How do Member States handle contributions to the EU budget in their national budgets?
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STUDY

Abstract

This report reviews the various ways in which the Member States of the European Union handle the collection of revenues for the EU budget, as well as the classification and treatment of EU expenditures. The study finds a substantial diversity in these practices among the Member States and calls for a full harmonisation of the accounting procedures. It concludes with some options for transforming the Gross National Income resource into a ‘genuine’ resource for the EU and assesses the potential of a real VAT resource.
This document was requested by the European Parliament's Committee on Budgets. It designated Mr Jean-Luc Dehaene† to follow the study, which was finalised by Mr Jean Arthuis, Chairman.

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<td>CA</td>
<td>Commitment Appropriations</td>
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<td>CAP</td>
<td>Common Agricultural Policy</td>
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<td>CZK</td>
<td>Czech Krona</td>
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<td>EIB</td>
<td>European Investment Bank</td>
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<td>ESA95</td>
<td>European National Accounts standards</td>
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<td>ESF</td>
<td>European Social Fund</td>
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<tr>
<td>ERDF</td>
<td>European Regional Development Fund</td>
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<tr>
<td>ETS</td>
<td>Emissions Trading System</td>
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<td>EU</td>
<td>European Union</td>
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<tr>
<td>FTT</td>
<td>Financial Transactions Tax</td>
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<tr>
<td>GDP</td>
<td>Gross Domestic Product</td>
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<tr>
<td>GNI</td>
<td>Gross National Income</td>
</tr>
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<td>LNL</td>
<td>Lithuanian Litas</td>
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<tr>
<td>LRAs</td>
<td>Local and Regional Authorities</td>
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<td>MFF</td>
<td>Multiannual Financial Framework</td>
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<tr>
<td>MS</td>
<td>Member State</td>
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<td>NGO</td>
<td>Non-Governmental Organisation</td>
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<td>OBR</td>
<td>(UK) Office of Budgetary Responsibility</td>
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<td>OR</td>
<td>Own Resources</td>
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<td>PA</td>
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<td>Polish Zloty</td>
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<td>R&amp;D</td>
<td>Research and Development</td>
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<td>SKR</td>
<td>Swedish Krona</td>
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<tr>
<td>TEN</td>
<td>Trans-European Network</td>
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<tr>
<td>TFEU</td>
<td>Treaty on the Functioning of the European Union</td>
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<tr>
<td>TOR</td>
<td>Traditional Own Resources</td>
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<td>UK</td>
<td>United Kingdom</td>
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<td>VAT</td>
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EXECUTIVE SUMMARY

The current handling of the funding of the EU budget at Member State level is characterised by complex rules and procedures. The administrative requirements, co-financing aspects and the lack of transparency induce high costs and lack of efficiency.

The study, based largely on an examination of the central governments’ budgets for 2014, shows a striking diversity within the EU as regards Member States’ handling of their contributions to the EU budget. In fact, among the Member States reviewed, only France, Germany, Bulgaria and Austria classify the EU contribution as an attribution of national receipts to the EU, in line with the original design of the system of ‘own resources’ (OR). In the special case of the United Kingdom, the EU contribution is not classified as an attribution of revenue nor, in fact, directly as an item among the expenditure categories, insofar as only the UK net contribution (gross contribution less the rebate) is recorded as spending in the UK report on EU finances. A similar case applies to Romania where the EU contribution is categorised as a deduction of Romanian receipts from the EU. In the other Member States reviewed, the EU contribution is classified as government expenditure although not in the same manner in all the cases studied. In fact, the contribution may be entered separately as a special category, or be classified for example among commitments for public services, etc.

The fairness and appropriateness of contributions by the Member States to the EU budget depend strongly on the correct estimation of the GNI (gross national income) of Member States. The detailed examination by the Court of Auditors, the Commission’s response and Eurostat’s handling more generally of the ‘monitoring’ of GNI show that this is not a simple exercise and that some areas of contention remain. Nevertheless, examination also shows that Member States and the European Commission handle the estimation of GNI and thus the GNI resources contributed to the EU with utmost attention. GNI contributions are, to some extent, less precise (in theory) than the use of shares of revenue from taxes. Indirectly, tax revenues are also affected by errors, tax evasion and unrecorded economic activity and may, thus, be as reliable or unreliable as GNI estimates. Nevertheless, our conclusion is that GNI estimations and thus the dependent share of EU revenue and expenditure are performed with credible commitment by all administrations.

Although the GNI-based contribution now counts for some two-thirds of the funding of the EU’s budget, the original rationale for the existence of own resources remains valid. This would, in particular, be the case for new sources accruing essentially to the EU in general, such as, for example, receipts from a financial transactions tax or income from the EU Emissions Trading System. However, even if there are valid arguments for including new taxes and other receipts among own resources as partial replacements of the GNI-based contribution, an important conclusion of the present study is that the handling of the Member States’ contributions to the EU must be fully harmonised in the sense of ensuring that all Member States classify this contribution as an attribution of government receipts to the EU and not as an expenditure. The study, however, also concludes that the classification of receipts from the EU budget is best left to the Member States, as the local rules and procedures for the allocation of funding and the handling of cash flows are likely to remain largely determined by the national institutional systems for financing local governments’ spending and inter-governmental fiscal relations. The European Commission has already presented detailed figures on the allocation of funds.

