficiaries in the Council; considers that, as a result, a number of EU policies that show the highest European added value are often the areas where cost savings are proposed;
13. Notes that the national contributions to the EU budget are clearly identified on the expenditure side of national budgets and are often perceived as a financial burden, outweighing the benefits triggered by areas of EU expenditure that are often less visible; stresses, in this regard, the need to address the lack of public awareness on the benefits of the EU budget;
14. Is convinced, therefore, that the current system of own resources violates, in essence, the letter and the spirit of the Treaty; reiterates its long-standing position that an in-depth reform of EU resources is imperative in order to realign the financing of the EU budget with the requirements of the Treaty and the needs of the Union as a whole;

*ii. Need to enable the Union to finance its policies and meet new challenges*

15. Underlines that the post 2020-MFF will need to ensure the proper financing of EU policies and programmes with a clear European added value, but also to provide additional means for addressing new challenges that have already been identified in fields such as growth and jobs, competitiveness, cohesion, innovation, migration, security and defence;
16. Stresses, moreover, the need to avoid the shortcomings of the current MFF and to provide from the outset for a level of resources that will enable the Union to respond effectively to unforeseen events or crises that may occur during the period of the next financial framework; recalls the substantial mobilisation of the MFF flexibility provisions that was needed in order to confront the migration and refugee crisis alone;
17. Expects that, without prejudice to the financial settlement, the consequences of the withdrawal of the UK from the EU will represent an important challenge also for the next MFF and all related budgetary decisions; considers that, ahead of a decision on the post-2020 MFF, options will need to be examined for bridging the 'Brexit gap' while excluding a decrease in EU resources;
18. Supports the proposal made by the President of the Commission, Jean-Claude Juncker, for the creation of a specific line dedicated to the euro area within the EU budget, included in his 'state of the union' speech to the European Parliament and further developed in the Commission communication of 6 December 2017 on new budgetary instruments for a stable euro area within the Union framework;<sup>11</sup>

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<sup>11</sup> COM(2017)0822

### **III. Towards an acceptable and balanced system of own resources**

#### ***Principles and assumptions governing the setting-up of a new own resources system***

19. Favours the establishment of a transparent, simpler and fairer system, building on elements of the current system where they have proved effective; considers that the reform of the system of own resources should be based on a series of guiding principles;
20. Stresses the need to link revenues to policy objectives, in particular to the single market, the energy union, and the environment, climate and transport policies; is convinced in this respect that the EU budget should focus on policies with real European added value;
21. Underlines that new own resources cannot all be introduced at the same time, and points out the need for progressive implementation; suggests introducing in the first place less technically complex own resources whose collection is easily manageable at a reasonable cost, with this being followed by the gradual introduction of each additional new own resource, on the basis of a fixed timetable until all have reached cruising speed;
22. Considers that the introduction of new own resources should have a dual purpose, i.e. first, to bring about a substantial reduction in the proportion of GNI-based contributions, thus creating savings for Member State budgets, and second, to enable the financing of an higher level of EU spending under the post-2020 MFF, also covering the gap resulting from the withdrawal of the UK; recalls in this context that the new own resources do not aim to increase the overall fiscal burden for the EU taxpayer;
23. Calls for the suppression of all rebates and corrections, while ensuring fair treatment between Member States; underlines in this context that Brexit will mean that the UK rebate and the related ‘rebates on the rebate’ will become obsolete and cease to exist, while reform of the statistical VAT-based own resource will become inevitable;
24. Considers that the traditional own resources, namely customs duties, agricultural duties and the sugar and isoglucose levies, constitute a reliable and genuine source of EU revenue, as they arise directly from the EU being a customs union and from the legal competences and common commercial policy linked to that; takes the view, therefore, that the traditional own resources should be retained as a source of revenue for the EU budget; considers that if the proportion of collection costs retained by Member States is reduced, a bigger share of this revenue can be secured for the EU budget;
25. Acknowledges that the GNI-based contribution provides a reliable and stable source of revenue for the EU budget, and benefits from very strong support from a large majority of Member States; believes, therefore, that it should be preserved as a balancing and residual resource for the EU budget, which would put an end to the budgetary logic of ‘fair return’; stresses the need, in this context, to ensure that the GNI contribution is classified in the same manner in all national budgets, namely as revenue attributed to the EU and not as expenditure of national governments;

#### ***Criteria used to identify new own resources***

26. Recalls that the report of the High Level Group on Own Resources (HLGOR) proposes the following criteria to identify potential new own resources: equity/fairness; efficiency; sufficiency and stability; transparency and simplicity; democratic accountability and budgetary discipline; focus on European added value; subsidiarity principle and fiscal sovereignty of Member States; and limiting political transaction costs;
27. Calls on the Commission, on the above basis, to examine the introduction of the following basket of new own resources;

