THE UNION’S REVENUE

The EU budget is financed in large part (over 90%) from own resources. Annual revenue must completely cover annual expenditure. The system of own resources is decided by the Council on the basis of unanimity, having regard to the opinion of the European Parliament, and needs to be ratified by the Member States.

LEGAL BASIS

— Articles 311 and 322(2) of the Treaty on the Functioning of the European Union and Articles 106a and 171 of the Treaty establishing the European Atomic Energy Community;

— Council Decision (EU, Euratom) 2020/2053 of 14 December 2020 on the system of own resources of the European Union[1];

— Council Regulation (EU, Euratom) 2021/768 of 30 April 2021 laying down implementing measures for the system of own resources of the European Union[2], Council Regulation (EU, Euratom) No 609/2014 of 26 May 2014 on the methods and procedure for making available the traditional, VAT and GNI-based own resources and on the measures to meet cash requirements[3], Council Regulation (EU, Euratom) 2021/769 of 30 April 2021 amending Regulation (EEC, Euratom) No 1553/89 on the definitive uniform arrangements for the collection of own resources accruing from value added tax[4], and Council Regulation (EU, Euratom) 2021/770 of 30 April 2021 on the calculation of the own resource based on plastic packaging waste that is not recycled, on the methods and procedure for making available that own resource, on the measures to meet cash requirements, and on certain aspects of the own resource based on gross national income[5].

OBJECTIVE

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

HOW IT WORKS

The **Own Resources Decision of 21 April 1970** provided the European Economic Community (EEC) with its own resources. The level of own resources that can be called on per year is currently limited to a maximum of 1.40% of EU gross national income (GNI)[6]. As overall spending cannot exceed total revenues, expenditure is also restricted by this ceiling (1.4.3). In practice, the current multiannual financial framework (MFF) 2021-2027 (1.4.3) sets the expenditure ceiling at a level equivalent to around 1.4% of EU GNI.

**REVENUE COMPOSITION**

1. ‘Traditional’ own resources

   These consist of customs duties, agricultural duties and sugar levies collected since 1970. The percentage that may be retained by Member States to cover collection costs has been raised back up to 25% from 20%. ‘Traditional’ own resources now usually account for around 10% of own resource revenue[7].

2. The VAT-based own resource

   This consists of the transfer of a percentage of the estimated value added tax (VAT) collected by the Member States to the Union. Although provided for in the 1970 decision, this resource was not applied until the VAT systems of the Member States were harmonised in 1979. The VAT resource now also accounts for around 10% of own resource revenue.

3. The GNI-based own resource

   This own resource consists of a uniform percentage levy on Member States’ GNI set in each year’s budget procedure, and was created by Council Decision 88/376/EEC. Originally it was only to be collected if the other own resources did not fully cover expenditure, but it now finances the bulk of the EU budget. The GNI-based resource has tripled since the late 1990s, and now makes up around 70% of own resource revenue.

4. Plastic own resource

   This is the first new category of own resources introduced as of 1 January 2021 by the 2020 Own Resources Decision. It is a national contribution on the basis of the quantity of non-recycled plastic packaging waste, with a uniform call rate of EUR 0.80 per kilogram. The contributions of Member States with a GNI per capita below the EU average are reduced by an annual lump sum corresponding to 3.8 kilogrammes of plastic waste per capita. The revenue from this resource is estimated at around 4% of the EU budget.

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

   Other revenue includes taxes paid by EU staff on their salaries, contributions from non-EU countries to certain EU programmes, remaining UK contributions and fines.

paid by companies found in breach of competition laws or other laws. If there is a surplus, the balance from each financial year is entered in the budget for the following year as revenue. Other revenue, balances and technical adjustments usually make up around 2-8% of total revenue.

6. Correction mechanisms

The own resources system has also been used to correct budgetary imbalances between Member States’ net contributions. The ‘UK rebate’ agreed in 1984 reduced the United Kingdom’s contribution and was financed in equal shares by all the other Member States, except for Germany, the Netherlands, Austria and Sweden, which benefited from a reduction. Although the UK rebate no longer applies, lump sum corrections will continue to benefit Denmark, Germany, the Netherlands, Austria and Sweden over the 2021-2027 period.

7. Borrowing

The EU budget cannot run a deficit, and funding its expenditure through borrowing is not allowed. However, in order to finance the grants and loans provided by the Next Generation EU Recovery Instrument (NGEU) scheme, the Commission was authorised on an exceptional and temporary basis to borrow up to EUR 750 000 million (in 2018 prices) on capital markets. New net borrowing should stop at the end of 2026, after which only refinancing operations will be allowed. The Commission is applying a diversified borrowing strategy, combining the use of long term bonds, green bonds and short term bills sold by syndication and auctions, combined with open and transparent communication via annual borrowing decisions and semi-annual funding plans.

TOWARDS THE REFORM OF EU OWN RESOURCES

The Treaty of Lisbon reiterated that the budget should be financed wholly from own resources, and maintained the power of the Council, after consulting Parliament, to unanimously adopt a decision on the system of own resources of the Union[8], to establish new categories of own resources and abolish existing ones. It also established that the Council can only adopt the implementing measures for these decisions with the consent of Parliament.

