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on reform of the European Union's system of own resources

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Co-rapporteurs: Gérard Deprez, Janusz Lewandowski

I. The legal framework

Article 311 of the Treaty on the Functioning of the European Union (TFEU) defines the key principles regarding the financing of the EU budget. It stipulates that 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'.

The same Article empowers the Council, acting in accordance with a special legislative procedure, to adopt – unanimously and after consulting the European Parliament – 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, in accordance with their respective constitutional requirements.

The current **Own Resources Decision** (Council Decision 2014/335/EU, Euratom of 26 May 2014[1]) provides for the own resources ceiling (1.23 % of EU GNI in payment appropriations) and the different categories of own resources (Traditional own resources, VAT-based own resources, GNI-based own resources), as well as for a series of correction mechanisms that grant particular Member States a reduction of their contribution to the EU budget.

Furthermore, Article 311 empowers the Council to provide in the Own Resources Decision for the adoption of a **regulation laying down implementing measures** for the own resources system, after obtaining the consent of the Parliament.

In essence, this regulation provides for the only formal possibility in legislative terms for Parliament to influence provisions relating to the revenue of the EU budget. Parliament was thus successful in requesting, during the last MFF negotiations, the Council to adopt a first implementing measures regulation (Council Regulation (EU, Euratom) No 608/2014 of 26 May 2014[2]). However, the contents of that regulation fell short of Parliament's expectations. For Parliament, the rationale behind the new Treaty provision on establishing implementing measures was to allow for a more flexible own resources system. If matters such as the precise percentages of the VAT collection rate and corrections and rebates were to be laid down in the Implementing Measures Regulation, then it would be possible to amend them at any time through a legislative procedure, without any need for a long procedure of ratifications by the Member States. However, in 2013, the Council refused to transfer such matters from the Own Resources Decision to the Implementing Measures Regulation and, at present, the contents of the Implementing Regulation remain essentially technical.

Finally, Council Regulation (EU, Euratom) No 609/2014 of 26 May 2014[3], as amended by Council Regulation (EU, Euratom) 2016/804 of 17 May 2016[4] on the methods and procedure for making available the traditional, VAT- and GNI-based own resources and on the measures to meet cash requirements (the **Making Available Regulation**), sets out detailed administrative rules for the collection of own resources.

Following ratification of the Own Resources Decision, these legal acts entered into force on

[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] OJ L 132, 21.5.2016, p. 85.

1 October 2016 and apply retroactively as from 1 January 2014.

II. The main components of the current system of own resources

Own resources ceiling: According to the 2014 Own Resources Decision, own resources are limited to a maximum of 1.23 % of EU GNI for payment appropriations and 1.29 % of EU GNI for commitment appropriations. It is noteworthy, however, that the Multiannual Financial Framework (MFF) sets the maximum level of expenditure at around 1 % of EU GNI, while the actual level of the annual EU budget falls even below that.

Categories of own resources: The current system provides for the following categories:

1. **'Traditional' own resources (TOR):** These consist of customs duties, agricultural duties, and sugar and isoglucose levies. They were created by the 1970 Own Resources decision and have been collected ever since. In 2015, the 'traditional' own resources represented 12.8 % of total revenue.

2. **The VAT-based own resource:** This currently consists of the transfer to the Union of the uniform rate of 0.3 %, 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-based resource accounted for 12.3 % of total revenue in 2015.

3. **The GNI-based own resource:** This own resource, initially introduced by Council Decision 88/376/EEC, consists of a levy on Member States' GNI of a uniform percentage set in each year's budget procedure. It was intended as a residual resource to balance the budget, to the extent that other own resources did not fully cover expenditure. However, nowadays the other resources fall far short of covering expenditure and so it now finances the bulk of the EU budget. As a residual resource, it is calculated once the other two are known, in order to ensure that the EU budget is balanced. In 2015, the GNI-based resource represented 69.1 % of EU revenue.

Other revenue: In addition to the own resources, the EU budget receives 'other revenue', which 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, mainly, of EU competition law. 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 2015 to 6 % of total revenue.

Rebates and other correction mechanisms: A system of rebates and correction mechanisms applies to the system of own resources. The most widely known is the British rebate, according to which the UK is reimbursed by 66 % of the difference between its contribution and what it receives back from the budget. The cost of the UK rebate is divided among EU Member States in proportion to the share they contribute to the EU's GNI. However, Germany, the Netherlands, Austria and Sweden, who considered their relative contributions to the budget to be too high, pay only 25 % of their normal financing share of the UK correction (the so-called rebate on the rebate).