***Basket of possible new own resources***

***a. Objective: Consolidate the single market, increase its transparency and improve the level playing field***

- ***Value added tax***

28. Recalls that, since its inception almost 50 years ago, VAT has been used as a base for calculating one of the own resources of the EU budget, and that this resource currently represents around 12 % of EU revenue;
29. Notes, however, that the current system has serious shortcomings: the resource is calculated on a statistical basis; it is unnecessarily complex and has no direct link to the citizens; it represents a mere transfer of a part of revenue collected by the Member States, and thus brings no added value compared to the GNI resource; the contribution base is not transparent and there is no equality among taxpayers;
30. Recalls the legislative proposal of 2011 on a new VAT resource, which would have resulted in the application of a fixed EU-wide rate based on the net value of supplies of goods and services or on imports of goods to which a standard, common VAT would have applied; notes that although this proposal did not go through, the European Council of February 2013 encouraged the Council to continue working on this dossier; believes that the current context offers a window of opportunity allowing for a possible breakthrough in this matter;
31. Supports an in-depth reform of the VAT system in the EU, which should aim at broadening the tax base, reducing the scope for fraud and compliance costs, and generating new revenue; considers that a fraction of such new revenue should be allocated to the EU budget;
32. Considers that a simplified VAT resource should be built on the common denominator of VAT systems across the EU, and notes that consequently it would not eliminate all national specificities which are justified for a variety of reasons;
33. Is in favour of setting a uniform levy rate (1 % to 2 %) on the revenue from the reformed VAT collected entirely by Member State administrations as a Union own resource; believes that such a system could provide significant and stable receipts for the EU at limited administrative cost;

34. Underlines that the Commission has already put forward legislative proposals for a major reform of the EU's VAT rules, and that additional initiatives are expected in 2018; insists on the necessity to complete the VAT reform as soon as possible and at the latest before the start of the next MFF;
35. Calls on the Commission, pending the adoption of the relevant VAT legislation, to present a proposal for a reformed own resource based on VAT as part of its upcoming legislative package on EU own resources; believes that such a proposal should take account of the main outcomes of the VAT reform currently under discussion;

- ***Corporate income tax***

36. Recalls that in its resolution of 6 July 2016<sup>12</sup> Parliament urged the Commission to present a proposal for a common consolidated corporate tax base (CCCTB), 'to be accompanied by an appropriate and fair distribution key which would provide a comprehensive solution for dealing with harmful tax practices within the Union, bring clarity and simplicity for businesses, and facilitate cross-border economic activities within the Union';
37. Takes notes of the Commission's proposals for a CCCTB, while recalling its request that this consolidated base be extended to as many companies as possible; draws attention to the fact that current proposals for a CCCTB suggest also covering the digital economy; suggests, on the basis of these proposals, that the digital presence of a company should be treated in the same way as the physical establishment thereof;
38. Agrees with the HLGOR's assessment of the CCCTB as a basis for a new own resource, meeting all the criteria set by the Group; underlines that the CCCTB is also a key element in the development of the single market, which is a European public good, as it prevents both inappropriate tax competition between Member States and fiscal optimisation damaging to the level playing field;
39. Calls therefore for the creation of a new own resource for the Union budget, to be calculated on the basis of Member States' revenue from tax levied on companies subject to the CCCTB;

***b. Objective: Reduce financial speculation and strengthen tax fairness in sectors that use aggressive tax planning instruments or aggressive tax optimisation.***

- ***A financial transaction tax (FTT) at European level***

40. Notes the efforts undertaken under enhanced cooperation by a group of 11 Member States with a view to establishing a tax on financial transactions, following the 2011 Commission proposal;
41. Considers, however, that such a tax, chargeable at the moment the transaction occurs, must be applied throughout the EU, so as to limit purely speculative operations and reduce

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<sup>12</sup> European Parliament resolution of 6 July 2016 on tax rulings and other measures similar in nature or effect - Texts adopted, P8\_TA(2016)0310.

the number of divergent national approaches to financial transaction taxation, since this is a source of disruption for the financial markets and for the smooth functioning of the single market;

42. Shares the HLGOR's assessment endorsing the FTT as a potential basis for a new own resource for the Union budget, while also considering that other means of taxing financial activities should be explored;
43. Calls, therefore, for the creation of a new own resource for the Union budget, to be calculated on the basis of a chosen method of taxation of financial activities;