In January 2017, the high level group created in 2014 to undertake a general review of the own resources system (‘Monti group’) presented its final report on more transparent, simple, fair and democratically accountable ways to finance the EU budget. The main conclusion was that the EU budget needed reform, both on the revenue and expenditure side, so as to be able to address current challenges and achieve tangible results for EU citizens.

Based on this report and the subsequent Reflection Paper on the Future of EU Finances, the Commission made proposals[9] on 2 May 2018 to simplify the current VAT-based own resource and to introduce a basket of new own resources. This would make up about 12% of the total EU budget and comprise of 20% of the revenue from the EU Emissions Trading System (ETS), a 3% call rate from a new Common

[8]Any such decision needs to be ratified by the Member States.
Consolidated Corporate Tax Base and a national contribution calculated on the amount of non-recycled plastic packaging waste.

The Commission proposed abolishing all rebates, and to reduce from 20% to 10% the share of customs revenues that Member States keep as collection costs. It also proposed an increase in the ceiling on annual calls for own resources to take account of a smaller total GNI for the EU-27 and of the proposal to integrate the European Development Fund into the EU budget.

THE EUROPEAN PARLIAMENT’S VIEWS

Building on the new provisions of the Treaty of Lisbon, Parliament has repeatedly called for an in-depth reform of the system of own resources in a number of resolutions over the past years\[^{10}\]. Parliament has highlighted problems with the own resources system, particularly its excessive complexity and its financial dependence on national contributions.

Parliament pushed for reforms to make revenue collection simpler, more transparent and more democratic, to reduce the share of GNI contributions, to reform or scrap the VAT resource and to phase out all forms of rebate.

With a view to achieving a more stable EU budget designed to support EU policy objectives, it repeatedly called for an ambitious and balanced basket of new EU own resources that is fair, simple, transparent and fiscally neutral for citizens.

In its resolution of 10 October 2019 on the multiannual financial framework 2021-2027 and own resources, Parliament also called for the introduction of a carbon border adjustment mechanism.

MFF NEGOTIATIONS IN 2020

On 28 May 2020, the Commission proposed to borrow up to EUR 750 billion by issuing bonds on the international markets on behalf of the EU with maturities of 3 to 30 years, in order to finance a revamped MFF and NGEU to counter the effects of the COVID-19 pandemic. For the purpose of underpinning the liabilities incurred by the EU to eventually reimburse the market finance raised, the Commission proposed to raise the own resources ceiling exceptionally and temporarily by 0.6% of the EU’s GNI on top of the proposed permanent increase from 1.2% to 1.4% of GNI in order to take account of the new economic context. It also proposed a new own resource based on non-recycled plastic packaging waste, and options for new own resources including an ETS-based own resource (extended to the maritime and aviation sectors), a carbon border adjustment mechanism, an own resource based on operations of large enterprises and a digital tax.


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At the European Council meeting of 17–21 July 2020, the Heads of State or Government agreed on a new MFF, the NGEU, raising the ceiling for payments, and a new own resource based on non-recycled plastic waste to be applied from January 2021.

In its resolution of 23 July 2020, Parliament stressed that only the creation of additional new own resources can help to repay the EU’s debt while salvaging the EU budget and alleviating the fiscal pressure on national treasuries and EU citizens. On 16 September 2020, Parliament’s opinion under the consultation procedure reiterated calls for the introduction of new own resources following a roadmap, and for the abolition of all rebates.

On 10 November 2020, Parliament, Council and Commission negotiators reached a political agreement on the MFF, own resources and certain aspects concerning the governance of the recovery instrument. A new annex to the Interinstitutional Agreement between the European Parliament, the Council and the Commission on budgetary discipline, cooperation in budgetary matters and sound financial management established a roadmap for the introduction of new own resources over the 2021-2027 period. Income from new own resources should be sufficient to cover the repayment of Next Generation EU, while any remaining revenue should fund the EU budget, in line with the principle of universality. The binding calendar required the Commission to make proposals by June 2021 for new own resources based on a carbon border adjustment mechanism, on a digital levy and on a revised ETS (to be introduced by 1 January 2023), and to make proposals by June 2024 on additional new own resources which could include a Financial Transaction Tax and a financial contribution linked to the corporate sector (possibly a new common corporate tax base). Under the new Own Resources Decision adopted on 14 December 2020, rebates for certain Member States are maintained and the collection costs on customs duties are increased from 20% to 25%.

DEVELOPMENTS IN 2021

Following its ratification by all Member States by 31 May 2021, the Own Resources Decision applies retroactively from 1 January 2021.

After the proposals for the revision of the EU ETS[11] and the introduction of a carbon border adjustment mechanism[12] on 14 July 2021, a proposal for a next generation of EU own resources was published on 22 December 2021. The proposal specifies that 25% of revenues from ETS allowances auctioned, 75% of the income generated by the carbon border adjustment mechanism and 15% of the share of the residual profits reallocated to EU Member States under the OECD/G20 agreement on international corporate taxation (pillar one) would be paid into the EU budget as own resources.

Andras Schwarcz

