



## *“I want my money back”*: The history of national rebates

### A brief overview of the history of the own resources system and its rebates<sup>1</sup>

**1970-1984** The own resources system is introduced, including customs duties, agricultural duties, and sugar and isoglucose levies, which are called traditional own resources (TOR). Member States (MS) are reimbursed 10% of these resources to cover administrative expenditures. As of 1980, MS paid 1% of their value-added tax (VAT) revenue in full (it was only introduced gradually before), which made 50% of the EU budget at the time.

**1985-1987** Following the Fontainebleau European Council decision in 1984, the **UK rebate** comes into effect, since the UK's GDP per capita was lower than the European Economic Community (EEC) average and it had a small agricultural sector with a large proportion of farm products imported from outside EEC. Therefore, there was relatively little benefit in EEC's main spending programme – the Common Agricultural Policy (CAP) – for the UK at that time. At the same time, the country paid a high amount of VAT contribution, as its VAT base share in the gross national product (GNP) was higher than for other MS. In 1985, the UK received a reduction of its VAT contribution of European Currency Unit (ECU) 1 billion. As of 1986, the rebate was defined as 66% of the difference between its share of all VAT contributions and its share of all EU spending to all of the other MS, excluding EU expenditure in third countries. MS paid for this rebate in proportion to their VAT payments. **Germany received a rebate** on one-third of the additional amount to be paid (the 'rebate on the rebate'). The VAT call rate is increased to 1.4%.

**1988-1992 (Delors I)** The maximum amount of own resources (i.e. global own resources ceiling) is set at 1.15% in 1988 and 1.2% in 1992 of EEC's total GNP. A new source of revenue is introduced to balance expenditure if TOR and VAT revenues are insufficient – a GNP share of MS. A 'capping mechanism' for VAT contribution is introduced: MS' VAT base must not exceed 55% of its GNP. The MS keep 10% of collection costs. The MS no longer finance the UK rebate proportionally to their VAT base, but to their GNP instead.

**1993-1999 (Delors II)** The global own resources ceiling is increased from 1.20% in 1993 to 1.27% in 1999. The cap of the VAT base is lowered to 50%. The VAT call rate is reduced gradually to 1.0% between 1995 and 1999.

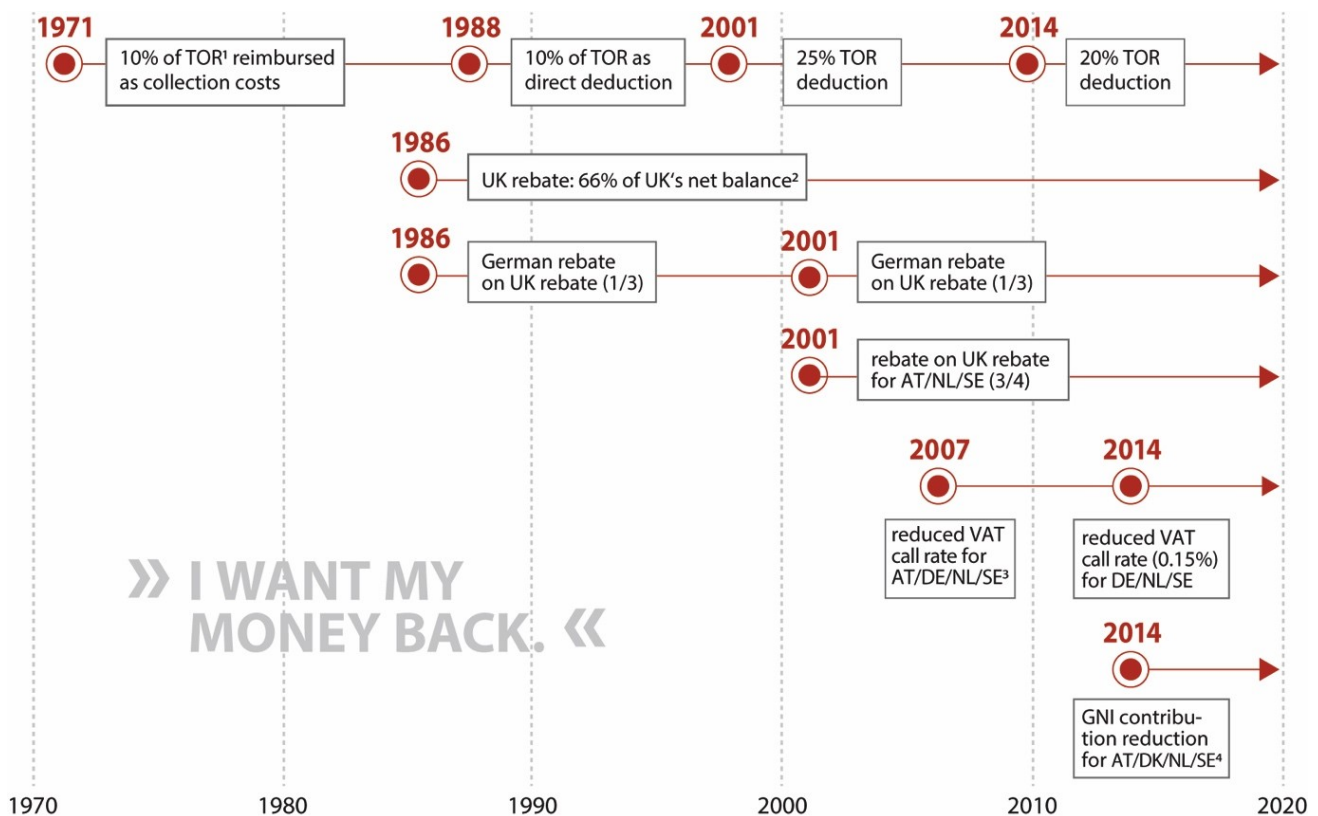
**2000-2006** Following the Berlin European Council decision in 1999, the 10% collection costs for TOR is increased to 25%. The VAT call rate is reduced to 0.75% in 2002 and 0.5% in 2003. **Austria, Germany, the Netherlands and Sweden** only pay a quarter of normal costs to the **UK rebate**. The own resources ceiling is kept at 1.27% of GNP, which is equal to 1.24% of GNI. **New MS** received a lump sum, cash flow facility in 2004 to improve their net budgetary position and other temporary payments.

