

# THE FUTURE OF THE EUROPEAN UNION'S PROPER RESOURCES

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*ABSTRACT: The time-honoured financing system of the European Union favours a certain looseness of budgetary responsibilities; while the increase of expenditures seems to be a purpose for itself for the European Commission and the European Parliament, the member states make their net balance the reason for their distinct positions on common policies.*

*By and large, the current own resources of the European Union formed by agricultural taxation, customs duties, VAT resource and the complementary resource on GDP correspond in fact to simple financial transfers of the member states into the communitarian budget.*

*The advantages of a reform of the own resource system are numerous despite the difficulties of implementation.*

*Key words: own resources, reform, unique communitarian taxation, net balance*

The resources proper to the Community are the rights in the custom and the agricultural sampling (recently qualified as „traditional” proper resources) as well as the additional resource consisting of the equitable contribution of VAT of the state members and the resource based on the GBI of the state members.

*The agricultural sampling, the additional or compensatory taxes and other rights established or those to be established by the communitarian institutions regarding the sugar sector were perceived on the import of different agroalimentary products from other countries in order to raise the price to the level of the communitarian one as well as on the products with superoffer. They represented during the period 1962 – 1971 the only financial resource for the communitarian budget destined mainly to the European orientation and agricultural warranty fund.*

*The common custom taxes and other rights established or those to be established by the communitarian institutions on the trades with other countries were carried into effect starting with the 1<sup>st</sup> of January 1968 in order to harmonise the import or export rights adequate to the exterior frontiers of the European Communities. The custom taxes and the agricultural sampling are gathered through the national administration of each state member after the sampling of the 25% part according to the perception expenses. The contribution to the communitarian budget of the amounts accomplished by this resource had an interesting evolution: in the beginning (in the year 1971) they represented 25% from the total incomes of the communitarian budget, a few years later they grew amazingly reaching 48% (in 1977) and then they went continuously down so that in 2006 they represented only 15,87%.*

*The resources resulting from the VAT owed by each state member are obtained by applying a fixed share of 0,5% on the calculation base for the VAT, determined equally for every state members. This calculation base cannot overtake 50% from the NGP of the state member<sup>147</sup>.*

*The fourth category of the proper resources based on GBI of the state members destined to take into account the contribution capacity of the state members was introduced in June 1988 through the packet Delors I. This proper resource is the resource budget balance.*

In essence, the present proper resources correspond in fact to some simple financial transfers of the state members on the communitarian budget, when the resource VAT and NGP represent 81% from the total incomes of the communitarian budget. In a nutshell, opposite to the ambitions of the author of the Rome

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<sup>147</sup> Marc Lechantre & David Schajer, *Le budget de l'Union européenne*, Réflexe Europe, La documentation Française, Paris, 2003, p.139-140

treaty, the financing of the communitarian budget is nowadays ensured through masked national contributions<sup>148</sup>.

The reform of the communitarian budget always strikes an intrinsic conservatism, despite the fact that it represents a challenge on political plan.

Although the present financing system accomplished to provide sufficient resources for financing the communitarian budget, the debate although goes on regarding the possibility to improve it in order to respect in a great part the relevant financial principles (the economic efficiency, fairness, stability, visibility and simplicity, the efficiency of the administrative costs, the financial autonomy). The extension of the Union through the continuation of the integration however announces hardly bearable budgetary efforts for the European Union. The introduction of an integrated administration of the frontiers, the development of the cooperation as regards the defense, the promotion of certain common politics at the level of the Union (of research, of transports), increasing the operations of administering the crises, all of them confer new dimensions to the communitarian budget.

The two main sources of income: the proper resources based on VAT and on the GBI contain many characteristics of the national contributions, they are provided by national treasury and are sometimes presented as expenses places in the national budgets. In sequence, the state members have often the tendency to judge the politics and the communitarian initiatives in terms of profit in report to the national contributions, in stead of evaluating firstly the global value of accomplishment of certain politics at European level.

The proposal of the Commission referring a new decision regarding the proper resources, in spite of the fact that it has been meanwhile approved by the Parliament, is still blocked in the Council by the state members that had initially been in favour to this decision, but they oppose in the present to its application on their territory.