A series of ad hoc measures and corrections have been introduced over time. For the period 2014-2020 only, Denmark, the Netherlands and Sweden benefit from gross reductions in their annual GNI contribution of EUR 130 million, EUR 695 million and EUR 185 million, respectively. Austria benefits from a gross reduction in its annual GNI contribution of EUR 30 million in 2014, EUR 20 million in 2015 and EUR 10 million in 2016. On top of this, and only for the period 2014-2020, reduced VAT call rates for Germany, the Netherlands and Sweden are fixed at 0.15 %.

III. Evolution of the composition of own resources and their proportion in the EU budget

From 1958 to 1970, the Community budget was exclusively financed by national contributions from the Member States.

In 1970, to enhance the financial independence of the Community in relation to the transfers from the Member States, the Luxembourg European Council decided to introduce a system of own resources that came into effect in 1971 and was implemented progressively. This system was composed of three categories of own resources: custom duties (collected progressively from 1971 to 1975) and agricultural levies (fully collected from 1971), the two now referred to as traditional own resources (TOR); and a VAT-based own resource. The VAT base was defined in 1979.

In 1984, the high level of spending for the Common Agricultural Policy (CAP) and two enlargements of the Community lead the Fontainebleau European Council to set up a maximum call-in rate of VAT at 1.4 % for this resource, and to introduce a correction mechanism for budgetary imbalances in order to meet a strong request expressed by the UK[1]. However, since the CAP spending remained unchanged and the revenues from TORs continued to decline, the implementation of the conclusions of the Fontainebleau Council soon became insufficient to finance the EU budget.

In June 1988, the Brussels European Council introduced a new own resource based on the Member States' GNI and intended to ensure the budget remained balanced. It also established an overall ceiling regarding the total amount of own resources that could be used to finance the Community's expenditure.

The Edinburgh agreement of December 1992 increased this overall ceiling to 1.27 % of Europe's GNI, while introducing measures aiming at reducing the importance of the VAT-based resource. This agreement entered into force in early 1995.

In 1999, the Berlin European Council called on the Commission to prepare a new 'Own resources' decision to provide the Union with adequate means for the 2000-2006 period, while at the same time adhering to strict budgetary discipline. The new system should be 'equitable, transparent, cost-effective and simple', and be based on criteria which best expressed the Member States' ability to contribute to the funding of the Union. This 'Own resources' decision of 29 September 2000 entered into force 1 March 2002. It officially created the British rebate and the adjustments of the contribution shares of Austria, Germany, Netherlands and Sweden in funding the rebate. Instead of programming the progressive

[1] The Fontainebleau European Council stated in its conclusions: 'Expenditure policy is ultimately the essential means of resolving the question of budgetary imbalances. However, it has been decided that any Member State sustaining a budgetary burden which is excessive in relation to its relative prosperity may benefit from a correction at the appropriate time'.

phasing out of the British rebate, correction mechanisms were thus extended to other Member States. Furthermore, this decision raised the share of TORs that can be retained by the Members States for the collection costs from 10 % to 25 %, thus further reducing the share of TORs in the Union's revenue.

After the presentation of the EU Budget Review[1] in October 2010, which included indications on a possible reform of the EU financing, the Commission presented, concomitantly with its legislative proposals on the 2014-2020 MFF (June 2011), a package of ambitious legislative proposals on own resources. These included the introduction of two new own resources, the Financial Transaction Tax (FTT) and a new VAT resource, as a well as a series of provisions to simplify the current system. The package has led to further discussions and has further enhanced cooperation on the FTT. The Council opted to largely maintain the status quo and to further consolidate the existing system.

In summary, since the early 1970's, the traditional own resources and the VAT-based own resources' share of the EU budget has declined dramatically. The GNI-based resource, a mere complement at the end of the 1980's, has become the main source of funding, as illustrated in the table below.

The following table presents the last comprehensive figures from the statistics of DG Budget on the matter: while the GNI-based own resource amounted to 40 % of the total revenue in 2000, it represents more than 69 % of the total revenue in 2015. The category 'other revenue' is also rapidly increasing: from 1.67 % of the total revenue in 2000 to 5 % in 2015.