On reforming the own resources system, this paper reaches the conclusion that new tax-based revenues are unlikely to reduce the complexities created by net balance disputes. Tax-based own resources have their benefits, such as linking resources to specific EU objectives, partially increasing the visibility of the EU budget for citizens and better fulfilling some generally accepted criteria that public revenues and supranational revenues should aim for. These are important arguments in favour of own resources, but the value of creating them should not be overstated; the benefits of
those resources should be assessed against the continuation of a reformed and “more rational” application of the GNI resource, an exercise that has not been undertaken.

Harmonising the handling of the GNI resource would allow its transformation into something close to a ‘genuine own resource’, by ensuring that the contribution is attributed to the EU directly and not recorded as government revenue first. This adjustment is recommended, regardless of the final resource mix.

In addition to the harmonisation of the handling of the contributions to the EU, the report considers that a ‘genuine’ and visible VAT resource is the most appropriate among the potential new resources, but it questions the general expectation that ‘real’ own resources will moderate the net balance disputes. If the fundamental causes for the net balance concerns are not addressed, namely the lack of a strong political support of net contributors for the present structure and objectives of the budget expenditures, tax-based resources may lead to even more complex ‘correction mechanisms’.
ZUSAMMENFASSUNG


Obwohl die auf dem BNE basierenden Beiträge inzwischen etwa zwei Drittel der Finanzierung des EU-Haushalts ausmachen, behalten die ursprünglichen Argumente für die „Eigenmittel“ ihre Gültigkeit. Sie tragen vor allem auf neue Quellen zu, die in erster Linie der EU allgemein zufliessen, zum Beispiel Einnahmen aus einer Finanztransaktionssteuer oder dem Emissionshandelssystem. Selbst wenn es gute und stichhaltige Argumente für die Aufnahme neuer Steuern und anderer Einnahmen in die Eigenmittel als teilweisen Ersatz für die auf dem BNE basierenden Beiträge gibt, ist eine wichtige Schlussfolgerung der vorliegenden Studie dennoch, dass die Handhabung der Beiträge der Mitgliedstaaten zum EU-Haushalt insofern vollständig harmonisiert werden muss, als alle Mitgliedstaaten diesen Beitrag als Abführung von Staatseinnahmen an die EU und nicht als Ausgaben einstufen. Die Studie kommt jedoch auch zu dem Schluss, dass die Einstufung von Einnahmen aus dem EU-Haushalt den Mitgliedstaaten überlassen werden sollte, da die Regeln und Verfahren für die Vergabe von Mitteln und die Handhabung von Zahlungsströmen auf lokaler Ebene wahrscheinlich weiterhin hauptsächlich von den nationalen institutionellen Systemen für die Finanzierung von Ausgaben der lokalen Regierungen und zwischenstaatlichen Finanzbeziehungen

Bezüglich der Reformierung des Eigenmittelsystems kommt die vorliegende Studie zu dem Schluss, dass neue auf Steuern basierende Einnahmen die Komplexität, die durch die Nettosaldostreitigkeiten entstanden ist, wahrscheinlich nicht verringern werden. Auf Steuern basierende Eigenmittel haben Vorteile, zum Beispiel die Bindung der Mittel an bestimmte Ziele der EU, die teilweise bessere Sichtbarkeit des EU-Haushalts für die Bürger und die bessere Erfüllung einiger allgemein anerkannter Kriterien, deren Einhaltung bei staatlichen Einnahmen und supranationalen Einnahmen angestrebt werden sollte. Dies sind wichtige Argumente für die Eigenmittel, aber deren Bedeutung sollte nicht überbewertet werden, und die Vorteile dieser Mittel sollten im Vergleich zur Fortsetzung einer reformierten und „rationaleren“ Anwendung der BNE-Mittel untersucht werden; diese Untersuchung steht noch aus.

Die Harmonisierung der Handhabung der BNE-Mittel bietet die Möglichkeit, diese in nahezu „wirkliche Eigenmittel“ umzuwandeln, indem sichergestellt wird, dass der Beitrag direkt als Abführungen an die EU eingestuft und nicht zunächst als Staatseinnahmen aufgeführt wird. Diese Anpassung wird unabhängig davon empfohlen, wie sich zum Schluss die Mittel zusammensetzen.

