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VAT OWN RESOURCE

1. CONTEXT

As the revenue accruing from traditional own resources revealed itself not sufficient to cover EU budget expenditure, the Own Resources Decision of 1970 established a second own resource, based on value added tax (VAT), to finance the Community budget. Revenue from this resource, which accrued as of 1979, gradually became the main source of financing, but turned out also to be also insufficient to cover Community expenditure in the mid-1980s.

VAT-based own resource contributions derive from the application of a call rate to Member States' VAT bases set according to harmonised rules. However, VAT bases are capped at 50% of GNI. The capping of the VAT base reflects the intention to remedy the regressive aspects of the VAT-based resource, which could be seen as penalising the less wealthy Member States with higher shares of consumption.

In order to minimise distortions due to diverging VAT rates and structures in the Member States, the VAT base is notionally harmonised for the purpose of own resource calculations. This harmonised VAT base is calculated by dividing the total annual net VAT revenue collected by each Member State by the weighted average rate of VAT, i.e. an estimate of the average rate applicable to the various categories of taxable goods and services, to obtain the intermediate VAT base. The intermediate base is subsequently adjusted with negative or positive compensations in order to obtain a harmonised VAT base pursuant to the Sixth Council Directive 77/388/EEC of 17 May 1977, and subsequent amendments.

The call rate of the VAT-based own resource is fixed in the new Own Resources Decision of 2014 at 0.3% with a reduced rate of 0.15% for Germany, the Netherlands and Sweden for the period 2014–20 only. Under the last Own Resources Decision (currently still in force) the rate was identical with a reduced rate of 0.225% for Austria, 0.15% for Germany and 0.10% for the Netherlands and Sweden for the period 2007–13. This call rate of 0.3% was introduced by the Own Resources Decision of 2007 and it was a significant improvement in transparency and simplicity, as compared to the very complex 'frozen' rate system which existed previously.

The VAT-based own resource, as it is also the case of the GNI-based own resource, is made available on the first working day of each month at the rate of one-twelfth of the amount inscribed in the EU budget. This payment is guaranteed by Article 11 of Regulation (EC, Euratom) No 1150/2000, as last amended by Regulation (EU, Euratom) No 1377/2014, which provides that interest payments will be imposed on any Member State which fails to credit the amounts on time.

The specific nature of the own resources, and consequently the EU's financial autonomy, are sometimes obscured by the fact that the own resources payments appear in some national budgets, which may give the impression that such payments are conditional upon the vote of the national budget and compete with national expenditure. Such presentation in national procedures has, however, no legal implications since under the Union's legislation the transfer of resources is automatic.

2. ASSESSMENT IN RELATION WITH THE CRITERIA IDENTIFIED BY THE GROUP

1. Equity/Fairness is ensured by the reduction of the call rate of the VAT-based own resource for a group of Member States, in order to balance its regressive nature. However, this provision aims at equity and fairness between Member States, not between EU taxpayers.

2. Efficiency of the current rules has been improved with the introduction of a fixed call rate of 0.3% in the Own Resources Decision of 2007. This provision proved simpler, more transparent and more efficient to calculate than the very complex 'frozen' rate system which existed previously. Nevertheless, calculation remains cumbersome.

In 2011 the Commission put forward a further simplification proposal, which would have reduced the administrative costs both in Member States and in the Commission: Member States would have made a calculation using their adjusted VAT receipts for the month, the single EU-wide average proportion of VAT receipts accruing from standard-rated supplies to final consumption provided by the Commission, their standard rate and the share defined for the new VAT Own Resource (1%); the Commission would then have determined a single EU-wide average proportion of VAT receipts accruing from standard-rated supplies to final consumption, which are standard-rated in every Member State. There would have been no artificial capping of the chargeable bases. This proposal has not been accepted so far.

3. Sufficiency and Stability: the share of the revenue accruing from the VAT-based own resource changed substantially over the years (mainly due to VAT-based own resource call rate reductions and to the increase in the overall volume of the EU budget). Together with the revenue stemming from traditional own resources, it became insufficient to cover all EU budget expenditure in the 1980s and eventually led to the addition of the GNI-based own resource.

