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Conceptual Paper

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Assessment of the European Commission's proposals for financing the EU budget in 2021–2027¹

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Abstract: A major problem in all European Union (EU) budgetary negotiations is the approach of Member States in net return terms (the fair-return approach). EU members compare their contributions to the EU budget with transfers that they receive from the budget. Net payers tend to reduce the size of the budget to contribute less. Brexit has aggravated the problem of the size of revenue (due to the United Kingdom's position as a big net payer). Also, new expenditure needs have arisen (for protecting external borders and climate, innovation, etc.). To address those needs, in 2018, the Commission submitted three proposals to supplement the current resources to finance the EU budget after the expiry of the principles of the Multiannual Financial Framework (MFF) for 2014–2020 at the end of 2020. The article aims to indicate whether the Commission's proposals are good instruments for the financing of the EU budget. The assessment relies on selected criteria based on theory. It also takes account of the feasibility of the proposals. The main conclusion is that none of the proposals meets well theoretical criteria of “genuine” EU revenue. Also, for practical reasons, it will be difficult for the Member States to come to an agreement on new budgetary resources. All proposals would be relatively costly for Poland.

Keywords: EU budget, EU Multiannual Financial Framework, own resources, EU taxes

JEL Classification: H21, H61, H77, H87

1 Introduction

A major problem in all EU negotiations relating to the Multiannual Financial Framework (MFF) is an approach of the Member States in net return terms (the fair-return approach). It means that the Member States easily compare their contributions to the European Union (EU) budget with transfers that they receive from the budget, and the resulting position (as a net beneficiary or a net payer) is treated as an important indicator of the overall assessment (net costs or net benefits) of their membership of the EU. Net beneficiaries tend to maximize their transfers from the EU budget and net payers aim at minimizing their contributions. This results from the present system of contributions. Except for the revenue from import duties, they are not “own” EU resources but are transfers from the national budgets and depend on the Member States' decisions. Controversies over “unequal” contributions have led to the widespread use of rebates and corrections.

¹ The paper was completed in April 2020.

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The system of financing the EU budget is also criticized for several other reasons. We skip them here as they are widely discussed in the literature (see: Schratzenstaller et al. 2016).

For the abovementioned reasons, for many years there has been discussion on the new resource(s) to mitigate the drawbacks of the present system of financing the EU's activities. Several proposals have been submitted by the Commission and independent researchers. In every case, there has been opposition on the part of at least some countries, which has made the adoption of such a proposal impossible as any change of the own resources system requires unanimous voting in the Council (after consulting the European Parliament, following a special legislative procedure – Art. 311 of TFEU).²

At present, the situation is different. On the one hand, Brexit has aggravated the problem of the amount of revenue (due to the United Kingdom's position as a big net payer); on the other hand, as never before, new expenditure needs have arisen (appropriations for preventing undesirable immigration, climate protection, innovation, etc.). Therefore, there are now (theoretically) greater chances of modifying the revenue structure and methods of financing the EU budget.

To address those needs, in May 2018, the Commission submitted three proposals for new own resources to supplement the current sources of financing the EU budget, after the expiry of the principles of the MFF for 2014–2020 at the end of 2020.

The article aims to indicate whether the Commission's proposals are good instruments to finance the EU budget. The assessment will rely on selected criteria based on theory. It will also take account of the feasibility of the proposals. The implications for Poland are identified.

The structure of the paper is as follows. First, it describes proposals for changes in the system of financing the EU budget for 2021–2027 as presented by the Commission in 2018. Point 2 analyzes the merits of introducing a basket of new own resources for the EU budget. Against this background, all the three proposals for new resources are presented, each of them according to the same pattern: the rationale for a given proposal, the main elements of the proposal, and the estimated revenue. That part is followed by theoretical criteria for the assessment of an “optimal” budgetary resource. Next, the basket of the own resources is assessed according to those criteria. In conclusion, the “pros” and “cons” of the proposals are compared with an opinion on the feasibility of the implementation of each proposal.

2 The Commission's Proposals for Modifying the Present System of Financing the EU Budget

In the package of documents relating to the new MFF, the Commission submitted the following proposals (European Commission, 2018e, pp. 3–4):

1. Modernization of the existing own resources by:
 - a. maintaining the customs duties as traditional own resources, but decreasing to 10% the share of this revenue that the Member States retain as “collection costs”;
 - b. maintaining the own resource based on gross national income and keeping it as the balancing resource; and
 - c. simplifying the Value Added Tax based own resource.³
2. Introduction of a basket of new own resources consists of:
 - a. a share of the relaunched common consolidated corporate tax base to be phased in once the necessary legislation has been adopted;

² Moreover, such a decision enters into force after approval by the Member States in accordance with their respective constitutional requirements. The Council also unanimously adopts a regulation establishing the MFF, but it must obtain the European Parliament's consent beforehand (Art. 312 of the TFEU).

³ The simplification of the own resource based on Value Added Tax (VAT) would result from: (i) focussing on the standard rate supplies; (ii) streamlining the procedure to calculate the VAT base; and (iii) applying a uniform call rate on the standard rate base (European Commission, 2018e, p. 6).

- b. a share of the auctioning revenue of the European Emissions Trading System (ETS); and
 - c. a national contribution calculated on the amount of non-recycled plastic packaging waste.
3. Establishment of the principle that future revenues arising directly from the EU policies should flow to the EU budget;
 4. Phasing out the corrections;⁴ and
 5. Increase in the own resources ceiling.

3 The Commission's Arguments for the Proposal of Three New Types of Own Resources (European Commission, 2018e, pp. 1–2)

A general argument was that the financing system had not been reformed after 1988,⁵ whereas several new challenges and developments had occurred, which called for the revenue system adjustments. New challenges faced by the EU include, first of all, the necessity to mitigate negative climate changes and to protect external borders more efficiently. They cannot be effectively addressed at the level of individual Member States. Climate changes, environmental pollution, and immigration generate negative externalities that require a response at the EU level, if not at a global level, to address them efficiently.⁶ They require additional financing as:

- a. the room for reductions in the present priority expenditures is limited⁷ and
- b. the EU budget must be balanced (*ex ante*, i.e., on adoption).