Neben der Ansicht, dass die Handhabung der Beiträge zum EU-Haushalt harmonisiert werden sollte, wird in dem Bericht die Auffassung vertreten, dass von den möglichen neuen Mitteln „wirkliche“ und sichtbare MwSt.-Mittel am besten geeignet wären. Die allgemeine Erwartung, dass durch „echte“ Eigenmittel die Nettosaldostreitigkeiten abnehmen werden, wird jedoch angezweifelt. Wenn die grundlegenden Ursachen für die Nettosaldobedenken, nämlich der Mangel an starker politischer Unterstützung seitens der Nettozahler für die derzeitige Struktur und die derzeitigen Zwecke der Ausgaben, nicht angegangen werden, könnten auf Steuern beruhende Mittel sogar zu noch komplexeren „Korrekturmechanismen“ führen.
SYNTHÈSE

Les règles et les procédures régissant actuellement le financement du budget de l'Union au niveau des États membres se caractérisent par une grande complexité. Les exigences administratives, les aspects liés au cofinancement et le manque de transparence entraînent des coûts élevés et une faible efficacité.

Cette étude, qui se fonde essentiellement sur l'analyse du budget des États en 2014, révèle une variété étonnante dans la gestion de la contribution des États membres au budget de l'Union. En effet, parmi les États pris en considération, cette contribution n'est désignée comme un transfert de recettes nationales vers l'Union, conformément à la volonté originelle du système de ressources propres, qu'en France, en Allemagne, en Bulgarie et en Autriche. Dans le cas particulier du Royaume-Uni, la contribution au budget de l'Union n'est pas répertoriée comme un transfert de recettes ni, du reste, comme un poste particulier de dépenses, la contribution nette du pays (contribution brute moins compensation) étant indiquée comme une dépense dans le rapport du Royaume-Uni sur les finances de l'Union européenne. La situation en Roumanie est semblable: la contribution au budget de l'Union est répertoriée comme une déduction des recettes en provenance de l'Union. Dans les autres États membres à l'examen, la contribution apparaît en tant que dépense publique, sans pour autant être désignée de la même manière dans les divers cas étudiés. En effet, la contribution peut être indiquée séparément, en tant que catégorie spéciale, ou être classée, par exemple, parmi les engagements destinés aux services publics.

L'estimation adéquate du RNB des États membres détermine en grande partie le caractère équitable et adapté de leurs contributions au budget de l'Union. L'analyse détaillée menée par la Cour des comptes, la réponse de la Commission et le "suivi" plus général du RNB par Eurostat démontrent que l'exercice est complexe et que certains points litigieux persistent. Toutefois, l'analyse révèle également que les États membres et la Commission procèdent à l'estimation du RNB et donc des ressources versées au budget de l'Union en fonction du RNB, avec le plus grand soin. Le calcul des contributions sur la base du RNB est, dans une certaine mesure, moins précis (en théorie) que s'il se fondait sur les recettes fiscales. Indirectement, le calcul des recettes fiscales souffre néanmoins lui aussi d'erreurs, de l'évasion fiscale et des activités économiques non déclarées, et pourrait par conséquent être tout aussi (peu) fiable que les estimations fondées sur le RNB. Nous concluons cependant que l'estimation du RNB, donc des recettes et des dépenses de l'Union qui en dépendent, est menée avec sérieux par l'ensemble des administrations nationales.

Bien que la contribution fondée sur le RNB représente actuellement quelque deux tiers du financement du budget de l'Union, les arguments traditionnels en faveur de l'établissement d'un système de "ressources propres" restent valables. Les recettes issues de la taxation des transactions financières ou collectées dans le cadre du système d'échange de droits d'émission pourraient par exemple constituer de nouvelles sources de financement de l'Union. Or, s'il existe des arguments valables en faveur de l'inclusion de nouveaux impôts et d'autres recettes parmi les ressources propres à des fins de remplacement partiel de la contribution fondée sur le RNB, la présente étude conclut notamment – point crucial – que la gestion des contributions au budget de l'Union par les États membres doit être entièrement harmonisée, à savoir que tous les États membres devraient répertorier cette contribution en tant que transfert de recettes vers l’Union, et non en tant que dépense. Cependant, l'étude conclut également que la classification des recettes en provenance du budget de l'Union doit de préférence être laissée à l'appréciation des États membres, puisque les règles et procédures locales d'allocation des financements et de gestion des mouvements de trésorerie, resteront vraisemblablement déterminées par les services nationaux compétents pour le financement des dépenses des autorités locales et les relations budgétaires intergouvernementales. La Commission publie déjà des chiffres précis sur l'allocation des fonds.
Quant à la réforme du système de ressources propres, la présente étude conclut que la collecte de nouvelles recettes fiscales ne mettra probablement pas un terme aux controverses relatives au solde net. Le système de ressources propres fondé sur les recettes fiscales présente des avantages, tels que l'établissement d'un lien entre les ressources et les objectifs particuliers de l'Union, l'accroissement partiel de la visibilité du budget de l'Union pour les citoyens européens et la meilleure réalisation d'objectifs généralement acceptés auxquels les recettes publiques nationales et supranationales devraient être consacrées. Voilà des arguments de poids en faveur des ressources propres, mais s'il est essentiel d'en créer de nouvelles, il ne faut pas exagérer leur importance, mais plutôt comparer leurs avantages à ceux des ressources fondées sur le RNB dans le cadre d'un système réformé et d'une gestion plus "rationnelle", ce qui reste à faire.