In May 2006, it has reached to an agreement between the European Parliament, the Council and the Commission according to which the Commission must accomplish a fundamental recession of the EU budget. The European Commission will examine the way in which the budget functions and in which the best balance can be obtained between continuity and response to all the new challenges as well as the best method to provide the necessary resources to finance the EU politics and if these work the way in which it should function in a Union with 27 state members.

The report of the French deputy Alain Lamassoure regarding the future of the proper resources of the European Union which was approved by the members of the European Parliament in the 12<sup>nd</sup> of March 2007 proposes a reform in two stages:

- ***The first stage***: the new system will be based on the internal gross income: each state member will contribute with approximately 1% of it. The abolition „of every budgetary advantage for each state member” will be a key element of this period and will include the abolition of „the British cheque” until 2013.
- ***The second stage anticipates the gradual introduction*** of an authentic system of proper resources that should replace from 2014 the national contributions. This system will be able to include already existent taxes in the state members, for instance the share part of the participation to the VAT payments or the share part on the energy consumption. Other options would be the taxes on financial transactions, on transport or telecommunication services, the “eco” tax. The fiscal sovereignty will further belong to the State Members.

Every reform of the proper resources system will be a delicate and difficult exercise which will be put into application with the help of the Parliaments of the state members. The first stage, temporary and of transition, would have as an end the improvement of the present system of national contributions for which it should be put into application the following political principles:

- Equality between state members: the absence of every budgetary advantage for everyone of the state members;
- Simple presentation for the elected representatives and for the citizens: the importance of presenting the improved financing system in the most simple way so that it should be intelligible and transparent for the European citizens;

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<sup>148</sup> [www.taurillon.org](http://www.taurillon.org) *Après la monnaie unique, l'impôt européen?* Pierre- Marie Giard

- Equal solidarity and dignity between the state members: these principles are destroyed by guarding some advantages in favour of some, meanwhile others are compensated by humiliating negotiations behind closed doors at the reunions of the European Council;
- Establishing a political connection between the reform of incomes and the recension of the expenses, as it is included correctly in the Interinstitutional Agreement.

But according to the opinion of the European Court of Accounts it is very difficult to accomplish a thoroughly studied reform of the proper resources system of the Community, if the discussions in this sense are associated directly with negotiations regarding financial limits and the amounts that are to be allocated to communitarian politics according to multiannual financial perspectives (as it repeatedly happened).

The goal of the Community's income reform must be the creation of an authentic proper resource in order that the European Union should replace the existent mechanisms. A general accord has been created regarding the fact that the moment hasn't come yet, in the context of a short term vision, for the assessment of a new communitarian tax; yet, it is underlined that this doesn't exclude the possibility of, even if the state members decide to perceive new taxes, they can in the same time or later decide the authorisation of the Union to benefit directly of the new taxes.

The creation of a system of proper resources based on an already perceived tax in the state members, so that this tax should be partly or entirely swerved directly to the communitarian budget, would establish a direct connection between the European Union and the European citizens and would contribute to the harmonization of the national legislations in the fiscal field.

The financing of the European Union by a communitarian tax put in charge of the tax payers and not of the public treasuries of the state members is an older problem, but the debates in this field go on even nowadays.

If the EU budget shouldn't been satisfied with the marginal contribution to the financing of the public politics, but it would become a real significant instrument of budgetary and economical politics, then, some say, only a financing by a communitarian tax would allow the European Union to assume itself these missions in a satisfactory way alongside with the states and the local managements. Such a tax is presented as a reinforcement factor of the democratic sense in the European Union and in the European citizenship, by the reassertion of a fundamental principle of the fisc, that is that of the consent to the tax, by clarifying the competences and the responsibilities of the involved institutions and by the relegitimacy of the budgetary authority of the European Parliament. The expected advantages are as well of budgetary order. The present system of proper resources of the European Union seems really very complex, impenetrable and of nature to advantage an approach only bookkeeping based on the level of net credit of each state member. A communitarian tax shouldn't lend itself to such an individualistic logic and would diminish the perception that the European budget has the quality of a redistribution instrument.