EU budget Revenue	2000		2010		2015	
	Bn EUR	%	Bn EUR	%	Bn EUR	%
TOR	15.27	16.5%	15.66	12.3%	18.73	12.8%
VAT-based own resource	35.19	38.0%	12.47	9.8%	18.09	12.4%
GNI-based own resource	**37.58**	**40.5%**	**90.95**	**71.3%**	**100.52**	**69.1%**
Surplus from previous years	3.21	3.5%	2.25	1.8%	1.43	1.0%
Other	1.55	1.7%	6.47	5.1%	7.26	5.0%

Source: EU budget 2015 Financial Report

[1] Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee, the Committee of the Regions and the national parliaments – The EU Budget Review (COM(2010)0700), 19 October 2010.

IV. Critical stance on the current system

European Parliament

Parliament has long criticised the current system of own resources, not least because of its excessive complexity, and has pushed for an overhaul reform based on clearly defined and commonly agreed principles. Parliament's position has been reflected in a series of reports and resolutions adopted by an overwhelming majority, as set out in detail below.

It is noteworthy that, based on the 2011 legislative proposals, Parliament has confirmed its long-standing position and declared that the reform of the own resources system was one of its main political priorities for the 2014-2020 MFF negotiations. In this spirit, Parliament has considered the legislative proposals on the MFF on the one hand, and the own resources on the other – that is, the expenditure and revenue sides of the EU budget – to represent a single package for the negotiations, and has stated this position in all its resolutions leading up to the adoption of the 2014-2020 MFF Regulation. In this context, and at Parliament's strong insistence, the decision was taken to create the High Level Group on Own Resources, presided by Mario Monti, and composed by three representatives each from the Commission, Parliament and the Council.

In its most recent resolutions, Parliament's views can be reflected as follows:

- In its resolution of **15 April 2014** on negotiations on the MFF 2014-2020: lessons to be learned and the way forward[1], Parliament advocated for 'an in-depth reform of the financing of the EU budget that should return to a system of genuine, clear, simple and fair own resources' and insisted that this should entail the introduction of new own resources that would reduce the share of GNI-based contributions.

- In its legislative resolution of **16 April 2014** on implementing measures for the system of own resources of the European Union[2], Parliament highlighted the importance of the establishment and work of the so-called High-Level Group on Own Resources (HLGOR), which was established as a result of Parliament's insistence during the negotiations on the MFF for 2014-2020.

- In its resolution of **6 July 2016** on the preparation of the post-electoral revision of the MFF 2014-2020: Parliament's input ahead of the Commission's proposal[3], 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[4], Parliament reiterated the need to reduce the share of the GNI contributions, and called for the VAT resource to be either substantially reformed or scrapped altogether. It also called for the introduction of one or several new own resources, as well as the phasing-out of all forms of rebates.

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[1] Texts adopted, P7_TA(2014)0378.
[2] Texts adopted, P7_TA(2014)0434.
[3] Texts adopted, P8_TA(2016)0309.
[4] Texts adopted, P8_TA(2016)0412.

- Recently, in its resolution of **15 March 2017** on general guidelines for the preparation of the 2018 budget[1], Parliament reaffirmed its position in favour of an in-depth reform of the EU system of own resources, and welcomed in this respect the report of the HLGOR. Parliament furthermore invited all parties to draw the appropriate conclusions from the Monti report and to analyse the feasibility of implementing the recommendations of the HLGOR that would help make the EU budget more stable, simple, autonomous, fair and predictable.

High Level Group on Own Resources (HLGOR)

In its first report evaluating the current system of own resources, the HLGOR adopted the critical stance of Parliament during the negotiations on the 2014-2020 MFF[2].

The report underlined the significant qualities of the current system, recognising that it allows the annual budget to receive sufficient resources with certainty, but noting that it has so many downsides that it is in need of a profound reform.

The current financing system of the EU budget appears as a several-decade-old political construction that has become more complex and less transparent over time. Because of its complexity and opaqueness, it is now almost impossible to explain it to the public, where suspicions are rife that it is the result of grubby deal-making intended to cover up deep inequities.