Harmoniser la gestion des ressources fondées sur le RNB permettrait de rapprocher celles-ci de véritables ressources propres, en s'assurant que les contributions soient directement attribuées à l'Union, et non plus répertoriées en premier lieu comme des recettes nationales. Cette solution est recommandée, quelle que soit la composition finale de ces ressources.

Outre l'harmonisation de la gestion des contributions à l'Union, le rapport propose la mise en place d'une "véritable" et visible ressource TVA, considérée comme la plus adaptée parmi les nouvelles sources de financement potentiellement exploitables. Il remet toutefois en question l'idée répandue selon laquelle la mise en place d'un système de véritables ressources propres apaiserait les controverses liées au solde net. Si les causes profondes de ces controverses – l'absence de soutien politique fort des contributeurs nets à la structure et aux objectifs actuels des dépenses budgétaires – ne sont pas traitées, l'introduction de ressources fondées sur les recettes fiscales pourrait en effet entraîner l'apparition de mécanismes de correction encore plus complexes.
1 INTRODUCTION

The debate on the need for a fundamental reform of the own resources (OR) system is resurfacing in many different quarters. The OR system has become complicated, opaque and distorted because of correction mechanisms originating from imbalances in both resource collection and expenditure allocation over the years.

There is a widely held perception that changing the present system into one based on taxation could free the EU resources from the disputes over net budgetary balances and increase the transparency and accountability of the budget. Such a system would also be in line with the original wording of the Treaty of Rome, which states that the revenue “shall be financed wholly from own resources” (Article 201). While it does not specify if such resources should be from taxes, it does mean that the present system of own resources is to a large extent unlikely in line with the Treaty. Only the Traditional own resources (TOR) can be considered a clearly independent resource for the EU. Even the VAT resource is largely a virtual calculation partially disconnected from the applied VAT. The GNI based contribution, which covers over 70 % of the resources, is seen by member states as a transfer from their budgetary resources to the EU.

Proposals for a reform of the OR system can be divided into two groups: one based on new correction mechanisms, and a second focused on new taxation instruments. This report challenges the notions that these are the two only possible approaches and that these will resolve or reduce the disputes over net balances or the budget’s size.

Chapter 2 and Chapter 3 of the report introduce the main characteristics of the OR system and their historical evolution and describe the impact of the present system on the new financial framework.

Chapter 4 analyses how Member States collect and record their contributions to, as well as the receipts from, the EU budget. The report expresses the need for ground-breaking reforms at the EU and national level in the way that the GNI resources and transfers from the budget are recorded.

Chapter 5 examines the introduction of new own resources and assesses the extent to which the GNI resource can be transformed into a resource showing some of the characteristics of a ‘genuine’ own resource. The results challenge the notion that well-functioning OR must necessarily be based on EU-level taxation.

Chapter 6 summarises our findings and presents conclusions.
2 THE ORIGIN OF TODAY’S OWN RESOURCES

This chapter describes the structure of the OR system and its development, with specific attention given to the UK rebate. It assesses the merits and flaws of the present system and proposes alternatives for deriving EU revenue and essential elements to consider in any reforms.

2.1 SUMMARY OF TODAY’S OWN RESOURCES SYSTEM

There are three main resources for the EU budget:

1) Traditional own resources (TOR). These are the original resources composed by common customs duties and agricultural and sugar levies. These are regarded as resources fully owned by the EU (with a 25 % exception which stays with the Member States to cover administrative and collection costs) and as such they do not enter in the formula for the calculation of net balances. Since 2001 25 % of the TOR receipts have been retained by member states to cover the administrative and collection costs. This high share of retained funds has been considered a hidden correction by the European Commission (benefiting in particular the Netherlands), as the funds retained are excessive in comparison with the real costs incurred. This share should be reduced to 20 % after approval of the new own resources decision, but 20 % is still considerably higher than the 10 % applied before the year 2001.

2) VAT resources. Value-added tax-based contributions were introduced in 1980 to compensate for the insufficiency of TOR. These contributions are calculated on a harmonised VAT base (since VAT bases diverge among Member States). The VAT rate-of-call contribution to the budget was originally set at 0.5 % of GNI. The 2007-2013 financial perspective cut the cap to 0.3 % of GNI from 2007 onwards, with deeper cuts for Austria (0.225 %), Germany (0.15 %) and the Netherlands and Sweden (0.1 %). In addition, a cap was imposed on the base at 50 % of each Member State’s GNI, to avoid potential imbalances deriving from different levels of consumption across Member States (especially to avoid penalising poorer Member States where the share of consumption over total wealth is typically higher). These changes had the effect of making the VAT contribution in many countries equivalent to a GNI-based contribution.

3) GNI resource. A resource based on the GNI of Member States was created in 1988 to cover the residual budget needs that couldn’t be covered through TOR and VAT. This resource has seen specific rebates for some Member States: the Netherlands and Sweden benefited from annual reductions in their contributions to this resource for the 2007–2013 period of EUR 605 million and EUR 150 million respectively, i.e. lump sum rebates. The most important rebate, anyway, regards the UK and deserves special consideration.

