Questions and answers on the Report by the high-level group on own resources

What was the purpose of the high-level group?

The High Level Group on Own Resources ("Group") was established in February 2014 to examine how the revenue side of the EU budget can be made more simple, transparent, fair and democratically accountable. It is the first time an interinstitutional Group is entrusted with such reflection. The Group is composed of ten independent members, three designated by each institution (European Parliament, Council and Commission), and its Chairman Mario Monti who was directly appointed by the presidents of the three institutions.

What are the own resources?

Own resources are different types of revenue that Member States have decided to attribute to the EU for its financing; first as a principle in the Treaty, and then in the own resources Decision in more details.

The current own resources are:

- Traditional own resources, essentially customs duties levied at the points of entry of the Single Market (external borders).

- VAT-based own resource.

- GNI-own resource, which plays the role of the residual resource. It is calculated once the other two are known, in order to ensure that the budget is balanced. It now represents about two-thirds of the total of own resources.

Would new own resources increase the EU budget?

No: there is no correlation between the composition of own resources and the volume of the EU budget. A change in own resources does not mean that the EU budget would increase, or decrease. If a new own resource were to be adopted, it would automatically decrease the share of the GNI-own resource which is the residual one.

The volume of the EU budget is constrained by a double limit: the own resource ceiling, which defines the maximum amount of revenue that can be asked from Member States, expressed in percentage of GNI; and the multiannual financial framework payment ceiling, which defines a maximum amount in absolute value annually. The EU budget adopted by the European Parliament and the Council each year then has to respect this double constraint. Because the EU budget must be in balance, the own resources are then adjusted to cover the agreed expenditure (the residual GNI own resources is the balancing resource).

The composition of own resources has changed significantly over time (see graph in Annex VI of the Report). If new own resources were to be introduced, they would proportionately decrease the residual GNI-based own resource. Member States would then have to decide whether to use this margin of manoeuvre in their national fiscal mix, for example to lower a given national tax. The Group strongly recommends, in this context, that the fiscal burden on EU citizens remain unchanged or – if synergies are found - reduced.

Would introducing new own resources mean that the EU will now have tax competences?

No. The report is very clear that its recommendations can be implemented under the current treaties. The EU does not have the power to levy taxes. Only national authorities do. Own resources mean that Member States decide to attribute some revenue sources to the EU, and ensure that the national tax bases on which these own resources are built are sufficiently harmonised in order for the system to be equitable.

How and when new own resources can be adopted?

Any new own resource would have to be introduced in the Own Resources Decision (ORD), which is the main legislative text governing those issues. If the Commission decides to propose a modification of the own resources decision, the unanimous agreement of the Member States in the Council is required, after consultation of the European Parliament. Any amendment can only come into effect after ratification in all Member States.

Which candidates are the most promising?

The Group considers that a comprehensive and viable reform of the system of own resources could combine new resources stemming from production, consumption and environmental policies. It presents a wide range of possible revenue sources having the required qualities, which can be grouped under two main clusters.

- Possible new own resources related to the Single Market and fiscal coordination concern a reformed VAT-own resource (replacing the existing one), an EU corporate income tax, a financial transaction tax and other financial activities' tax. These candidates would have the advantage of contributing to the better functioning of the Single Market and, particularly in the case of VAT and corporate income tax, promote fairer taxation and help combat tax fraud or tax avoidance, in addition to financing the EU budget.

- Candidates related to the Energy Union, environment, climate or transport policies include 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), and indirect taxation of imported goods produced in third countries with high emissions. These candidates would also contribute to the better functioning of the single market if they limit the proliferation of such taxes in an uncoordinated manner, and would create a link between the financing of the EU budget and EU policies.

Wouldn't a new own resource based on environmental or energy policies be detrimental to the poorest areas of the EU, and therefore the poorest citizens?

The regressive character of such taxes, as is the case in general for VAT, is well documented. However, the situation is not that simple.

For example, one researcher has demonstrated that a common tax on electricity introduced in all Member States, which could then be attributed to the EU budget as an own resource, would actually be very close in its distributional impact to the GNI-based own resource. It would therefore be just as equitable from the point of view of the own resource system – knowing that when we talk about financing the EU budget the "taxpayers" are actually the 28 Member States, not the 510 million citizens. The Group also recommends that, if a new own resource were to have a particularly *detrimental* impact in a Member States, its design features can be adjusted, or ad-hoc compensations can be found.

The Group recommends that some differentiation might be helpful. Doesn't this lead to more fragmentation and the end of budgetary unity?

Some degree of differentiation already exists, for instance for Member States that make use of an opt-out, or those that benefit from a rebate. Such differentiation already has some consequences on the revenue side.

The Group has examined this issue in depth because not all Member States are able or willing to advance at the same pace in all policies. The Treaties offer opportunities for a group of Member States to advance more quickly than others, for example through enhanced cooperation.