- ***Taxation of companies in the digital sector***

44. Notes the conclusions of the informal Council of finance ministers of 16 September 2017 calling for the development of new digital taxation rules, in response to the Four Finance Ministers' letter requesting the Commission to examine 'effective solutions based on the concept of establishing a so-called equalisation tax' on the turnover generated in the EU by digital companies;
45. Agrees that the digital economy should have a modern and stable fiscal framework, in order to stimulate innovation, tackle market fragmentation and enable all players to take advantage of the new equitable and balanced conditions; points out, moreover, that it is essential to ensure tax security for business investment and to prevent the emergence of new tax loopholes within the single market;
46. Considers it crucial that tax measures be taken for the digital market in order to limit tax evasion and distortions, aggressive tax planning or fiscal optimisation schemes, and the misuse of European mechanisms to avoid tax; considers that these practices distort competition in the single market and deprive Member States of due tax revenues;
47. Calls, in principle, for the creation of a new own resource for the Union budget to be levied on transactions in the digital economy; considers, however, that in view of the important ongoing negotiations at both EU and OECD level, it is too early to decide on the exact arrangements for the establishment of such a resource;
48. Believes, nevertheless, that any arrangements made by the EU authorities, such as registration or monitoring systems or regulatory mechanisms, should immediately permit the collection of duties or levies for the benefit of the Union budget on the basis of their European added value; considers that these are EU public goods which, as the HLGOR states, provide a basis for establishing a levy that constitutes 'other revenue' deriving from Union policies;

***c. Objective: Promote the energy transition and the fight against global warming***

- ***Environmental tax and levies***

49. Confirms that the fight against climate change is a major objective of EU policies;

50. Reiterates its conviction that only common energy or environmental taxes at EU level can ensure fair competition among businesses and the proper functioning of the single market;
51. Calls for the introduction of a carbon border adjustment tax in the form of import fees levied on goods manufactured in countries without domestic emission pricing systems of their own;
52. Underlines that a carbon border adjustment tax, as a new own resource for the EU budget, should also have the effect of ensuring a level playing field in international trade and reducing the offshoring of production, while internalising the costs of climate change into the prices of imported goods;
53. Asks the Commission, in line with the conclusions of the HLGOR report, to study the opportuneness and feasibility of implementing a coherent system of new own resources in the field of energy transition and the fight against global warming;
54. Considers it essential that, when introducing environmental taxes, a financial mechanism be set up for the benefit of those Member States where the financial burden per citizen exceeds the EU average;

*Other revenue sources*

55. Recalls that although own resources should be the main component of EU budget revenue, they are nevertheless supplemented by what Article 311 TFEU calls 'other revenue', which includes: tax paid by EU staff on their salaries; revenue from the administrative operation of institutions, such as proceeds from the sale of goods, renting and hiring, the provision of services and bank interest; contributions from non-EU countries to certain EU programmes; interest on late payments; fines paid by companies, in most cases where found to be in breach of EU competition law; and revenue from EU borrowing and lending operations;
56. Notes that the balance from each financial year is entered in the budget for the following year as revenue in the case of a surplus, and that other revenue, balances and technical adjustments, including the surplus of the previous year, amount to around 6 % of total revenue; stresses that in recent years 'other revenue' has for the most part consisted of fines, which alone represent 2.5 % of total revenue (excluding assigned revenue);
57. Regrets that the potential of such other revenue has been neglected so far in the debate on the financing of the EU; believes that, even if such revenue does not represent an alternative to other own resources because of its level, volatility and unpredictability, it nonetheless represents a possible means for covering the increased financial needs under the next MFF;
58. Recalls that the legal procedures governing such revenue and possible amendments are more flexible than those for own resources, since they are established not in the Own Resources Decision, but, rather, in the secondary legislation and are therefore not subject to the unanimity requirement;

59. Reiterates its long-standing position that any revenue resulting from fines imposed on companies for breaching EU competition law or linked to late payments of national contributions to the EU budget should constitute extra revenue for the EU budget without entailing a corresponding reduction in GNI contributions;
60. Calls, to this end, for a special reserve to be established on the revenue side of the EU budget, which will be progressively filled up by all types of unforeseen other revenue; considers that this reserve should be deployed in order to cover additional payment needs, especially those linked to the mobilisation of the Global Margin for Commitments or the MFF special instruments;
61. Underlines the potential for the EU budget of fees required for the implementation of European schemes, such as the European Travel Information and Authorisation System (ETIAS) for third-country nationals; considers that in certain cases such revenue could be earmarked for the same policy or purpose; considers that for the post-2020 generation of EU programmes and policies, this type of prospective income should be considered more systematically, with the aim of providing the EU budget with an additional source of revenue;
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62. Instructs its President to forward this resolution to the Council and the Commission.