2.2 THE UK REBATE

In the 1980s, the UK was a net contributor to the budget, despite being one of the poorest members of the European Community. The main reason for that was the design of the Common Agricultural Policy (CAP), which benefited the agricultural products and structures of the six founding Member States at the expense of the more industrialised British economy. The UK rebate was thus largely a reaction to the perceived bias of the CAP, which pushed European Community expenditures mostly towards agricultural spending.

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1 This notion is repeated throughout many documents on own resources from the European Commission.
The basic mechanism of the UK rebate was decided in Fontainebleau in June 1984 and given effect by the Council Decision of 7 May 1985. It stipulated that the contribution of the UK to the Community budget would be reduced by an amount equal to 66% of its net balance. The basic logic of the UK rebate is the following: it accounts for the difference between the amount paid by the UK (excluding the TOR) and the amount of expenditure in and for the benefit of the UK. It excludes external action but, interestingly enough, includes administrative expenditure.

The precise calculation was already initially complex and has developed into an extremely laborious exercise due to numerous adaptations introduced over the years to counterbalance the effects of changes in the system. In fact the rebate is no longer calculated on the actual budget contributions and receipts, but on a fictional contribution, based on what the contributions would have been if the VAT resource had been used rather than the GNI (elimination of the so-called ‘UK advantage’ due to the use of GNI). It is also foreseen that the UK contribution would not exceed an additional EUR 10.5 billion over the 2007-2013 Multiannual Financial Framework (MFF), compared to the continued application of the previous rebate mechanism.

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2 The general principle of the Fontainebleau Agreement is that “any Member State sustaining [a] budgetary burden which is excessive in relation to its relative prosperity may benefit from a correction at the appropriate time” (European Council, Conclusions of the Session of the European Council at Fontainebleau, 25-26 June 1984).

3 THE FINANCIAL FRAMEWORK 2014-2020 AND ITS RESOURCES

The legal framework for the Multiannual Financial Framework (MFF) 2014-2020 was finally established in November 2013 and made public in the Official Journal. The Council Regulation on 20 December 2013⁴ establishes the following conditions:

1. The annual ceilings on commitments must respect the own resources ceiling set in accordance with the 2007 decision (Article 4, MFF Regulation 2014-2020).
2. The MFF starts on 1 January 2014 but is to be reviewed in 2016 at the latest.
3. In the context of this mid-term review, there must be an examination of the suitability of the duration of the next MFF.
4. A specific and maximum flexibility should be implemented to allow the Union to comply with obligations of Article 323 of the TFEU.
5. Special provisions are to be made for a possibility to enter commitment appropriations over and above the ceilings set out in the MFF.
6. The application of certain guarantees may equally require the mobilisation of funds over these MFF ceilings while respecting the own-resources ceiling (1.23 % of GNI).
7. The MFF should be laid down in 2011 prices.
8. The MFF does not take account of certain assigned revenue items in the meaning of the 2012 financial regulation (financial rules).
9. Unforeseen circumstances may require revision of the MFF.
10. Other changes in circumstances (for example economic governance, enlargement, and reunification of Cyprus or delayed adoption of new rules governing certain policy areas) may also justify adjustments of the MFF.
11. The “national envelopes” for cohesion policy must be reviewed by the Commission in 2016.
12. It is necessary to provide for general rules on inter-institutional cooperation in the budgetary procedure.
13. Special rules may be necessary for large infrastructure projects extending beyond the duration of the MFF.
14. A new MFF will be proposed before 1 January 2018.

The legal framework sets out various more precise provisions for the reviews, compliance with ceilings, technical adjustments, operation of special instruments, revisions of the present MFF and preparation of the next one.

The revenue corresponding to this expenditure budget can be derived automatically by forecasting revenues from sugar levies, customs duties and the VAT-based contributions with the GNI-based contributions to be calculated as a residual according to the current system. The approach can be illustrated and understood by analysing the revenue side of budget for 2014, as presented in the Commission’s budget proposal published in spring of 2013.

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How do Member States handle contributions to the EU budget in their national budgets?

### 3.1 THE EU’S REVENUE BUDGET FOR 2014

The draft budget for the European Union, presented in June 2013 provides details concerning the financing of the budgeted expenditures by own resources and other revenue categories.

The Commission describes the revenue table (see Table 1) in the following terms. The first two own resources are customs duties and sugar sector levies. A 25 % flat rate deduction is made at source by the Member States to cover their collection costs, which may be reduced to 20 % when and if the new OR decision is ratified.

The third resource results from the application of a uniform rate to Member States’ value added tax (VAT) bases. The uniform rate is according to Article 2(4) of the Council Decision 436/2007 set at 0.30 %. The uniform rate is applied to VAT bases that are restricted (capped) to 50 % of each Member State’s GNI base.

The fourth resource results from the application of a uniform rate to Member States’ GNI base; this coefficient is calculated so as to cover the balance of total expenditure not covered by the other resources.