Also, the system of EU's own resources has been criticized for many years⁸ and the Commission's proposal for 2021–2027 should eliminate at least some of the present drawbacks.

Another important reason for the need to increase revenue is Brexit, the withdrawal from the EU of one of the largest net contributors to the EU budget. In previous years, the UK contributed to the common budget around EUR 12–14 billion per year in net terms (European Commission, 2018d, p. 13). Without additional resources to cover the gap, the EU budget would become much smaller and not sufficient to continue financing of the present priorities, not to mention the new ambitious goals as presented by the Commission in the proposal for 2021–2027 (for more see: Kawecka-Wyrzykowska, 2018, pp. 3–12).

An equally important argument behind the recent proposal is that new budgetary resources would reduce the dependence of national contributions on GNI-based resource, thus increasing the autonomy of the EU budget and making the “fair return” approach less severe.

⁴ The United Kingdom's withdrawal ends its rebate and the associated rebates. Rebates related to reduced call rates for the VAT-based own resource as well as the lump sum reductions of contributions based on Gross National Income (GNI) had been offered for a temporary period and automatically expire at the end of 2020. However, as a result of the elimination of those rebates, several countries will face a big increase in their contributions to the EU budget. In order to mitigate that effect, the Commission proposed to phase out the current rebates over 5 years (European Commission, 2018b, p. 26).

⁵ The most recent important change in the own resources system took place in the late 1980s when the so-called Delors packages were adopted. The main element of that reform was the introduction of the GNI-based contribution to support the creation of the internal market and, in particular, to finance the implementation of the cohesion policy.

⁶ The authors of the 2019 Report argue that “The MFF 2021–2027 is the EU's last full investment cycle to initiate and substantiate the necessary changes. It is essential that we make use of the last windows of opportunity to strengthen climate performance of the budget and leverage private investments” (Runkel et al., 2019, p. 30).

⁷ Still, the Commission proposed to reduce appropriations for the two largest items of expenditure: the CAP and the cohesion policy.

⁸ The list of objections is quite long. It includes, among others, poor transparency of the present own resources and their low clarity for citizens, low fairness, and many rebates, which make the national contributions unclear and difficult to explain to non-experts. Many rebates make the system less transparent. Moreover, only the customs duties currently display a clear link to EU policies. An even more important weakness is that the present system of financing the EU budget is dominated by national contributions. Member States easily compare them with transfers they receive and expect “fair returns” (European Commission, 2018d, p. 9; Le Cacheux, 2007).

4 The Commission's Proposals for New Resources to Finance the EU Budget for 2021–2027

4.1 The common consolidated corporate tax base⁹

4.1.1 Rationale and expected benefits

Differences in corporate tax rules across the EU are used by multinational companies for maximizing their profits (the so-called tax optimization, i.e., paying the largest part of taxes in countries where the effective corporate income tax (CIT) rate is the lowest).¹⁰ As a result, it is problematic to determine which country is eligible for the taxation of incomes earned by multinational enterprises. Double taxation is not infrequent. A more serious issue is that many multinational enterprises take advantage of differences between national tax regulations and transfer profits to jurisdictions offering low tax rates and preferential schemes. Another problem is that affiliates operating in several countries often price their products and services to minimize the overall tax burden on the group concerned (the so-called transfer pricing phenomenon) (European Commission, 2016c, pp. 5–6). Consequently, some multinational enterprises pay extremely low taxes in places where they pursue business activities.

One negative effect of such an approach is distorting competition with other firms.¹¹ Other undesirable results include reduced budget revenues for the Member States and less money to finance public goods.¹²

It is a large-scale problem, taking into account the huge EU internal market, which encourages companies (including non-EU corporations) to operate there. At the same time, the calculation of CIT revenue by national authorities has become more difficult. The globalization and the ongoing technological changes have resulted in huge changes in the structure of firms and the localization of production. Many services can be offered in the European internal market through online delivery. Additional elements contributing to the intensification of the problem include the rapid spread of e-commerce and other digital services as well as the growing share of intangible assets, such as intellectual property. Altogether, all the phenomena and the easiness of changes in corporate decisions on localization of production make it more difficult for national authorities to assess taxable bases within their jurisdiction (European Commission, 2018d, p. 13), whereas companies can pay lower taxes more easily.

Given those problems, the effectiveness of the Commission's attempts to harmonize the rules of CIT¹³ and thus to reduce the negative implications of different national CIT bases has been limited so far. The first official proposal for a Common Consolidated Corporate Tax Base (CCCTB) was presented by the Commission in March 2011. It was, however, rejected by the Council. In 2016, the Commission re-launched its proposal

⁹ It is interesting to note that in one of its documents issued in 2011, the European Commission came to the conclusion that the EU Corporate Income Tax “was considered as unsuitable as a potential own resource for the foreseeable future” (European Commission, 2011, p. 5).

¹⁰ So far, only indirect taxes have been harmonized. Under the EU treaties, it is not necessary to harmonize direct taxes.

¹¹ For a discussion on whether the CCCTB harmonization is the right way to put an end to tax competition, see Valenduc (2018).

¹² That argument was presented in a much stronger way in the early 21st century, close to the date of the 2004 eastward enlargement of the EU. At that time, several countries of the “old” EU with the highest CIT rates (Germany, France, and Sweden) accused the Central and Eastern European countries – which applied much lower CIT rates – of unfair competition and a “race to the bottom” with regard to tax rates. They argued that much lower CIT rates in the new EU Member States encouraged the outflow of investment capital from the Western to the Eastern part of Europe, which resulted in reducing the budgetary revenue necessary to finance the provision of public goods in the face of increased unemployment rates. They demanded the harmonization of CIT rates, by which they meant increasing the CIT rates in the new members to adjust them to the average level of the rates applied in Western Europe. The discussion in the literature that followed those requests revealed, apart from arguments “in favour of” tax harmonization, a long list of arguments against such a decision as well. In that situation, the Commission chose not to prepare a formal legal proposal, see Krajewska and Krajewski (2007, pp. 5–20) and Le Cacheux (2007, p. 21).

