Annual revision of national contributions to the EU budget

SUMMARY
The annual adjustment of the financing of the EU budget is now in the spotlight. In 2013, around three quarters of the total revenue (€149.5 billion) came from a resource linked to the gross national income (GNI) of EU countries. A resource based on value added tax (VAT) provides another 10% of total revenue. These two resources, together with a series of correction mechanisms, represent the national contributions to the EU budget. Since both resources are linked to statistical aggregates, their calculation takes into account estimates and final data, and needs to be regularly updated. A system of checks and controls is in place, which includes aspects of peer review among Member States through specific committees. The European Court of Auditors says that the management of revenue is not affected by material errors (estimated error rate is 0%), but has made recommendations relating to the GNI resource.

Each October, GNI and VAT contributions are updated on the basis of revised statistical bases. Coupled with an amending budget, this revision does not result in extra funds for the EU budget, but in a redistribution of burden sharing among Member States. Relevant adjustments must be credited and debited at the beginning of December. This year's revision, which reflects efforts to resolve longstanding reservations on some GNI data, resulted in larger adjustments than usual. On the Council's request, the Commission has put forward a proposal to allow Member States to postpone relevant payments until 1 September of the following year if specific conditions are met. The EP, which has little say in the own resources system, has long pushed for its reform, criticising among other things its complexity and the predominant role the GNI resource has gained over time. A high-level group is carrying out a general review of the system, which could pave the way to reform proposals.

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A technical issue in the spotlight

While the provisions of the Treaties provide the European Union with financial autonomy, most EU revenue depends on resources that are perceived as national contributions. These resources are calculated on the basis of statistical aggregates, such as gross national income (GNI), which are regularly updated. Once a year, the share of total national contributions which falls on each Member State is adjusted on the basis of the most recent statistical figures. This can result in an increase in the contribution of some EU countries and a decrease for others. The October 2014 revision, which reflects efforts to resolve longstanding reservations on some GNI data, has given rise to larger than usual total adjustments: €9.5 billion in comparison to €360 million in 2013. Since the regulatory deadline to make available relevant balances is short and unusually high adjustments may put pressure on the cash-flow of some Member States towards the end of the year, the European Commission has put forward a proposal that would allow EU countries to defer relevant payments by up to nine months, if specific conditions are met and they so request.

The financing of the EU budget

Legal basis

The financing of the EU budget is ensured by the system of 'own resources'. On the basis of Article 311 of the Treaty on the Functioning of the European Union (TFEU), the Council decides the provisions governing the own resources system through a special legislative procedure, which requires unanimity and ratification by all Member States. The European Parliament (EP) is only consulted.


Some data and recent developments

The amount of own resources allocated to the EU is capped at 1.23% of the Union's GNI. In 2013, total EU revenue amounted to €149.5 billion, which came mainly from three categories of own resources:

- **Traditional own resources**, mostly customs duties, represented 9.38% of total revenue.
- **A resource based on value added tax (VAT)** accounted for 10.28% of the total.
- **A resource related to Member States' GNI** provided 73.71% of total revenue.

In addition, there is a series of correction mechanisms, of which the biggest and best known is the UK rebate: EU countries benefiting from a correction mechanism have a reduction in their contribution, which is financed by the other Member States.

Other revenue, which is not classified as own resources, accounted for 6.63% of the total in 2013. This included taxes on EU staff salaries, fines on companies for breaching competition law, and contributions from non-EU countries to certain programmes.

At present, the system provides sufficient resources to cover planned expenditure, which is crucial, since the EU budget cannot run a deficit. However, it is often criticised for its complexity, to which exceptions and correction mechanisms add. The Parliament has long pushed for reforms of the system, while the European Commission's 2011 proposals aimed at streamlining it. However, Member States eventually agreed only on
a limited number of modifications, which will enter into force once the 2014 Decision has been ratified by all EU countries (see above).

**The GNI and VAT resources**

Today, the funding of EU policies relies mainly on the GNI and VAT resources, which are both based on statistical aggregates. Despite being own resources of the EU, which are automatically due under the terms of the Decision, both are perceived as national contributions. In EU financial reporting itself, the sum of the VAT and GNI-based resources and related correction mechanisms is labelled national contribution.

The GNI-based own resource was created in 1988\(^2\) to play the budget-balancing role, by financing that part of EU expenditure not covered by the other resources. As such, it is a residual resource. However, its significance has grown over time and it is today by far the biggest own resource, financing around three quarters of the EU budget (2013).