On an institutional level, the continuity of the assertion of the European Parliament as well as of the co-law giver wouldn't allow to be deprived of any power on the EU's incomes. Voting the dimension of the procentual shares and the object of imposing for a communitarian tax, it would benefit of similar prerogatives to those of the national Parliaments and EU could assume the responsibility of its action in front of the European citizens. The European Commission and the Parliament would have a more important responsibility to determine the procentual dimension and the taxable object of a sampling from the families and the enterprises' incomes.

The first justification of economical nature for the development of the European fisc is linked to the desire of correcting „negative externals” that occur from the existence of some heterogeneous fiscal politics. The fiscal competition with damaging effects could also be diminished through the sampling of a European tax on the aimed taxable bases, especially the most mobile ones as the very well qualified work ant the capital. Among others, according to the economic theory, a communitarian tax would also constitute an instrument adapted for financing the common goods offer which all the European citizens should take advantage of (the European defense, transeuropean networks or the control of the exterior frontiers). The financial support of creating a unique communitarian tax is less important because, opposite to a wide spread idea, Europe doesn't need new budgetary resources. The GBI resource is calculated in such a manner that the budget should be always balanced, this being an advantage almost unique in the world that makes diminish regularly the importance of these resources. This resource is warranted and it adjusts automatically to

expenses in a fixed limit of 1,24% of the communitarian GBI<sup>149</sup>. By introducing a unique communitarian tax, EU by its institutions would have total competence in order to sample its resources without depending on a certain approved procedure. The European Parliament would have the initial competences of a parliament and will have to establish the level of expenses through common politics. It would also be about resources sampled directly from the European tax payers, evaluated according to adequate measurement criteria established by European members of the Parliament.

Choosing the adequate tax remains a delicate problem. It confronts with an old dilemma of the fiscal politics, that of harmonizing principles and requests often contradictory. None of the taxes that could be refrained on the basis of economical arguments don't achieve all the desired conditions, of financial efficaciousness or of short term feasibility. The communitarian tax would have as a goal the financing of the communitarian budget, completing or replacing the present proper resources formed of custom taxes, the VAT resource and the resource set on the GBI. In reality, the mechanisms of calculation for these resources are of such a nature that they should warranty the financial autonomy of the Union. Only the taxes for these resources are a real communitarian tax but they do not represent but 14% from the total financing. The others aren't but subscriptions paid by the state members, sampled from their fiscal resources.

The objective is not that of creating a new resource that should add itself to the previous ones but to replace a contributive system based on the state members by another that should base directly on the tax payers. However, this does not exclude keeping the present proper resources constituted as custom taxes and agricultural samplings<sup>150</sup>.

The tax should be mainly as neutral as it can regarding the assessment of the contributions between the state members in the financing of the Union, taking into consideration a principle of equality. The objective should be that of an equal system in order that everyone should be taxed according to his real contributive capacity, from the point of view of the refrained common criteria. It is important that these criteria of determination of the taxable base should be equal in all of the state members.

Two solutions have been outlined in this sense:

- Creating a new tax with a common satiety: numerous political inconvenients follow this solution and a new tax would be undoubtedly unpopular;
- Founding an existent tax: this should exist in all the state members and the calculation base should be harmonised at the Union's level.

The options in this case are different. It could be about the taxes thrown upon some products like fuel, alcohol and baccy that are all over as harmonized nuisance taxes. A tax on the CO2 emission, although unanimously accepted and of urgent actuality, wouldn't be sufficient for financing the present communitarian budget.

The sampling of a fraction of the volume of the nuisance taxes on fuel, alcohol and baccy is a solution easy to be applied because the calculation base for nuisance taxes is already harmonised in the European Union and the corresponding physical fluxes are easily identified. The nuisance taxes touch „sensitive” products for tax payers who could become interested of communitarian business. The opponents of this solution pretend that the nuisance taxes are not agreeable for the consumers and their transfer to the Union's budget risks to destroy the image of Europe<sup>151</sup>.