¹³ The most recent proposal does not provide for a new CIT at the EU level. In fact, a uniform call rate on the national revenue on CIT, based on harmonized rules of collecting the tax, would play a role similar to EU-wide CIT.

to harmonize the national CIT systems – through the CCCTB – to ensure a fair allocation and distribution of taxable profits to the Member States.¹⁴

The re-launched CCCTB, proposed in 2016, is in line with the Commission's top political priorities to make taxation fairer and more effective in the EU (and to fight tax evasion and tax avoidance), as set out in the June 2015 Action Plan.¹⁵ The Commission hopes for the CCCTB to support growth, jobs, and investment in the EU. Due to predictable rules, a level-playing field and reduced compliance costs, the internal market should become more attractive to invest and do business in the EU. The attractiveness of the EU's internal market would also increase due to lower administrative burdens as the rules would be the same in the internal market and only one tax return would be required for all EU operations. It is also assumed that the main incentive for entities to enter the CCCTB system is a lower tax burden for the whole group (Nerudová and Solilová, 2019, p. 161). One additional advantage would result from new R&D incentives (companies would be allowed a super-deduction for their R&D spending).

Simultaneously, the same rules for the calculation of taxable profits would reduce transfer-pricing planning opportunities for companies and harmful tax competition. In this way, also public budgets should benefit in the form of additional revenue, currently lost to tax avoidance.

An interesting additional argument in favor of CIT harmonization was presented by Le Cacheux. He argued that a precise definition of the CIT base at the EU level (including rules on interest deductibility, depreciation allowances, and other types of provisions allowed) would contribute to the possibility of conducting a genuine industrial policy. In the new legal framework, EU-based corporations would be guided toward certain types of activities desirable at the EU level, e.g., toward decisions on investments in research, environmental protection, greenhouse gas emission limitations, etc. (Le Cacheux, 2007, p. 22).

The recent proposal has not been adopted yet. Still, it is a basis for the Commission's proposal for a new EU budget resource and, therefore, it deserves attention. The Commission assumed that the contribution would be introduced in 2023 and applied with a retroactive effect from 2021 (European Commission, 2018d, p. 35).

4.1.2 How would the CCCTB-based contribution work?

According to the Commission's proposal, a 3% call rate would be applied to the new Common Consolidated Corporate Tax Base. A CCCTB-based own resource would be calculated by applying the call rate on the value of the taxable profits of large companies for which the CCCTB would be compulsory, as apportioned to each Member State. The computed amounts of the tax revenue would be transferred by the Member States to the EU budget. The calculation (and the resulting contribution to the EU budget) would take no account of the taxable profits of companies outside the mandatory scope of the directive, i.e., below the size threshold or outside the other criteria (European Commission, 2018d, pp. 23–24, see Box 1 for details).

4.1.3 Estimated revenues

The Commission estimated the own resource based on the CCCTB at EUR 4 to 23 billion on average for the period 2021–2027. The estimate was based on the following assumptions: 2012 data for calculations; a call rate between 1% and 6%.¹⁶

¹⁴ In fact, it is a legal proposal to be introduced through a two-step process, see Box 1.

¹⁵ The action plan for a fair and efficient corporate taxation in the EU set out a series of initiatives to tackle tax avoidance, secure sustainable revenues, and strengthen the single market for businesses. Key actions included a strategy to re-launch the Common Consolidated Corporate Tax Base and a framework to ensure effective, fair, and efficient corporate tax (European Commission, 2015).

¹⁶ Based on 2012 data, the total tax base in the EU was estimated at nearly EUR 380 billion (European Commission, 2018d, p. 24).

Box 1. Elements of the CCCTB proposal

The 2016 proposal for a CCCTB provides for a harmonized system to determine the tax base of multinational companies and to calculate their taxable profits in the EU. Corporate income tax rates in the EU would not be changed as EU Member States would continue to have their CIT rates. The tax base would only cover large companies, having total worldwide consolidated revenue above a certain threshold (global turnover above EUR 750 million) and meeting certain ownership criteria. For smaller companies (below the revenue threshold), the directive would be optional and their profits would be excluded from own resources.

The CCCTB is supposed to be implemented through a two-step process: In the first step, Member States should agree on the above-mentioned common base, i.e., a single set of rules to determine how corporate profits would be taxed. The second stage would involve a more complex consolidation aspect. Consolidation would allow a group operating in the internal market to offset losses in one Member State against profits in another. In the Commission's opinion, such an approach should make the negotiation process more manageable.

For consolidation, an apportionment formula would be introduced, for the allocation of profits to the Member States. The formula would comprise three equally-weighted factors: labor (composed of both payroll cost and the number of employees with equal weights), assets, and sales. As a result, the total profits of groups operating in the internal market would be apportioned to the Member States where the companies operate. Therefore, taxes would be paid in the Member States where the profits are generated. It should help to combat tax avoidance as the new system would eliminate mismatches and loopholes between national systems, currently exploited by companies to avoid taxation. In particular, consolidation would remove (or at least reduce) transfer pricing within groups. In this way, the harmful tax competition within the EU should be reduced.

Sources: https://ec.europa.eu/taxation_customs/business/company-tax/common-consolidated-corporate-tax-base-ccctb_en [5th February 2020] and European Commission (2016a,b).

4.2 Own resource contribution based on plastic packaging waste

4.2.1 Rationale and expected benefits

The main argument for the proposal was that the plastic packaging generated pollution harmful to the environment as well as to human and animal health. Negative effects appear not only in the polluting country, but they also spread to the neighbors and across the globe.

In 2018, the recycling rate for plastic packaging waste only reached 42.0% in the EU. That rate was below the EU target adopted in early 2018 in the Commission's European Strategy for Plastics in a Circular Economy (European Commission, 2018a)¹⁷ and in the 2018 Directive. The Directive set recycling targets for different types of materials contained in packaging waste (plastic, glass, paper and cardboard, wood, aluminium, and ferrous metals). As regards plastic packaging,¹⁸ the recycling target is at least 50% by weight by 2025 and 55% by weight by 2030, being significantly more ambitious than the previous target of 22.5% to be achieved by 2008 (Directive 94/62/EC, Art. 6(1)).