In addition, some observers consider that the VAT-based resource can be seen as a second GNI-resource, due to the corrections and complex statistical calculation that currently underpin it. This results in a weak link to actual VAT proceeds collected in Member States (see below). In 2011, on the basis that the VAT resource creates administrative burden without producing real added value for the own resources system, the Commission recommended abolishing it and introducing a new one with stronger links to actual VAT proceeds.

The EP supported the new VAT resource, whereas the European Council of February 2013 concluded that it should be worked on further to (potentially) replace the existing resource, but did not indicate any target date. The fact that the current resource is an essential component in the calculation of the UK rebate and is therefore linked to the politically sensitive topic of correction mechanisms is said to be an obstacle to its elimination.

One of the criticisms of the system that the EP has repeatedly addressed relates to the predominant role in the financing of the EU budget which has developed for the GNI resource over time. The Parliament says that the current arrangements do not follow the provisions of the Treaties. Whilst these provide the Union with financial autonomy, most EU revenue depends on resources that are perceived as national contributions. According to the Commission, its 2011 reform proposals would have reduced the share of the GNI resource to 40% of total revenue, if approved. However, the limited changes to the system subsequently agreed by Member States did not go in this direction.

**How national contributions are calculated**

**GNI resource**

Since the GNI resource is the balancing element of the EU budget, the amount needed is determined by the difference between agreed expenditure and the total of all other resources and revenue. This amount is split among the Member States, each of which transfers the same percentage of its GNI (the 'rate of call') to the EU to form the GNI-based resource. Therefore, the rate of call of GNI changes every year and is fixed during the budgetary procedure: in 2013, it was 0.84321%. Some Member States receive annual lump-sum reductions in their GNI contributions: the Netherlands and Sweden for 2007 to 2013, and, once the new Council Decision is ratified, Austria for 2014-16, and Denmark, the Netherlands and Sweden for 2014-20. Council Regulation (EC, Euratom) 1287/2003 (GNI Regulation), in conjunction with the European System of Accounts (see
box), sets the rules on harmonising GNI at market prices, with a view to ensuring comparability, reliability and exhaustiveness of this statistical aggregate.

**VAT resource**
The VAT resource due from each Member State is calculated applying a rate of call to its VAT base. However, Member States need to make statistical adjustments to their VAT bases beforehand so as to allow comparability, since VAT rates and coverage are not fully harmonised across the EU. In addition, with different consumption patterns across the EU, adjusted VAT bases are then capped at 50% of GNI to counter potentially regressive aspects of the resource. This means that if the adjusted VAT base of a country exceeds 50% of its GNI, the amount above this threshold is not taken into account for the calculation of the VAT resource. For years 2007 to 2013, the standard rate of call (0.30%) applied to the statistically adjusted bases was lowered for Austria (0.225%), Germany (0.15%), the Netherlands and Sweden (0.10%). With the new Council Decision, Germany, the Netherlands and Sweden will benefit from a reduced rate of call (0.15%) for the 2014-20 period.

**UK correction**
The UK rebate means that its contribution is lowered through a reimbursement. Introduced in 1985, the basic principles of this correction mechanism have not seen changes, although it has been modified on a number of occasions. Based on a complex statistical calculation which takes into account both the GNI and VAT contributions of the UK to the EU budget and its share in EU expenditure, the amount of the correction changes every year and corresponds to 66% of the resulting budgetary imbalance. The rebate was worth €4.3 billion in 2013, reducing the UK contribution by around 23% to €14.5 billion. All other Member States finance the UK rebate, on the basis of each country’s share of total EU GNI. However, Austria, Germany, Sweden and the Netherlands benefit from a permanent reduction in their contributions to the financing of the UK rebate, paying a quarter of their calculated share. This reduction on the financing of the rebate is paid by the remaining Member States. In practice, around 60% of the total UK correction is currently paid by three Member States: France, Italy and Spain.

**Estimates and annual revision of GNI and VAT resources**

**Estimates and actual data**
In year \( n-1 \) (e.g. 2012), Member States and the European Commission produce forecasts of EU countries' bases for the VAT and GNI resources for financial year \( n \) (in this example 2013). The amounts of the VAT and GNI resources entered in the EU budget for financial year \( n \) are based on these estimates, which are approved by the Advisory
Committee on Own Resources (ACOR). ACOR is composed of national representatives and chaired by the Commission. In budget year \( n \), on the first working day of each month, Member States have to credit the Commission with one-twelfth of their budgeted VAT and GNI contributions, which take into account the impact of relevant correction mechanisms. In the first quarter, the entry of one-twelfth or a fraction of one-twelfth of these amounts may be brought forward by one or two months. During the financial year in question, the estimates are updated and national contributions are adjusted accordingly through an amending budget. The first actual data for GNI and VAT bases are only available in year \( n+1 \) (2014 in this example), when Member States communicate the actual outturn of these two bases. In particular, the GNI Regulation states that figures for aggregate GNI and its components must be provided before 22 September in year \( n+1 \). The final calculation of the UK rebate for year \( n \) is only available in year \( n+4 \) (2017 in the example).