The EU financing system is also perceived by the Member States and, more generally, by their populations, as a budgetary contribution that needs to be justified by how the Union budget benefits them. Known as the principle of 'juste retour', this means that any part of the contribution that is not fully compensated by instalments from the Union budget I regarded as illegitimate. Instead of considering a fair contribution to the financing of a common European added value, each Member State is thus looking at the EU budget from a purely national point of view, with a view to getting the best possible return from the EU budget, that is, the best value for its money.

Finally, the VAT-based own resource is not simply an aggregation of transfers of shares of Member State VAT resources, but as contribution computed on a statistical basis. As there is no common base to calculate a uniform rate, a uniform call rate is applied to a harmonised tax base. The Member States pay 0.3 % of the estimated revenue of VAT.

V. Former proposals for reform

a. Parliament's own initiative report (rapporteur: Alain Lamassoure) – March 2007

In the Lamassoure report on the future of EU's own resources (adopted in plenary on 14 March 2007)[3], Parliament put forward proposals to reform the system of own resources in the context of the enlargement of the EU. The report cites all the shortcomings of the current system: its complexity, its lack of transparency for the citizens, the dominant share of the GNI contribution (that looks 'fair' if one considers the redistribution between the Member States,

[1] Texts adopted, P8_TA(2017)0085.
[2] Texts adopted, P7_TA(2014)0431, P7_TA(2014)0432, P7_TA(2014)0433 and P7_TA(2014)0434.
[3] Texts adopted, P6_TA(2007)0098.

but presents a major drawback as it encourages the concept of ‘juste retour’). The report also denounces the rebates, the opt-out systems, the principle of unanimity in the decision-making process, etc.

The report proposes a reform conducted in two stages:

The first stage would be to improve the national contribution system to make it more equal (end of the rebates). This would have the advantage of making it

- simpler to explain to national parliaments and European citizens; and
- fairer and more inclusive by avoiding the numerous derogations and additional provisions that come with the European Council decisions over the MFF.

Making the system of own resources simpler would go hand in hand with a review of the expenditure side of the EU budget.

The second stage would be to select and define a new own resource that could fund the EU’s policies and functioning. The broad guidelines of the process have been drawn up through contacts with national parliaments:

- Fiscal sovereignty should remain within the hands of the Member States, which would be able to delegate part of it for a limited time and to revoke this delegation.
- The reform should be neutral in terms of fiscal impact, without any additional charge on the citizens.
- The order of magnitude for the European budget must remain unchanged, i.e. +/- 1 % of GNI.
- The implementation should be progressive and a close link should be maintained between reforms of the revenue and of the expenditure.

The report stresses that Parliament will proceed with examining the identified potential solutions in close cooperation with national parliaments. The EU could potentially levy the following taxes:

- List established by the Commission and the national parliaments: VAT, excise duty on motor fuel for transport and other energy taxes, excise duties on tobacco and alcohol, taxes on corporate profits.
- Complementary list stemming from discussion within Parliament: taxes on dealings in securities, taxes on transport or telecommunication services, income tax, withholding tax on interest, ECB profits (seigniorage), eco-tax, Tobin tax, etc.

The criteria to judge the suitability of a new proposal are the same as the generic criteria stated in the later Monti report (HLGOR): sufficiency, stability, visibility and simplicity, low operating costs, efficient allocation of resources, equity.

Finally, the report discards the proposals of Commissioner Schreyer to expand the rebates system, albeit limited and calculated according to transparent and unbiased rules.

b. Own resources legislative package tabled by Commissioner Janusz Lewandowski – June 2011

The legislative proposals that were presented jointly with the 2014-2020 MFF proposals start with establishing a diagnosis of the current own resources regime: the current system is out-of-date, it is too complex and opaque[1].

The proposals contained the following three main elements: the simplification of Member States' contributions, the introduction of new own resources and the reform of correction mechanisms. Furthermore, the proposals aimed at setting up a European own resources system closely linked with EU policies. Their general outline was as follows:

- no modification for the traditional own resources, except for the collection costs kept by the Member States, to be lowered from 25 % to 10 %;
- replacement of the VAT-based own resource by a EU VAT of 1-2 %, first to be levied on a specially harmonised VAT base, then, after reform of the VAT, on the new base;
- creation of a financial transaction tax (FTT) accruing to the EU budget;
- change and simplification of the legal basis through implementation of the TFEU;
- simplification and capping of the rebates, with annual fixed-amount payment to some Member States to compensate for the excessive cost of financing the EU budget in terms of GNI per capita; the rebates would be of limited duration, with all Member States contributing, and would no longer be linked to the European spending within the Member State.