**Table 1. EU revenues according to the Commission’s budget for 2014 (€ mil)**

<table>
<thead>
<tr>
<th>TITLE</th>
<th>REVENUE</th>
<th>DAB 5/2013</th>
<th>DB 2014</th>
<th>% CHANGE</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Own resources:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>- Sugar sector levies (1)</td>
<td>123</td>
<td>125</td>
<td>+1.4%</td>
</tr>
<tr>
<td></td>
<td>- Customs duties (1)</td>
<td>18,654</td>
<td>18,086</td>
<td>-3.0%</td>
</tr>
<tr>
<td></td>
<td>- VAT (2)</td>
<td>15,063</td>
<td>17,882</td>
<td>+18.7%</td>
</tr>
<tr>
<td></td>
<td>- GNI (3)</td>
<td>107,713</td>
<td>98,418</td>
<td>-8.6%</td>
</tr>
<tr>
<td></td>
<td>Sub-total (Title 1)</td>
<td>141,554</td>
<td>134,512</td>
<td>-5.0%</td>
</tr>
<tr>
<td>3</td>
<td>Surpluses, balances and adjustments</td>
<td>1,057</td>
<td>p.m.</td>
<td></td>
</tr>
<tr>
<td>4</td>
<td>Revenue accruing from persons working with the Institutions and other Union bodies</td>
<td>1,278</td>
<td>1,286</td>
<td>+0.7%</td>
</tr>
<tr>
<td>5</td>
<td>Revenue accruing from the administrative operation of the institutions</td>
<td>53</td>
<td>53</td>
<td>-0.5%</td>
</tr>
<tr>
<td>6</td>
<td>Contributions and refunds in connection with Union agreements and programmes</td>
<td>60</td>
<td>60</td>
<td>0.0%</td>
</tr>
<tr>
<td>7</td>
<td>Interest on late payments and fines</td>
<td>413</td>
<td>123</td>
<td>-70.2%</td>
</tr>
<tr>
<td>8</td>
<td>Borrowing and lending operations</td>
<td>3</td>
<td>p.m.</td>
<td></td>
</tr>
<tr>
<td>9</td>
<td>Miscellaneous revenue</td>
<td>30</td>
<td>30</td>
<td>0.0%</td>
</tr>
<tr>
<td></td>
<td>Sub-total (Titles 3–9)</td>
<td>2,896</td>
<td>1,553</td>
<td>-46.4%</td>
</tr>
<tr>
<td>10</td>
<td>Grand total</td>
<td>144,450</td>
<td>136,065</td>
<td>-5.8%</td>
</tr>
</tbody>
</table>

(1) Amounts net of 25 % retained by Member States as collection costs.
(2) Uniform rate of 0.30 %. For 2013 Austria (0.225 %), Germany (0.15 %), the Netherlands and Sweden (0.1 %).
(3) Uniform rate (rounded) of 0.8038 % in 2013 and 0.7291 % in 2014.
(4)

**Source:** European Commission 2014 draft budget, DG BUDGET.

The explanation is included here for purposes of clarification and comparison.
3.1.1 Monitoring GNI and the GNI-based contributions

Member States’ gross national income (GNI) is, thus, the basis for the calculation of the most significant share of the revenue in the EU budget. Revenues derived from this source have increased from around 50% of the budget in 2002 (EUR 46 billion) to 70% in 2014 (EUR 98 billion). GNI is a macroeconomic aggregate whose compilation process should comply with the European National Accounts standards (ESA95). The Commission verifies GNI data provided by Member States in order to ensure that their contributions to the EU budget are correct. The Commission receives important assistance in its verification work from members of a GNI Committee, chaired by Eurostat, and from representatives from the National Statistical Institutes of the 28 Member States.6

In view of the increasing importance of the GNI-based contributions to the EU budget, the process, methodology and strategy of the Commission’s approach have been examined by the Court of Auditors (Cours des Comptes) and the most recent findings published in a Special Report by the Court on 10 December 2013.7

The report of the Court provides a highly useful overview of the procedures followed and presents a certain number of criticisms and a negative assessment of the Commission’s approach. According to the assessment of the Court, the Commission’s verification of the quality of the Member States’ GNI data was insufficiently structured and focused. It also found cases of non-compliance with the European national accounts standards. In particular, it calls for a “more complete, transparent and consistent overview of the results of the annual verification process and for a more detailed assessment of the risks involved in under- or over-estimation of certain aggregates”. The Court also argues that improvements in the verification procedures would not require an increase in Eurostat’s staff dedicated to these procedures.

While accepting some of the Court’s criticisms and assessments, the Commission mounted a strong defence of many aspects of the current procedures and, in particular, underlined that the evaluation of the staff resources needed is complex process which it had yet to carry out. Moreover, it argued that the verification process is more successful and elaborate than perceived by the Court. The details of the Commission’s responses to the main points, as presented in the Executive Summary, are presented in a table in Annex 1 to the present report.