The Commission hoped that the proposed own resource would help attain the objectives of the strategy for plastics. As the resource would be directly proportional to the quantity of non-recycled plastic packaging waste generated in each Member State, it would, therefore, provide an incentive for the Member States to reduce their plastic waste-related contributions. As a consequence, plastic packaging waste should be reduced as well. In this way, also a more general objective would be promoted, i.e., boosting the circular economy (the so-called double dividend; European Commission, 2018d, p. 28).

4.2.2 How would the contribution based on plastic packaging waste work?

The contribution to the EU budget based on non-recycled plastic waste would be calculated in proportion to the quantity of non-recycled plastic packaging waste generated in each Member State. A call rate to that quantity was proposed at the level of EUR 0.80 per kg of this type of waste.

¹⁷ The Commission had already proposed in 2015 that at least 55% of all plastic packaging in the EU should be recycled by 2025 (European Commission, 2018b, p. 7).

¹⁸ Plastic packaging accounts for about 60% of post-consumer plastic waste in the EU (European Commission, 2018b, p. 7).

4.2.3 Estimated revenues

According to the Commission's estimates, the contribution in question could bring around EUR 7 billion per year (European Commission, 2018e, p. 8). The basis for such a contribution must be high quality and timely statistics on waste generated in each Member State, in particular, on plastic packaging waste. Such statistics already exist, albeit they need improvement.¹⁹

4.3 EU emissions trading system-based own resource

4.3.1 Rationale

The Emissions Trading System (ETS) is one of the main instruments put in place in 2005 in the EU and the whole European Economic Area²⁰ to achieve the reduction of greenhouse gas emissions (European Commission, 2018e, p. 8). According to the 2018 Directive (Directive (EU) 2018/410), the ambitious target is to reduce those emissions by 43% below 2005 levels by 2030.²¹ A key element of the ETS system is a maximum (cap) on the total amount of greenhouse gases that can be emitted in the Member States by the sectors covered.²² Allowances are auctioned or allocated for free to companies. The cap and the trading system encourage the reduction of emissions.

The EU ETS governs more than 40% of the EU's total greenhouse gas emissions (European Commission, 2018e, p. 8). The system provides for the same rules in all the countries, including the same price signal to the sectors covered across the Member States. The system generates revenues through the auctioning of emission allowances. Revenues flow to national budgets. At least 50% of those revenues should be used by the Member States for climate-related purposes.

The main arguments for the proposal presented by the Commission were as follows:

- a. The ETS contributes to achieving the important common goal of the climate policy, i.e., the reduction of gas emissions and thus the environmental protection and
- b. the system has been harmonized.

4.3.2 How would the ETS-based contribution work?

According to the Commission's proposal, 20% of revenues from the total allowances available for auctioning would be transferred to the EU budget (European Commission, 2018b, p. 27). The new contribution based on the ETS would only apply to allowances distributed to the Member States based on 2005–2007 emissions. It covers 90% of the allowances available for auctioning. The allowances auctioned for aviation (around 10% of the total revenue from allowances) would be excluded from the calculation of contributions.

¹⁹ For years, data on plastic packaging waste have been collected by extended producer responsibility (EPR) organisations, regional authorities, or statistical offices and reported to the national authority which in turn reports the data to the Eurostat following the rules established by Commission Decision 2005/270/EC, pursuant to Art. 12 of Directive 94/62/EC. The quality of plastic packaging waste statistics has improved with the adoption in 2018 of the amendment of the plastic packaging waste directive (Directive (EU) 2018/852).

²⁰ The ETS operates in 31 countries (all EU countries plus Iceland, Liechtenstein, and Norway; https://ec.europa.eu/clima/policies/ets_en). It aims not only at the reduction of CO₂ but also of other greenhouse gases.

²¹ Some authors note that ambitious carbon reduction targets – as implemented at present in the EU within the ETS – create a risk of bigger carbon leakage (increased carbon emissions in third countries as a consequence of emission-reducing policy in the EU) and negative implications for partner countries as well as a threat for the whole global climate policy. A way to solve this problem is a concept of Border Tax Adjustment (a modified version of Border Carbon Adjustment mechanism), it is an import tax calculated on the basis of carbon content of imported products. At the same time, the authors argue, that in theory, this tax “could also serve as an ideal green instrument to fund the EU budget innovative ‘genuine’ own resources” and “a BCA would be a perfect instrument to ensure a level playing field for domestic and foreign producers, thus avoiding potential carbon leakage.” In practice, however, there are plenty of methodological and legal obstacles, which make this solution extremely difficult, if not impossible to apply (Krenek et al., 2020, pp. 4 and 6).

²² Those sectors include: power plants and industrial installations across the EU as well as aviation for flights within the European Economic Area.

Box 2. The Innovation and Modernization Funds

The Innovation Fund is a key funding instrument for delivering the EU's economy-wide commitments under the Paris Agreement supporting the European Commission's strategic vision of a climate-neutral Europe by 2050. The fund may amount to about EUR 10 billion, depending on the carbon price. The first calls for projects to be financed under this fund are supposed to take place in 2020, see https://ec.europa.eu/clima/policies/innovation-fund_en.

The Modernization Fund will be established as part of the post-2020 reform of the EU ETS. It will be an instrument for enabling investments in small-scale energy projects, improvements in energy efficiency, and the modernization of energy systems in lower-income Member States with GDP *per capita* at market prices below 60% of the EU average (namely Poland, the Czech Republic, Hungary, Croatia, Slovakia, Estonia, Lithuania, Latvia, Bulgaria, and Romania). The fund will be financed through the auction of ETS allowances for the period 2021–2030, see https://ec.europa.eu/clima/news/five-beneficiary-member-states-opt-transfer-additional-allowances-modernization-fund_en.

The total value of the fund is estimated at EUR 9–25 billion over the next decade, see <https://energypost.eu/eu-ets-modernization-fund-putting-the-wind-in-the-sails-of-the-transition/>.

However, allowances available for auctioning that a Member State can allocate for free to the power sector should be counted toward the own resource contribution to ensure that the decision whether or not to make use of that option is based on economic grounds.