Regarding stability, the pattern and amount of the revenue from the VAT-based own resource have been stable over the last years, at around 12% of the total own resources entered in the EU budget in the last five years.

In accordance with the Commission's proposal in 2011, the new VAT-based own resource would have ensured a higher predictability of receipts.

Overall the VAT is considered a reliable source of revenue with limited volatility, which is fundamental for the stability of the collection of revenues and for EU financial autonomy. It is also part of a wider effort on VAT fight against fraud and its harmonisation in the EU.

4. Transparency and Simplicity: the current calculation of the theoretical VAT-base can raise transparency questions as it is complex, statistically-based and far from the real VAT collected revenue.

The 2011 proposal for a new VAT resource was considerably more transparent, understandable and predictable. It was established by a simpler calculation on the basis of the most definite and easily obtained data available on the VAT receipts held by Member States. It also involved less corrections and compensations to be applied to VAT receipts, and a lesser use of the weighted average rate (WAR) calculation, as only receipts accruing from the standard VAT rate were used. It could have increased the awareness of the costs of the EU for citizens (if EU and national VAT would have appeared as separate taxes on invoices or receipts).

5. Democratic accountability and budgetary discipline: the VAT-based own resource as part of the overall financing system of the EU budget is approved by the Member States in accordance with their respective constitutional requirements, is subject to European Parliament scrutiny, to the Court of Auditors audits and to Commission services control. National Parliaments are only involved in the real VAT collected revenue for the national budgets.

6. Focus on European added value and constrain narrow self-interest: the current VAT-based own resource is calculated in accordance with the provisions of a common EU directive, although it remains a statistical construct.

The VAT Own Resource as proposed in 2011 is closer to a genuine own resource, in line with TFEU provisions, and would probably be perceived to a lesser extent as a national contribution like the current one. The use of the actual VAT receipts in the new calculation method, instead of the current theoretical VAT base, would have created a stronger link with EU policies, and probably increased the awareness of the costs of the UE for citizens.

7. Subsidiarity principle and fiscal sovereignty of member states: the VAT-based own resource is based on the national collection of real VAT, calculated by the national tax authorities in coordination with the national and European statistic authorities and controlled and audited by the Commission services. This calculation imposes high administrative costs, which are, however, already foreseen and implemented both at national and European level.

The 2011 proposal, since it was based on actual VAT proceeds, would have had a more cost-effective implementation since the national collection system was already in place and the calculation was simplified, thereby reducing costs for both administrations.

8. Limit political transactions costs: since VAT-based own resources are collected within a legal and economic EU harmonised legal basis, established already for several years, political transaction costs can be considered to be low.

3. WEAKNESSES OF THE VAT-BASED OWN RESOURCE

Differences among Member States regarding VAT rates and basis applied to production, consumption and investment can create, at worst, inequalities, and at best, result in a complex, non-transparent and theoretical calculation of the VAT basis. It also generates high administrative costs.

4. OUTCOME OF THE NEGOTIATIONS/KNOWN POSITIONS OF STAKEHOLDERS (MS, INDUSTRY, OTHER)

Even though the need for further simplification and transparency of the VAT-based own resource is generally recognised, the Own Resources Decision of 2014 has only prolonged the existing provisions for the next financial framework period. However, the European Council of 7–8 February 2013 called upon the Council to continue working on the proposal of the Commission for a new VAT own resource which could replace the existing own resource based on VAT. This shows a certain interest for a future own resource based on VAT.

5. ESTIMATE OF REVENUE FOR THE EU BUDGET

On average, the share of VAT-based own resource in total own resources reached around 12% over the last 5 years. In the EU budget 2015 the actual amount estimated to be received amounts to EUR 18.3 billion.

The Commission proposal for the application of a rate of 1% to the standard VAT rate applied to the final consumption of goods and services estimated that the collected revenue could reach EUR 20.9 billion (2009 prices), taking into account the current degree of harmonisation of VAT rules between Member States, and EUR 50.4 billion with further harmonisation or the broadening of national VAT bases (for example the reduction of the scope of zero or reduced rates).