Annual revision
Once a year, the Commission takes into account the most recent GNI and VAT data available, to calculate for each Member State the difference between the contributions that the country paid in the previous and preceding years and the amounts it should have paid on the basis of the updated figures. Council Regulation (EC, Euratom) 1150/2000 states that these differences, or 'balances', are due on the first working day of December. Combined with an amending budget to reduce the initially forecast contributions for the ongoing year, the exercise is not meant to provide extra funds for the EU budget, but to revise the distribution of burden sharing among Member States on the basis of the updated statistical aggregates. For example, countries that under-estimated their GNI and VAT bases have to pay additional funds, while a reimbursement is to be expected for countries in the opposite situation.

In a given year, modifications may be introduced to the GNI and VAT bases of the four preceding years. However, this time limit does not apply to those elements of the statistical aggregates for which the European Commission has introduced a reservation, considering that there are concerns about their exactness. Until Member States and the Commission have resolved elements covered by a reservation, these can still be subject to corrections beyond the four-year threshold.

Checks and controls
The estimates and final data provided by Member States in relation to own resources are subject to a series of checks and controls, including on the spot, carried out by the European Commission.

In addition, there are aspects of peer review among Member States through specific Committees, such as ACOR (see above) and the GNI Committee, which, like ACOR, is composed of Member States' representatives and chaired by the Commission. Each year, the GNI data provided by EU countries before 22 September are analysed by the GNI Committee in October, when Member States and the Commission agree on the final data, which are used in the calculation of the annual revision of GNI contributions to the EU budget. Another example of peer review is that representatives from other Member States may take part in GNI information visits carried out by the Commission in a given Member State.

From its side, the European Court of Auditors (ECA) regularly examines the effectiveness of the systems put in place by the Commission to manage revenue, including desk checks, calculation and management of reservations.
What the European Court of Auditors says

Latest assessments
In its annual report on the implementation of the EU budget, the ECA examines not only spending areas but also the revenue side. In the report concerning financial year 2013, the Court concludes that revenue is not affected by material errors, and estimates the error rate at 0%, having found no errors in the audited transactions, for example as regards the Commission’s calculation of Member States' contributions on the basis of the VAT and GNI data.

As for the Commission’s systems of checks for the GNI and VAT resources, the Court says that they are effective. The audit of the Court focuses on how the Commission tackles the data provided by Member States, but does not cover the initial production of these data by the relevant national authorities. Two specific recommendations concerning the GNI resource, relate to promoting further harmonization of Member States’ methodologies for the statistics of the non-observed economy, and tackling problems in the compilation of Greece’s national accounts through a detailed action plan. The ECA makes no recommendations for the VAT resource.

In the case of the VAT resource, the Court's assessment includes the checks carried out by the Commission in Member States. For GNI data, the Commission did not carry out such checks in EU countries in 2013, since the next verification cycle should start in 2015, when each Member State is expected to deliver the new version of its so-called ‘GNI inventory’, which details the procedures and basic statistics used to calculate GNI and its components according to the ESA.

In a special report published in 2013, the Court examined the Commission's verification of GNI data for the years 2002 to 2010, making a series of recommendations to increase its effectiveness through a more structured and focused approach. The EP's Committee on Budgetary Control is preparing a report (rapporteur: Bart Staes, Greens/EFA, Belgium) on this special report of the Court.

Commission’s management of GNI and VAT reservations
According to the Annual Report of the Court, the Commission's management of reservations on GNI and VAT bases was effective for both resources. At the end of 2013, there were 114 specific reservations outstanding on GNI bases, with the highest numbers for Poland and Romania (11 each), Latvia and Hungary (10 each), and Greece and the UK (9 each). The oldest reservation applied to Greece going as far back as 1995, while for many countries the oldest reservation dated back to 2002. As regards VAT bases, outstanding reservations amounted to 103, with the countries accounting for the highest numbers being: Italy (12), Romania (8), and Bulgaria and Finland (7 each). The oldest VAT reservation applied to Sweden as from 1995 data.