At the same time, the transitional free allocation within the ETS, which is now offered to the power sector (20% of certain revenues from the total allowances available for auctioning to the EU budget) would create the basis for calculating the Member States' contributions to this own resource of the EU budget.

A certain share of the EU ETS's revenue in the lower-income Member States comes from the auctioning of allowances redistributed for purposes of solidarity, growth, and interconnections (around 10% of allowances, under Directive 2003/87/EC). To ensure fairness, the own resource contribution would not be levied on such redistributed allowances, which would not finance the EU budget (European Commission, 2018e, p. 8).

Moreover, the revised EU Emissions Trading System Directive (2018) established an Innovation Fund to support the development of breakthrough technologies and a Modernization Fund to modernize the energy sector in the lower-income Member States (Box 2). The number of allowances dedicated to financing both funds would not be subject to the own resource contribution either. In this way, the funding would be provided to foster mitigation and adaptation efforts in poorer Member States, which usually have relatively higher greenhouse emissions (as a result of strong dependence on coal and a lower share of renewable resources in energy production, as well as dependence on older, more energy-consuming technologies).

4.3.3 Expected revenue

The estimated annual average revenues could range between EUR 1.2 and 3.0 billion, depending on the market price for the EU ETS allowances. They could also vary based on the annual auction volume, which depends, among other things, on the operation of the ETS market stability reserve (European Commission, 2018e, p. 8).

5 The Evaluation Criteria Established by the European Commission to Assess the Suitability of the New Resources

Several suggestions for the evaluation criteria to assess the suitability of potential candidates for own EU resources²³ have been put forward in the academic and policy-oriented literature addressing the future of

²³ As the introduction of a new EU-wide tax requires (among other things) unanimity of all Member States and it is difficult to achieve such broad acceptance, a number of new proposals rely on the already existing solutions in all Member States and aim at their harmonization rather than at full uniformity. Some of the proposals are not of fiscal nature (e.g., seniorage).

EU finances. These come from several economic theories. The most frequently used theory in this respect is the theory of fiscal federalism, which proposes the optimal distribution of responsibilities between the different levels of government within a federation. Also, the public choice theory is used, which concentrates on the role of public agents. Another set of arguments for EU tax is related to the EU's specific features (i.e., pre-federation aspects) regarding the issue of political integration of the EU. The general tax theory is also useful (Schratzenstaller et al. 2016, p. 56).²⁴

For this assessment, the paper only applies four categories of the evaluation criteria listed by the European Commission in 2011 and based on theoretical considerations. They cover all the most important criteria (European Commission, 2011, p. 13).

1. *Budgetary criteria* require ensuring sufficient and stable EU financing in the long run and budgetary discipline. The resources should generate stable revenues.
2. *Integration criteria* (EU-specific criteria) relate to ensuring financial autonomy, transparency, and a link to EU policies. The EU financial autonomy means that budgetary resources should be independent of national treasuries to limit the existing tendency toward a narrow focus on national interests (the fair return approach). As a consequence of narrow national interests (as defined by the net positions of individual Member States), preference in budgetary expenditure is often given to policies that maximize the net benefits of countries, at the expense of policies, which offer higher EU value-added. Thus, the financial autonomy of EU budget resources is of crucial importance, promoting the overall value of pursuing certain policies at the European level rather than policies that are assessed positively by the Member States from their financial point of view.²⁵

Besides, the EU budget should be easy to understand for the EU citizens.

3. *Efficiency criteria* include the internalization of externalities, the implementation of the Subsidiarity principle,²⁶ and the reduction of operating costs (the administration costs should be low relative to the yield). In some situations, efficiency may imply deliberately introducing price distortions. It is the case when there are negative external effects and market prices do not properly reflect social costs. To correct externalities and to produce the right incentives, distortionary taxation can be introduced (e.g., eco-tax; Le Cacheux, 2007, pp. 19–20).
4. *Equity criteria* in gross contributions, i.e., the burden of financing EU expenditure should be fairly shared among the Member States as well as citizens, ensuring equity for taxpayers. There is, however, no undisputed measure of the concept of “equity” (Cipriani, 2016, p. 4). This requirement is usually understood in two ways that leads to different opinions and value judgments. One approach is the “horizontal equity” (taxpayers in identical circumstances are treated identically in their tax liability, it is “equal treatment of equals”) and the other one is “vertical equity” (which traditionally refers to the ability to pay; it requires that taxpayers in different circumstances be accordingly differentiated in

²⁴ Let's add here that a group of well known specialists on EU budget has recently suggested an innovative approach to assess the proposals of EU taxes as new own revenue sources. They developed the sustainability-oriented view at EU taxes. This idea reflects the four dimensions of sustainability (economic, social, environmental, and institutional/cultural) and – according to authors – better than standard framework explains why at least part of EU expenditures should be financed by own EU taxes (Schratzenstaller et al., 2016, p. 7). Such an approach – inspiring in theory – is difficult to apply in practice and does not have many followers.

²⁵ The fair return problem would be solved (or at least substantially reduced) if the EU budget was financed by contributions that are characterized by the so-called regional arbitrariness. The last notion means that it is not possible to calculate the share of individual Member States in the tax base or in the tax revenue. An example is the customs revenue that not only depends on the scale of imports to a given country but also on imports transferred later to other EU countries, as is the case in Rotterdam or Hamburg. Such a situation makes it more difficult, if not impossible, to correctly calculate the budgetary net positions of EU Member States (Cieślukowski, 2005, pp. 6–7).

²⁶ The principle of subsidiarity is straightforward: “a policy should be assigned to lower levels of government, and thus closer to the citizens it affects, unless there are demonstrable benefits of conducting the policy at a higher level” (Begg, 2009, p. 27). It should be noted that in the High Level Group report of 2014, the subsidiarity principle was included in the “EU-specific criteria,” (High Level Group, 2014, p. 26).

their tax liability), (Le Cacheux, 2007, p. 14). Horizontal equity is automatically respected for taxes with a common tax base and rate across the EU. The vertical equity criterion focuses on the distribution of income among citizens or EU members. In the context of the EU (which is a pseudo-federal setting, and not a state), the concept of “fairness” is also applied. It refers to the ability to pay (and resulting financial burden) at the level of Member States, and not of individuals (Cattoir, 2004, p. 11). Controversies over these “unequal” contributions have led to the widespread use of rebates and corrections.