Beyond these considerations, it is important to underline that the procedure of monitoring GNI in a longer perspective will be strongly impacted by the ongoing revisions of the international and European national and public sector accounting standards. Understandably, the task of the Court of Auditors is not and cannot be to take account of the changes in these standards and the influence such changes will have on the estimation of GNI and all other national accounts variables. But these measurement issues will also exert an important influence on the long-term approach to the estimation of the GNI base by the Commission.

Indeed, when considering the longer-term perspectives of the GNI-based contribution, the Commission and the Member States cannot fully ignore that this is an area in constant development and that the problem in arriving at credible estimates of output, productivity and income in any economy is not just a question of accounting rules but of devising accounting standards that are

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capable of providing the most appropriate picture of economies in constant and dynamic development⁸.

### 3.2 SPENDING IN THE EU BUDGET

The Commission’s budget proposal for 2014, presented in June 2013, is constructed along two axes: i) an institutional framework of spending by each Directorate-General (DG) and ii) a functional breakdown according to policy areas and which may concern one DG or in some cases be of a cross-cutting nature and change from one year to another according to political priorities.

Table 2 presents the EU payments and commitments appropriations for the 2014-2020 MFF as per the six main budget headings.

**Table 2. Payment and commitment appropriations of the 2014-2020 MFF**

<table>
<thead>
<tr>
<th>2014-2020</th>
<th>€ mil</th>
<th>% of CA</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Smart and inclusive growth</td>
<td></td>
<td></td>
</tr>
<tr>
<td>a) Competitiveness for growth and jobs</td>
<td>450,763</td>
<td>47.0</td>
</tr>
<tr>
<td>b) Economic, social and territorial cohesion</td>
<td>125,614</td>
<td>13.1</td>
</tr>
<tr>
<td>2 Sustainable growth: Natural resources</td>
<td>325,149</td>
<td>33.9</td>
</tr>
<tr>
<td>Of which, market related expenditure and direct payments</td>
<td>373,179</td>
<td>38.9</td>
</tr>
<tr>
<td>3. Security and citizenship</td>
<td>15,686</td>
<td>1.6</td>
</tr>
<tr>
<td>4. Global Europe</td>
<td>58,704</td>
<td>6.1</td>
</tr>
<tr>
<td>5. Administration</td>
<td>61,629</td>
<td>6.4</td>
</tr>
<tr>
<td>Of which, administrative expenditure of the institutions</td>
<td>49,798</td>
<td>5.2</td>
</tr>
<tr>
<td>6. Compensation</td>
<td>27</td>
<td>0.0</td>
</tr>
<tr>
<td>Total commitment appropriations (CA)</td>
<td>959,988</td>
<td>100.0</td>
</tr>
<tr>
<td>As percentage of GNI</td>
<td>1.00</td>
<td></td>
</tr>
<tr>
<td>Total payment appropriations (PA)</td>
<td>908,400</td>
<td>94.6</td>
</tr>
<tr>
<td>As percent of GNI</td>
<td>0.95</td>
<td></td>
</tr>
<tr>
<td>Margin available as a percentage of GNI</td>
<td>0.28</td>
<td></td>
</tr>
<tr>
<td>Own resources ceiling as a percentage of GNI</td>
<td>1.23</td>
<td></td>
</tr>
</tbody>
</table>

**Source:** European Commission, COM (2013) 928 final.

For each commitment appropriation, the General Budget contains a detailed budget, as does the budget of any Member State⁹. Of importance for the assessment of the inter-governmental nature of the EU budget is that, like for a nation-state, the expenditure flows from the EU will accrue in some cases to central governments of Member States and to regional authorities, but also to lower level public authorities and to private institutions. Moreover, some funds are distributed to intermediary public or private institutions in charge of managing specific programmes over the duration of the MFF. In the case of the Framework Programme for Research (now Horizon 2020), the flow may go directly from the Commission to a project coordinator in charge of channelling the

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⁸ For a more detailed assessment and analysis of the European Union’s approach to the production of statistics and in particular the handling of measurement issues, see, for example Jorgen Mortensen, “Measuring and monitoring the contribution of intangibles to investment and capital formation”, Deliverable produced in the BLUE-ETS research project (SSH-CT-244767) (www.blue-ets.istat.it/fileadmin/deliverables/Deliverable9.1.pdf). This paper also includes a bibliography of the most important contributions to the debate on the measurement problems in economic and business accounts.

⁹ In reality the order of magnitude of the general budget for the EU is equivalent to that of a small Member State, such as Denmark, Greece or Finland and about two-thirds of, for example, the budget of Belgium.
funds to the members of a research consortium, which can well include partners from several EU Member States or non-EU participants.

The handling of the flows from the Commission to the ultimate recipient may in some cases be a topic of some negotiations between the Commission and a Member State concerning payment arrangements.