Another solution should be linked to the VAT. In this case also the calculation base is harmonised at a European level, even if the national shares are different. The efficiency of a communitarian VAT would be without any doubt high. This solution thus presents the inconvenient that the volume of the encashment is strongly influenced by the economic conjuncture, fact that could compromise the stability of the communitarian resources. The track of the VAT is considered to be the most promising one because here there have been made the most progresses in the harmonisation field, and its level of transparency for citizens is high.

It has been pretty much discussed on the choosing of the tax upon the societies and on the incomes of the physical persons. A communitarian tax on the societies due to its high volume would overtake the needs and its legibility for the citizens would be limited.

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<sup>149</sup> L'impôt européen – Nicolas –Jean Brehon sursa: Le Monde 26.02.2002

<sup>150</sup> Institutul Montaigne „Vers un impôt européen?”, 2003, Paris, p 27

<sup>151</sup> La creation de nouvelles ressources propres (www.senat.fr)

Beside the indirect taxes mentioned before, the calculation base of the tax on societies isn't harmonised at European level, although there are serious preoccupations in this sense in the present. The efficiency of such a tax on societies would be, also, high, but maybe too dependent on the rythm of economic growth. This solution present however the advantage of the coherency because societies are the first that benefit of the European economic integration. Among others, the affectation of the communitarian budget of the tax on societies would have the effect to neutralize the impact of the delocalization of the societies inside the European Union and to reduce the fiscal competition between the state members. At the same time, this tax doesn't interest at all the individual tax payer and this solution wouldn't sensitize the citizens to European businesses.

At the same time, the European Parliament, as well as the Commission plead more inconvenients regarding this tax on societies. To the technical difficulties related to the absence of a harmonised base between the state members, two more difficulties are:

- The lack of visibility of such a tax in the measure in which it wouldn't been endured by the citizens in their quality of enterprise owners, but in fact it would push, at least partially, upon the citizens in their quality of consumers and salaried;
- The extreme dependency of this tax to the economic conjuncture which would determine important variations of the encashments of the European<sup>152</sup>.

A communitarian tax on the income of the physical persons would suppose a very high level of fiscal and social harmonization so it cannot be taken into consideration only in a short term perspective.

Except a better perception of the European Union's role by the tax payer citizen, the communitarian tax on the income of physical persons has a theoretical justification in the fact that, applied to a regional level, the tax on the income can induce effects of undesired migration. In the same time, it can object that this statement supposes a mobility of the work force bigger than it is in reality. The Commission underlines among others that there is no direct connection between such a tax and the politics of the European Union and the overlapping of the same tax of the national authorities and of the EU's institutions would complicate the administration of the economical and national budgetary priorities.

Finally, taking into account the real risk of growth of the fiscal pression and of the effect of eviction of the fiscal incomes of the state which would result from these, the attribution of the power to collect the tax by the Union should be followed by a sufficiently rigid framing of the European Union's finances, permitting to assure, as possible, the neutrality of this transfer to the global fiscal pression.

Not even a „candidate” tax can have the claim to be a miracle solution. The instauration of a European tax wouldn't accomplish without certain inconvenient and will not be without any doubt a popular measure.

The institutional obstacles (especially the unanimity rule of the state members resumed by the European Commission), technical (keeping the five criteria established by the Commission) and political (the fear of federalism and of the budgetary branch) however remain as such the introduction of such resources appear little realistic on average term. The affectation of a communitarian tax to a function or a communitarian public good, like the defense and the security or the transport network would allow the elimination of certain political reticences and the excitement of the citizens'adhesion<sup>153</sup>.

The idea of a European tax that should replace the present national contributions for financing the communitarian budget remain for the moment unsolved. Its followed objective would be less financial and more political, becoming again present in the terms of constituting and extending the euro area. The present system is confused but acceptable because the states in the Council remain in control on the competences. Maybe the European tax wouldn't become an acceptable necessity but on the day when some of the states'competences (like defense) will be transferred to a unique authority of the Union.

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<sup>152</sup> La creation de nouvelles ressources propres ([www.senat.fr](http://www.senat.fr))

<sup>153</sup> The site [www.senat.fr](http://www.senat.fr) La relégitimation par l'impôt européen?

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