X X X

It must be noted that the criteria for a “good (genuine) EU resource” are sometimes contradictory. This applies, first of all, to the requirements of “equity” and “efficiency.” For example, CIT has an advantage on purely economic grounds (efficiency) but is not the best solution from the vertical equity point of view (Le Cacheux, 2007, p. 32). There is not a single tax meeting all theoretical criteria and being the optimal (first best) solution to finance a public (EU) budget. Therefore, the choice will have to be made by weighting various criteria.

6 Assessment of the Basket of the New Own Resources in Terms of the Criteria Listed Above

This assessment reflects the author’s opinions on meeting the theoretical criteria by the three budgetary proposals of 2018 and takes into account the opinions expressed by experts and by Commission’s documents. Some of these opinions were presented in the literature in earlier discussions on the reform of the EU financing system, before the Commission’s proposal of May 2018 was published. A more recent assessment in the literature applies to selected aspects of the three revenue proposals and has been taken into account whenever applicable.

6.1 Budgetary criterion

None of the proposals would individually ensure the sufficiency of revenue in the EU budget (this was partly the reason for three different proposals that should serve as supplementing resources). Each of the three proposals partially meets the budgetary criterion, albeit in a slightly different way. The revenue from the CCCTB is probably the most promising solution to finance the EU budget as it will increase with the development of corporate activities in the EU internal market. One drawback is that during a slowdown of business cycles, the annual revenue from CIT can decline (Le Cacheux, 2007, p. 22). This problem will, however, be mitigated by maintaining the GNI-based resource, of a residual character, and supplementing the missing revenue to meet the legal requirement of a balanced budget. The revenue from plastic waste should decline in the next years as the abovementioned 2018 Directive has put pressure on countries to reduce the waste. Besides, this resource, if implemented, should encourage the Member States to introduce measures (national levies) to decrease contributions from the national budgets. Also, the awareness of the necessity of environmental protection has been increasing. As regards the revenue from ETS allowances, it should also diminish in the long term, but the final result will depend much on the price of ETS allowances. The other factor working in the same direction is a fact that the number of allowances auctioned will decrease in the next years.²⁷

6.2 Integration criterion

All three proposals of the new EU own resources. All of them are closely linked to key EU policies, including the common climate objectives, environmental policy, the strategy for plastics, the circular economy, and the single market objectives. In line with the Union’s strategy for plastics and climate objectives, the

²⁷ In the period 2021–2030, the cap on emissions from power stations and other fixed installations is reduced by 2.2% every year (Directive (EU) 2018/410, Art. 9, pp. 4 and 11). Moreover, the December 2019 European Council adopted the target to achieve the climate neutrality by 2050 (European Council, 2019).

contributions based on ETS allowances and plastic packaging waste should contribute to reduced pollution, as they could encourage countries to introduce national measures to limit their budgetary transfers to the EU budget. As regards the CCCTB-based own resource, it would directly confirm the link between the financing of the EU budget and the benefits of the single market as it would emphasize the Member States' common interest in ensuring a level playing field for companies operating in this market (European Commission, 2018d, p. 23).

Thus, all three proposals display a strong link to the EU value-added. Pooling resources can achieve results that the Member States acting alone cannot attain (European Commission, 2018b, p. 3). For example, the problem of tax base erosion and profit shifting cannot be adequately tackled at the national level alone. In this context, the EU proposal for corporate income taxation contributes to improving the clarity and transparency of the rules for companies operating in the single market and to attracting new investors who will employ more people, produce more goods and services, pay higher taxes to national budgets, etc. Besides, emission reductions generated by the ETS have a clear EU value-added. Climate change and plastic waste are problems that are global and need to be addressed at the EU level, including through fiscal instruments. National actions aimed at the reduction of greenhouse gas emissions are always less effective as pollution does not recognize borders. However, the actual scope of the value-added will depend much on concrete ways of implementation of the three resources. For example, the value-added of the plastic-based instrument would be higher if the transfer of the revenue from national budgets was supplemented by national levies encouraging economic agents to reduce the waste. In turn, the value-added CCCTB proposal would depend on the number of smaller companies (below the mandatory threshold of annual revenue at EUR 750 million) interested in the voluntary adoption of the system.

One of the main intentions behind the Commission's proposal is that the introduction of own contributions could alleviate the net-position thinking, poisoning negotiations on the EU budget. An important way of meeting this intention is to increase the fiscal autonomy of the EU. Unfortunately, none of the proposals discussed would reduce the pressure on assessing the net position. CIT-based and ETS-based revenues finance nowadays the national budgets. Calculating part of them as the revenue of the EU budget would require transfers from national budgets, thus enhancing, instead of mitigating, the problem of a fair return.²⁸ A plastic waste-based instrument obligates the countries, not companies, to pay a levy. The effect would be different if national levies were introduced (to diminish national fiscal burdens but also to increase the efficiency of the new instrument).

6.3 Efficiency criterion

Two proposals (on ETS allowances and plastics) should help correct negative externalities as they encourage countries to reduce the revenue based on “undesirable activities,” i.e., activities resulting in air-pollution and plastic waste (Schratzstaller and Krenek, 2019, p. 173). However, their impact on producer behavior will be limited. It will depend much on the ETS allowance prices and on Member States' decisions to introduce national incentives to reduce plastic waste. Consumers may feel the taxation burden indirectly: in the case of energy price increases (following a possible increase in prices of ETS allowances) and in the case of waste separation price rises.

At the same time, the administrative costs of ETS allowances and CCCTB should be relatively low, considering that these proposals are based on solutions already in place in the Member States. In the case of plastic waste, some costs would appear if countries decided to introduce a levy.