2014 revision of GNI and VAT resources
Adjustments higher than usual
On 17 October 2014, the European Commission provided Member States with the estimate of the annual adjustments to the VAT and GNI balances, stating that final figures would be communicated in November after further verification. The Commission noted that in some cases the impact on cash-flow might be significant. On the basis of Council Regulation (EC, Euratom) 1150/2000, these amounts are to be paid or reimbursed on the first working day of December. Interest is due from Member States that do not pay the required amounts of EU own resources by this deadline.
According to the data, the total correction for 2014 amounts to €9.5 billion, of which the bulk relates to adjustments to the GNI resource. Combined with an amending budget to reduce the initially forecast contributions for the ongoing year, the total sum does not represent extra funding for the EU budget, but a redistribution of burden sharing among Member States on the basis of the updated GNI and VAT figures. In fact, the entire exercise results in the reduction of total national contributions to the EU budget by €420 million, thanks to higher than initially forecast collection of traditional own resources.

The size of the correction is significant in comparison with previous years: it was €360 million in 2013, while the largest previous correction was in 2007, when it amounted to €3.8 billion. On the basis of the revised GNI and VAT bases, nine Member States have to increase their contributions, while the remaining 19 EU countries will get a reimbursement (see table 1).

**Why the correction is larger this year**

Some press articles have reported that the scale of this year's adjustment was due to the one-off introduction of the new European System of Accounts, ESA 2010, in September 2014 (see box above). This is not accurate, since the technical adjustment was calculated according to the previous ESA 95 methodology, in line with the Own Resources Decision currently in force. Possible effects of the ESA 2010 methodology on the division of national contributions to the EU budget will become visible when the new Decision enters into force (tentatively in 2015-16).

However, in the run-up to the introduction of ESA 2010, Member States and the Commission appear to have stepped up their efforts to resolve problematic elements from the past, for which reservations were still outstanding (see above). Since some reservations were longstanding, the revised GNI figures provided by Member States covered a significant timeframe (2002-13 in many cases and 1995-2013 in one case), which contributed to the magnitude of the adjustments.

The scale of GNI revision for individual Member States is linked to the nature of the outstanding reservations each country had, and their impact on GNI data. For example, in the case of the UK, which has seen the highest increase in contribution, a significant role in the revised GNI figures that the country has notified this year appears to be ascribed to the fact that the contribution of the UK charitable sector (or 'Non-Profit Institutions Serving Households' in statistical classifications) to GNI had been underestimated over the reference period.

The fact that the budget balancing resource currently finances around three quarters of the EU budget may amplify the impact of significant revisions of the related GNI bases on the annual corrections.

**European Council and Council of the European Union**

During the European Council of 23 and 24 October, the larger scale of this year's adjustments came under the spotlight. Attention was also drawn to the timing of the revision and the short deadline for payment, which are however determined by rules in the relevant Regulations: Member States must notify their GNI data before 22 September, the GNI Committee examines and approves the final data in October, and the balances must be credited or debited on the first working day of December.

On 7 November 2014, the Council, in its ECOFIN configuration, dealt with the topic. Considering that the short regulatory deadline for payment may have significant fiscal
implications for some Member States, the Council invited the Commission to put forward a proposal for a targeted amendment of Regulation (EC, Euratom) 1150/2000. The modification should define exceptional circumstances under which Member States may opt to defer payment of the annual correction until 1 September of the following year at the latest. The amendment should apply from 1 December 2014, retroactively if needed.

Commission proposal
On 12 November 2014, the European Commission put forward a proposal to modify Council Regulation (EC, Euratom) 1150/2000 on the basis of the Council's conclusions. The text defines an individual and a global threshold above which the annual adjustments of the GNI and VAT resources can be considered as exceptional: 1) the increase in the contribution for a single Member State exceeds two (monthly) twelfths of its annual VAT and GNI contribution to the EU budget (including the effect of the UK correction); 2) the total adjustment for all Member States exceeds half of one twelfth of the total VAT and GNI contributions (again including the effect of the UK correction). Postponement of the payment until 1 September of the following year would be possible for Member States concerned in the former case and for all EU countries in the latter.

The change would apply as of 1 December 2014 so that the 2014 adjustment can be dealt with under the modified rules. In 2014, the revision exceeds both the individual threshold (for four countries) and the global threshold. Over the past decade, the two thresholds would have been exceeded only in one financial year (2007).

After consulting the European Parliament and the European Court of Auditors, the Council is to decide on the proposal by qualified majority, since unanimity applies to the underpinning Own Resources Decision, but not to this Regulation, which provides details on how to implement it. The Council has asked the Parliament to agree to the use of the urgent procedure for this file.