These proposals were presented by the Commission in June 2011. They foresaw that the FTT and the new VAT (first phase) would be implemented 1st January 2018, allowing for five to six years of negotiations and fine-tuning.

The 2011 proposals were very ambitious in terms of efficiency and deadline. By way of illustration, here are the objectives set for the end of the MFF 2014-2020, compared to the annual draft budget of the time:

	Draft budget 2012		**2020**	
	EUR billion	% of OR	EUR billion	% of OR
Traditional own resources	**19.3**	**14.7**	**30.7**	**18.9**
Existing national **Contributions** of which	**111.8**	**85.3**	**65.6**	**40.3**

[1] COM(2011)0510, 29 June 2011.

VAT-based own resource	14.5	11.1	-	-
GNI-based own resource	97.3	74.2	65.6	40.3
New own resources of which	-	-	**66.3**	**40.8**
New VAT resource	-	-	29.4	18.1
EU financial transaction tax	-	-	37.0	22.7
Total own resources	**131.1**	**100.0**	**162.7**	**100.0**

c. Proposals of the HLGOR – December 2016

The report of the high level group presents the results of discussions between representatives of the three institutions on the subject of an array of new own resources that could possibly be used to fund the Union.

The group thus limits its investigations to proposals under the current institutional set-up.

However, the report proposes a methodology: it defines the range of criteria to be used when choosing between a number of new own resources. As the group has gone through all recent proposals, its evaluation grid will prove authoritative and will not need further validation. It is thus possible to implement it without having to validate its components.

In the report, the HLGOR first discusses which parts and elements of the current system of own resources that work well and should therefore be kept. Its conclusions in this regard may be summed up as follows:

1) The current traditional own resources should be maintained without any substantial change.

2) The GNI-based own resource should be maintained, though with a decreased share. According to the HLGOR, this system scores highest in terms of efficiency, stability, sufficiency, subsidiarity, etc. Despite the corrections (rebates), it still scores at 75 % in equity. For the HLGOR, the GNI-based own resource should thus be kept, albeit with substantial adjustments, e.g. removal of the correction mechanism.

However, the Group notes that different rates of contribution could apply, as is already the case today with the financing of the European Development Fund.

Thus the Group opens the door for the possibility of applying a certain kind of correction in the Member States' GNI contributions, meaning that the contributions of each Member State would not necessarily need to be proportional to GNI, if the implementation of other own resources makes them necessary. This could for example be the case for the tax on electricity consumption.

What is remarkable is that this provision marks a complete change of perspective with regard to the current corrections, which are apportioned on the basis of the distribution to Member States of allocations from the EU budget, in a 'juste retour' perspective. In the system proposed by the HLGOR, the revenue corrections would be enforced to meet disparities in the contributions.

3) The current VAT-based own resource should be replaced by a proper transfer of a share of VAT levied at national level.

4) The Group underlines the possibilities, sometimes neglected, to collect some revenues stemming directly from European policies ('other revenue'): even if they are not own resources, they are indeed budgetary income.

VI. Own resources proposed by the HLGOR

a. The criteria to apply when choosing among the own resources proposals

In order to select one or more own resources among those potentially available, a grid of relevant criteria is needed.

The mandate given by the three presidents of the institutions sets out three criteria: simplicity and transparency, equity, and democratic control. These are generic evaluation criteria of any budgetary system.

The HLGOR adds parameters that are specifically relevant to a budgetary system financing the EU budget: the selected resources should bring European added value; they have to comply with the principle of subsidiarity, and, as such, respect the fiscal competence of the Member States; and they should have limited political transaction costs[1]. The criteria relevant to any public financing system are thus complemented by requirements in line with the core principles of EU action.

According to the HLGOR, the criterion of European added value is the key component in justifying a new policy or a further contribution to the EU budget in the eyes of citizens. Proving the European added value of a proposal should allow citizens to place more trust in the necessity of implementing a policy at European level. However, from a methodological point of view, of all the European criteria, the added value is the most difficult to assess. Should it be evaluated ex ante or ex post? How to measure the effect of economies of scale, the effect of cross-border externalities, or the threshold effect, etc.?