**2007-2013** The VAT call rate is reduced to 0.3%. Some countries received a reduction for this period: 0.225% for **Austria**, 0.15% for **Germany**, and 0.1% for **the Netherlands** and **Sweden**. Gross annual reductions of the GNI contribution are introduced for **the Netherlands** (€605 million) and **Sweden** (€150 million) for this

period only. These latter gross reductions are financed by all of the other MS, including the UK, through their GNI. The UK's advantage from the rebate is limited to €10.5 billion in order to make the country participate in enlargement financing. What is omitted from the calculation of the UK rebate is the value of non-agricultural expenditure from the EU budget in the 13 MS that have joined since 2004.

**2014-2020 Germany, the Netherlands and Sweden** received a reduced VAT call rate of 0.15% for this period. **Denmark, Netherlands and Sweden** received gross reductions in their annual GNI contribution of €130 million, €695 million and €185 million respectively (2011 prices) for this period only. **Austria** received a reduction of GNI contribution of €30 million in 2014, €20 million in 2015 and €10 million in 2016. The TOR collection cost deduction is reduced to 20%. The own resources ceiling is reduced from 1.24% to 1.23% of GNI.

Figure "I want my money back": Timelines of national rebates



Source: Authors' own. <sup>1</sup>TOR = Traditional own resources. <sup>2</sup>66% of the difference between the percentage of the UK's contribution to the VAT resource compared to the other Member States, and the share of the EU budget spent in the UK. <sup>3</sup>AT 0.225%, DE 0.15%, NL&SE 0.10%. <sup>4</sup>Annual reductions of €130 million for DK, €695 million for NL, €185 million for SE. Reduction of €60 million for AT in 2014-2016.

Source: Extracts from Briefing *The net operating balances: Variants, emerging numbers and history*, February 2020

<sup>1</sup> cf. Benedetto, Giacomo (2017) "Institutions and the route to reform of the European Union's budget revenue, 1970-2017", *Empirica* 44(4): 615-633; Cipriani, Gabriele (2014), "Financing the EU Budget: Moving forward or backwards?", Brussels: Centre for European Policy Studies. European Commission (2015), *European Union Public Finance* 5th edition, Brussels, Heinemann, Friedrich; Philipp Mohl and Steffen Osterloh (2008), *Reform Options for the EU Own Resource System*, Heidelberg: Physica-Verlag Heidelberg.

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