The proposals discussed meet relatively well the criterion of subsidiarity. They introduce no new taxes at the EU level. Instead, they harmonize the rules for the application of the instruments concerned

²⁸ Thus, the general alignment with EU objectives does not mean automatically that the particular revenue will contribute much to their actual achievement. This aspect has been noticed by D'Alfonso who rightly argues that the ETS “proposal is in line with the idea of linking the revenue side more closely to EU policy objectives, but would in principle result in the transfer of part of already existing proceeds to the EU level, without creating new incentives to change practices that have a negative impact on the climate” (D'Alfonso, 2019, p. 18).

(first of all, they provide for the same base for imposing instruments) and stipulate the revenue of the already existing revenue, except for plastic waste. Part of the revenue calculated in the same way in all countries would be transferred to the EU budget. Simultaneously, in line with the principle of subsidiarity, national authorities would enjoy some discretion as to the most appropriate economic and regulatory measures to set up the tax/levy rates. Thus, the system would be similar to the already existing mechanism of using VAT revenue as an EU budget resource.

Except for the CCCTB, the other two contributions would be relatively easy to implement and calculate from the technical point of view, although in the case of non-recycled plastic waste the national statistics and data reporting systems should be improved.

6.4 Equity criterion

Each of the contributions discussed here would have a different impact from the equity point of view.

Let's remind that horizontal equity is satisfied if a full harmonization of the contribution base is achieved as there will be an equal treatment of equivalent taxpayers in the EU. From this point of view, all three proposals do not satisfy the criterion of horizontal equity. A proposal for a directive on harmonization of a CIT base has been discussed for several years, but its future is still unclear. In the case of a contribution based on plastic waste, no harmonization of the base of such contribution exists. The common target for this type of waste is in the process of implementation (by 2030), but countries are free as regards the ways to achieve the target. As regards the contribution based on ETS revenue, the rules of applying allowances are similar but not the same for the countries and sectors and not fully transparent (e.g., the non-ETS sector accounts for around 55% of the total emission of greenhouse gases and includes agricultural sector, transport, and services). Therefore, horizontal equity would not be fully respected.

The issue of vertical equity and fairness between different actors and countries is more problematic for all three proposals. The criteria proposed for CIT consolidation (distribution of total profits of multinational groups among individual countries) include, among others, the share of labor costs. In lower-income countries (such as Poland) the salaries and wages are much lower than in most developed countries, which will result in the reduction of taxable profits apportioned to the first group of countries and, thus, losses in their CCCTB-based revenue (to be divided between the national budget and the EU budget). Thus, the burden of contributions to the EU budget can be higher for less affluent countries. The Commission seems to have noticed this problem: "Simulations for the distributional effects of CCCTB on the base show that the formula with employee costs, assets, and sales by destination equally weighted leads to an increase in the tax base (for industrial and financial groups combined) mostly in those Member States in Central and Eastern Europe, as well as in Germany, Spain, France, Greece, and Italy" (European Commission, 2011, p. 40). The other two proposals also imply a different burden on the individual Member States. A contribution based on plastics would adversely affect countries with low recycling rates as for those payers their contributions would be relatively high. Eurostat data show that this rate is not correlated much with the level of economic development (see Box 3). In 2017 the highest recycling rate of plastic packaging waste was recorded in Lithuania (74%), ahead of Bulgaria (65%), Cyprus (62%, 2016 data), Slovenia (60%), Czechia (59%), Slovakia (52%), and the Netherlands (50%). For Poland, the recycling rate was relatively low (35% while the EU average is 42%).²⁹ Thus the burden would be relatively high and the proposal is considered as "unjust" for countries in a similar situation.

In the case of the contribution based on revenue from ETS allowances, poorer economies would usually pay more because they record relatively higher revenue (such economies tend to be dominated by traditional production emitting more carbon and other greenhouse gases than innovation-based production, typical of richer countries). The share of those countries in ETS revenue is higher than their share in EU GNI (see Box 3). So, the financial burden would be different for EU members and "unfairness" (vertical equity)

²⁹ In contrast, less than one-third of plastic packaging waste was recycled in Malta (24%, 2016 data), Estonia, France and Finland (27% each), Ireland (31%), Hungary (32%), Luxembourg and Austria (33%). <https://ec.europa.eu/eurostat/web/products-eurostat-news/-/DDN-20191105-2> [5th February 2020].

Box 3. Calculation of the burden of plastic waste and ETS- based resources for selected EU Members based on 2017 statistics

To estimate this burden we apply a simple measure that compares the share of EU members in both resources (in the non-recycled plastic packaging waste and in the expected ETS auctioning revenue) and in the EU GDP. Own calculations of the author show that in the case of both resources, the burden would be unevenly distributed among the EU countries.

The plastic-based revenue would be relatively very costly for Poland as the country's share in non-recycled waste in the EU would be much higher than the share in EU GDP, that is, 6.7% and 3.0% respectively. This burden would be also relatively high for Estonia (0.5% and 0.2%), Latvia (0.3% and 0.2%), Romania (1.9% and 1.2%), and France (18.2% and 14.9%). Both shares would be the same in the case of two relatively poor EU countries, for example, Lithuania (0.2% and 0.2%) and Slovakia (0.6% and 0.6%). For several rich countries, the financial burden of the plastic-based proposal would be relatively less costly, for example, for Sweden, the respective proportions amounted to 1.2% and 3.1%, for Finland to 0.8% and 1.5%, and for Germany (17.0% and 21.3%). The differences in the relative shares reflect first of all two factors: the size of plastic waste per capita and a recycling rate waste.

In the case of ETS-based revenue, there is a more visible link between the level of economic development and the burden of the new proposal. The discrepancy between country's share in the ETS-based revenue (calculated for the total auctioning revenue in the EU in 2017) and in EU-28 GDP was very high for Bulgaria (2.4% and 0.3%), for Poland (9.1% and 3.0%); Czechia (3.6% and 1.3%), Romania (4.7% and 1.2%), Estonia (0.7% and 0.2%), Slovakia (1.6% and 0.6%), Lithuania (0.6% and 0.3%) and Latvia (0.3% and 0.2%). The opposite situation took place in France (5.7% and 14.9%). Both shares were similar for Finland (1.7% and 1.5%) and Belgium (2.6% and 2.9%).