Given that the new Own Resources Decision will apply retroactively as of 1 January 2014, the corresponding Regulation (EU, Euratom) 609/2014 will need to be amended as well. The Commission intends to include these changes in a proposal to amend that Regulation that it had already planned to table by the end of March 2015.

### High-level group on own resources

The EP has long pushed for reforms of the own resource system, criticising among other things the predominant role taken by the GNI resource in the financing of the EU. In the context of the political deal for the 2014-20 Multiannual Financial Framework of the EU, the EP obtained agreement to the establishment of a high-level group to carry out a general review of the system. This could potentially pave the way to reform proposals from the Commission in 2016.
Table 1 - 2014 Net adjustments compared with 2013 national contributions* (in million euros)

<table>
<thead>
<tr>
<th></th>
<th>2014 Net adjustment (A)</th>
<th>2013 National contribution to EU budget (B)</th>
<th>A/B %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Belgium</td>
<td>-170.5</td>
<td>3 931.3</td>
<td>-4.3%</td>
</tr>
<tr>
<td>Bulgaria</td>
<td>7.0</td>
<td>422.8</td>
<td>1.7%</td>
</tr>
<tr>
<td>Czech Republic</td>
<td>-21.6</td>
<td>1 445.0</td>
<td>-1.5%</td>
</tr>
<tr>
<td>Denmark</td>
<td>-321.4</td>
<td>2 606.0</td>
<td>-12.3%</td>
</tr>
<tr>
<td>Germany</td>
<td>-779.2</td>
<td>26 125.1</td>
<td>-3.0%</td>
</tr>
<tr>
<td>Estonia</td>
<td>-6.4</td>
<td>190.3</td>
<td>-3.4%</td>
</tr>
<tr>
<td>Ireland</td>
<td>6.5</td>
<td>1 520.6</td>
<td>0.4%</td>
</tr>
<tr>
<td>Greece</td>
<td>89.4</td>
<td>1 794.2</td>
<td>5.0%</td>
</tr>
<tr>
<td>Spain</td>
<td>-168.9</td>
<td>10 375.6</td>
<td>-1.6%</td>
</tr>
<tr>
<td>France</td>
<td>-1 016.3</td>
<td>21 874.4</td>
<td>-4.6%</td>
</tr>
<tr>
<td>Croatia</td>
<td>-32.5</td>
<td>226.8</td>
<td>-14.3%</td>
</tr>
<tr>
<td>Italy</td>
<td>340.1</td>
<td>15 748.1</td>
<td>2.2%</td>
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<tr>
<td>Cyprus</td>
<td>42.4</td>
<td>170.0</td>
<td>24.9%</td>
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<td>Latvia</td>
<td>6.5</td>
<td>248.3</td>
<td>2.6%</td>
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<td>Lithuania</td>
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<td>-5.2%</td>
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<td>Luxembourg</td>
<td>-90.9</td>
<td>310.5</td>
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<td>Hungary</td>
<td>-32.4</td>
<td>920.2</td>
<td>-3.5%</td>
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<tr>
<td>Malta</td>
<td>13.1</td>
<td>77.5</td>
<td>16.9%</td>
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<tr>
<td>Netherlands</td>
<td>642.7</td>
<td>4 744.6</td>
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<td>Austria</td>
<td>-294.3</td>
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<td>Poland</td>
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<td>-17.9</td>
<td>368.1</td>
<td>-4.9%</td>
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<td>Slovak Republic</td>
<td>-60.2</td>
<td>713.4</td>
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<tr>
<td>Finland</td>
<td>-180.5</td>
<td>2 031.5</td>
<td>-8.9%</td>
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<tr>
<td>Sweden</td>
<td>-132.8</td>
<td>3 768.9</td>
<td>-3.5%</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>2 125.3</td>
<td>14 509.5</td>
<td>14.6%</td>
</tr>
</tbody>
</table>

* Member States whose contributions increased due to the 2014 revision are marked in red.

Data source: Based on European Commission data.
Further reading


Endnotes

1 When the 2014 Decision enters into force (tentatively expected in 2015-16), accompanying rules are also set to change with retroactive application from 1 January 2014: Council Regulation (EU, Euratom) 608/2014 sets the new implementing measures for the own resources system, while Council Regulation (EU, Euratom) 609/2014 establishes how to make available own resources and meet cash requirements. On the basis of the Lisbon Treaty, the adoption of the former required the prior consent of the EP, while the latter needed only that it be consulted.

2 Initially, this resource was linked to gross national product (GNP).

3 ECA’s Annual Reports concerning the financial year 2013.

4 ECA’s Special Report No 11/2013.


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