The HLGOR report points out how difficult this assessment is regarding the expenditure side, because the exercise has not yet been conducted on the revenue side. One must also underline the weight of political appraisal in measuring the European added value, as the first step in its evaluation is to decide that a policy or political action should be undertaken at European level. Finally, the European added value can depend on the length of time during which it is assessed, or on the chosen objectives (which could be limited at first, then more general, as it

[1] Own resources can be strongly influenced by political, economic and financial factors internal to each Member State. For example, when the GNI-based own resource is mostly seen as a national contribution, it can create constraints on the negotiations for the EU budget. This fosters the idea that these contributions are conditional on the vote of the national parliaments and are to compete with national expenditure, which builds political pressure on the national authorities to reduce them. The political transaction costs for the EU have increased significantly over the years as a result.

was the case for the CAP or the Cohesion Policy).

Despite the aforementioned difficulties, the HLGOR considers that European added value is a central criterion to apply when evaluating the Group's proposals for new own resources. As stated in the second recommendation of the report: *'In times of scarce public resources but growing financial needs, the EU budget needs to focus on areas bringing the highest "European added value", or on European public goods for which action is not only a relevant, but indispensable...'*.

The other criteria are more easily phrased and evaluated, but are as essential as criterion for European added value. These are subsidiarity and collection costs: the costs of collecting an own resource should not be disproportionate to its return.

The HLGOR report lists the following criteria to be taken into account when choosing which of the candidates for new own resources to implement:

1) equity;

2) efficiency;

3) sufficiency and stability;

4) transparency and simplicity;

5) democratic accountability and budgetary discipline;

6) focus on European added value;

7) the subsidiarity principle;

8) limited political transactions costs.

b. <u>HLGOR's ranking of own resources</u>

The work of the HLGOR on selection criteria resulted in a rationally designed ranking of the possible options for own resources.

In Annex VII of the report, the possible candidate for new own resources are assessed in a comparative way. The HLGOR, however, is certainly not making a choice among them. Instead, the Group underlines that the responsibility to decide among them lies with the European policy makers who:

- first, need to decide if they find it necessary to widen the scope of the own resources when reforming the current system and setting up complementary objectives; and

- second, need to choose which of the new own resources to implement and at what pace.

c. The HLGOR sorts its proposals according to policy areas

For the HLGOR, it is essential to rethink the revenue and expenditure systems, taking into account the concept of European public goods. Each own resource proposal must be assessed according its European added value in pursuing the goals of European policies.

Thus, the HLGOR categorises its candidates for own resources under the following European policy areas:

- The Single Market and fiscal coordination: this concerns a reformed VAT-own resource, an EU corporate income tax, a financial transaction tax or other financial activities' tax. These possible resources would have the advantage of contributing to the better functioning of the Single Market and, particularly in the case of VAT and a corporate income tax, of promoting fairer taxation and, in addition to financing the EU budget, helping to combat tax fraud and tax avoidance.

- The Energy Union, environment, climate or transport policies: this includes a CO_2 levy, proceeds from the European emission trade system, an electricity tax, a motor fuel levy (or excise duties on fossil fuels in general), or indirect taxation of imported goods produced in third countries with high emissions.

Finally, the Group underlines that revenue stemming directly from EU legislation should be part of the revenue of the Union.

According to the report, the selection should be made from the following list of possible new own resources drawn up by the HLGOR:

1) a carbon tax (CO_2 levy / carbon pricing);

2) inclusion of the EU Emission Trading Scheme proceeds;

3) a motor fuel levy (taxes on fossil fuels / excise duties);

4) an electricity tax-based own resource;

5) an EU corporate income tax (CCCTB);

6) a financial transaction tax (FTT);

7) a bank levy or financial activities' tax (an alternative to the FTT);

8) a reformed own resource based on VAT;

9) seigniorage.

VII. Areas for consideration

A. General principles of financing

1. Can you confirm that the principles of simplicity, transparency, equity and democratic control mentioned in the mission letter sent to the HLGOR by the three Presidents of the institutions constitute the general criteria for assessing a budget financing system?

2. Do you consider the new assessment parameters added by the HLGOR to be relevant: i.e.

- serving to finance actions having a genuine European added value;
- complying with the principle of subsidiarity and, in that connection, the fiscal competence of the Member States;
- having politically acceptable collection costs?