Sources: own calculations based on <https://www.statista.com/statistics/812510/plastic-packaging-waste-recycling-eu-by-country/>; <https://appsso.eurostat.ec.europa.eu/nui/submitViewTableAction.do>; <https://ec.europa.eu/eurostat/documents/4187653/8516136/IMG+graph+news+item+share+GDP.png/38ba3874-8cec-426e-b8fa-6ef67d8c2fa8?t=1525352918737>; and <http://www.maximiser.eu/ets-tool>.

of this resource is a problem in budgetary negotiations. Also, the equity regarding individual actors would not be satisfied because of different treatment under the present ETS law of companies emitting greenhouse gases (e.g., free allocation of allowances for some sectors, including transport).

Negotiators are aware of a relatively higher burden that would be imposed on poorer EU members by the ETS- and plastic waste-based revenue proposals. To take account of this situation, Charles Michel, the president of the European Council, suggested in February 2020 “a mechanism to avoid excessively regressive impact on national contributions.” However, no details have so far been presented how exactly the new mechanism would work in practice.³⁰ Ensuring vertical equity would become even more problematic given the European Green Deal program presented at the end of 2019 by Ursula von der Leyen, the new President of the European Commission. This ambitious program offers to make EU climate neutral by 2050. The main instrument to achieve this objective is to strengthen the ETS, among others through extending the system to sectors not covered nowadays by allowances as, at present, the ETS covers less than half of all emissions and only about 60% of the allowances are auctioned. Reaching the ambitious Green Deal's objective of decarbonization is likely to involve a significant increase in carbon prices and affect adversely first of all poorer EU countries, which typically have higher emissions per GDP unit (Claeys et al., 2019, p. 3).

7 Conclusions

Each of the three proposals has its merits and drawbacks, as assessed above, based on the criteria commonly used to assess the suitability of budgetary resources. None of them meets all the basic theoretical criteria.

For less wealthy EU Members, the equity criterion is of great importance. Unfortunately, the Commission's proposal for the two new revenue resources (ETS- and plastic waste-based proposals) would put a relatively higher burden on poorer countries, including Poland and the majority of other Central and Eastern European countries.

³⁰ <https://www.euractiv.com/section/energy-environment/news/carbon-levy-plastic-tax-hailed-as-potential-game-changers-for-eu-budget/>.

A decision on the reform of the present EU financing system not only depends on a detailed analysis of the new resources proposal, but it also needs to take into account many other factors. One of them is a choice between financing the British gap or substantially cutting the present expenditure, or to say, it is between a larger budget or savings (if so, which items?); in the case of financing the British gap – on the method to do that: through increasing contributions based on GNI or rather the implementation of new own resources. If the new resources are to be implemented, the question is which ones: the already proposed basket or other resources. Decisions on these issues will require plenty of compromises among countries presenting different priorities. One way to mitigate national controversies would be to implement new rebates or other equalizing schemes, but this decision would complicate the EU financing system further. Another way would be to introduce side-payments (more pejoratively, they are called “pork-barrel” payments, Begg, 2009, p. 24), but these require high flexibility on the part of negotiators.³¹

An important difficulty related to the adoption of any of the proposals discussed (even if it is not openly expressed) seems to be the countries’ fears that these instruments would limit national fiscal sovereignty. All new proposals are treated by EU Member States as the first step toward “EU-wide taxes,” at the expense of reducing national power over the fiscal revenue and its spending. The Commission has argued that: “The present proposal does not create any new tax for EU citizens. The EU does not have the power to levy taxes. Therefore, the introduction of new categories of own resources fully respects national fiscal sovereignty” (European Commission, 2018e, p. 3). Many Member States do not share, however, this opinion. Discussions on each MFF in recent years have concentrated on controversies between net payers and net contributors and not on comprehensive reform of the EU budget, which would be subordinated to achieving of EU and not of national interests. Despite intensive criticism of the present financing system of the EU expressed in many Commission’s documents, by think tanks and individual authors, Member States have not been able to work out a necessary comprehensive reform of the EU budget yet (Becker, 2019, p. 13). As it has been argued above, the recent Commission’s proposal of the new revenue resources does not contribute to the mitigation of the problem as it does not offer truly genuine resources that would be independent of the Member States’ decisions.

However, “a dim light at the end of the tunnel” has been noticed by Becker who argues that, in the present negotiations, “the clear grouping and classification of member states into net contributors and net recipients seems to have softened” (Becker, 2019, p. 30).³²

Of crucial importance, for the new budgetary proposals, is their political acceptability by the EU Member States. As some researchers argue, this can be increased, among others, by “dedicating a substantial share of EU expenditures to programs that would contribute to a European decarbonization strategy as envisaged by the European Green Deal.” In this way, “a visible connection between EU-wide green own resources and their use” would be established (Krenek et al., 2020, p. 12). In other words, significant reform of the revenue side of the EU budget should be associated with a reform of the expenditure side. In another paper, the authors add that: “Otherwise, the introduction of tax-based own resources may rather reinforce Euroscepticism in the EU, as they are much more visible for citizens than the current revenue sources” (Schratzstaller and Krenek, 2019, p. 177). One can imagine that – as it happened in the past – given the existing controversies, no new resource is introduced. The implication would most probably be the increase of GNI-based contributions. Without such a decision, the expenditure would need to be cut drastically due to the ‘Brexit gap’ and no money would be left to finance new, extremely pressing, needs (the quite recent huge challenge is a need to mitigate the COVID-19 pandemic consequences for Member States’ healthcare systems and economies and to prevent a huge economic recession).

³¹ The adoption of the MFF 2014–2020 was associated with an agreement on more than 30 side payments (European Council, 2013).

³² One signal of this change is the appearance of a group of Member States that do not belong to either category. This “neutral” group includes among others the old net-paying members such as Belgium and Luxembourg. The other new element is the emergence of new groups characterized by new priorities. An example is the so-called Hanse Group (or the New Hanseatic League), which includes countries with different net positions (the Netherlands and Sweden that are net payers, and the Baltic States that are net recipients). Those countries aim to counterweigh the France’s and Germany’s proposal of on a separate euro area budget (Becker, 2019, pp. 23 and 30).

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