3. Over the years there has been a marked shift in the financing method, from genuine own resources, as financing provided for in the Treaties, to financing by Member State GNI-based contributions. Does this trajectory need to be corrected, or is the contributions system considered to be the fairest?

4. The financing of an institution by means of state budget transfers is one of the financing methods for organisations subordinate to states. The financing of an institution by means of own resources affirms the independence of that institution with respect to its constituent parts. Do you share this view? Are you in favour of creating a genuine own resources system with a view to giving greater autonomy to the Union?

B. GNI contributions

1. Is it appropriate / desirable for the financing of the EU budget to continue to be based predominantly on GNI-based contributions from the Member States?

2. Should the GNI contributions to the EU budget be maintained, as a residual and balancing resource? Or should a fixed ceiling be set for this purpose? Could the ceiling be achieved by the end of the 2021 -2027 MFF?

3. Is it normal that Member States with a per capita GNI below the average of the new beneficiaries do not contribute to a lower share of ‘national contributions’ expressed as a percentage of GNI?

C. Corrections and rebates

1. Would you agree that any corrections should only concern the disparities in the burden as a proportion of per capita GNI, without taking into account any other conditions?

2. Could you imagine correction mechanisms which did not refer to the calculation of GNI-based contributions?

3. What is meant by 'an excessive budgetary burden in relation to its relative prosperity' for a Member State?

4. Could this burden be determined on the basis of the weighted average of the per capita contributions of all net contributors?

5. Could an excessive burden be established as the point at which a contribution exceeds this average by 5% or 10%?

6. Do you agree that all rebates should be abolished when Brexit enters into force?

D. Own resources linked to EU policies.

1. Do you agree with the approach advocated by the HLGOR, which is that the new own resources should improve the functioning of the single market and tax coordination and address the Energy Union, the environment, climate action and transport policies?

2. As regards a better functioning single market and the introduction of a fairer tax system, could you envisage a reform of the VAT resource, an EU corporation tax and a tax on financial transactions or other financial activities?

3. As regards the Energy Union, the environment, tackling global warming and transport policies, could you envisage a carbon tax, an electricity tax, a fuel tax (or excise duty on fossil fuels in general) and a tax on imports of products from third countries with high emission levels?

4. Do you think these approaches should be followed simultaneously, or should one be prioritised ahead of the other?

5. Do you agree that European added value, and its corollary the 'European public good', should be considered essential elements to be taken into account in selecting the new own resources?

6. Could you envisage the revenues already established and also those to come as a direct result of the application of European legislation automatically going into the EU budget?

E. Impact of new own resources on EU citizens.

The tax neutrality of the reforms is one of the agreed principles for a reform of own resources.

1. Would you consider this principle to be respected if the new own resources were offset by an equivalent reduction in GNI-based contributions?

2. Should we go further and relieve EU citizens of any new burden?

3. If so, could you envisage these new own resources only being levied from other economic agents – undertakings and third countries; in this case through taxes or levies on entry and via customs duties?

F. Future composition of a financing basket

1. In order to avoid the distortions which could occur in the contributions made by Member States, can we envisage a basket of own resources?

2. Could that basket be established on the basis of the proposals made by the HLGOR?

1) A carbon tax (CO_2 levy / carbon pricing);

2) Inclusion of the EU emissions trading scheme;

3) A motor fuel levy (taxes on fossil fuels / excise duties);

4) A tax on electricity;

5) An EU corporate income tax (CCCTB);

6) A financial transaction tax (FTT);

7) A financial activities tax (alternative to the financial transaction tax);

8) A reformed own resource based on VAT;

9) Seigniorage.

3. What basket would you consider most appropriate to meet the desired objectives?

4. In your view, are there some suggestions on this list which would not be appropriate?

5. Do you think that the implementation of a revised own-resources system should go hand in hand with a critical reassessment of current expenditure, from the point of view of European added value?

<u>G. The role of traditional and VAT based own resources</u>

1. Do you agree with the idea of preserving traditional own resources, i.e. customs duties and agricultural levies?

2. Do you agree with maintaining the current system of calculating the VAT resource, despite its shortcomings, pending a complete overhaul of the VAT system?

3. Do you consider it appropriate in future to base the VAT resource calculation on the broadest possible harmonised basis?

4. If so, could the related own resource be calculated at a specific rate, for example 1%, which would go into the EU budget?