3.2.1 Reporting the benefits of EU membership and funding

The accounting approach the member states adopt to determine the net balances, which then influence the decisions on the financial distribution, ignore the economic benefits of EU integration and the multiplier effects of the funding on the economy. The assessment of non-monetary benefits of the very existence of the EU does not constitute the subject of the present Report. It may nevertheless be appropriate, in the context of reforms of policies and contributions to the budget of the EU, to keep in mind that the purely monetary benefits accruing via the budget of the EU do not take adequate account of the much more important non-monetary benefits of EU membership. Such non-monetary benefits notably include but are not limited to:

- The benefits of the customs union and the “four freedoms”: free movement of goods, services, capital and people;
- Indirect effects of EU spending through a multiplier effect\(^\text{10}\); and
- Indirect effects due to EU financial guarantees, lending from the European Investment Bank or other lending interventions, such as those of the European Central Bank.

Thus, for example, the very fact that Turkey benefits from the customs union with the EU probably has provided and still provides a boost to the Turkish economy many times larger, in terms of the level of GNI, than would be the Turkish “membership fee”, Turkey were to become a full member of the Union.

Thus, the claims frequently advanced for a “juste retour” or for “getting the money back”, seen in a broader perspective of costs and benefits of economic and monetary integration, are pure nonsense, but sadly, they remain an element that must be acknowledged of the politically-determined attitudes towards the EU budget.

Nevertheless, the history of the evolution of the EU budget shows a complex pattern of developments from the original ideas of “own resources” for the EU to the current situation where most of the EU budget is financed directly by contributions from the Member States.

How do Member States handle contributions to the EU budget in their national budgets?

4 THE HANDLING OF CONTRIBUTIONS TO AND BENEFITS FROM THE EU BUDGET

Despite the fact that the OR have been and remain a highly political issue, the treatment and classification of these resources in the annual and multi-annual budgets of the Member States have not been addressed. No guidelines have been issued to ensure a minimum degree of harmonisation across Member States. Indeed, besides the whole question of the financial independence of the Communities, the shaping of the relationship between the EU’s citizens, Member States and institutions could justify such a harmonisation as a signal to politicians and other stakeholders. In fact, as argued by the Commission11, the debate over OR is closely linked to the wider debate over the future of European integration and the struggle between two contrasting visions: a federal system vs. an inter-governmental approach. Visibility and clarity in the way EU resources are collected and classified would improve the debates on the EU budget. There is now a high degree of diversity in the handling of the OR in the budgets of Member States. This diversity concerns the ways in which the attribution of these resources are recorded in the budget; the ways in which the benefits from the EU budget are shown and classified, and also whether each Member State operates within a concept of a “net return” from the EU budget.

4.1 CLASSIFICATION OF THE ATTRIBUTION OF REVENUE

The overall distribution of the Union’s resources is presented in detail in the Financial Report of the Commission12. When the Parliament and the Council approve the annual budget, total revenues must equal total expenditures. The total amount needed to finance the budget follows automatically from the level of total expenditure. However, since outturns of revenues and expenditures usually differ from the budgeted amounts, there is a balancing exercise required during implementation. Normally, there is a surplus, and this reduces Member States’ payments in the subsequent year. In 2012, own resources amounted to EUR 129,429.8 million, other revenue to EUR 8,613.8 million, and EUR 1,497 million corresponded to the surplus carried over from the previous year.

The overall outcome for 2012 is presented in Annex 2. As will be shown in the following sections, there is a wide diversity in the way these elements of the Member States’ contributions are handled. The handling of OR in France seems to conform most closely to the original provisions in the Treaty. Germany also classifies the contribution to the EU as an attribution of fiscal receipts. The review that follows of the classification of government revenue reveals, in fact, that France and Germany provide a more explicit attribution to the Union of a part of their government income than any other Member State considered so far. For this reason, the practices of France and Germany are examined in more detail than those of other Member States.

Summarising the information for several Member States has been a complex exercise, because national budgets are recorded differently and the availability of information to the public differs in quality and detail. The quality and detail of the descriptions reflect the heterogeneity of available information. A detailed analysis allowing comparisons would require a longer and more complex analysis. What is clear is that most Member States treat the EU contributions as a direct budgetary expense. Only a few Member States attribute tax revenues directly to the EU and do not treat them as government revenues, in line with the concept of own resources. The exception is for the traditional own resources (TOR), although even there the treatment is not always clearly in line with resources owned directly by the EU and raised on behalf of the European Union.

4.1.1 France

In France, the government’s revenues are constituted by revenues collected by all public administrations: state and various bodies of central administration (ODAC), local public administrations (APUL) as well as the social security administrations (ASSO).

The French budget for 2014\(^{13}\) places the contribution to the European Union as an attribution (*prélèvement*) of receipts in line with the appropriation to local government (*collectivités territoriales*).

The EU contribution appears in the summary table on the budget balance. This attribution, for 2014, amounts to EUR 20.1 billion which would correspond to 14.1 % of the EUR 142.6 billion EU budget approved by the European Parliament on 20 November 2013. This is of the same order of magnitude as the Commission’s forecast of EUR 22 billion for own resources in 2014. The French contribution to the EU is entered in the overall table on the budget balance in the same terms (*prélèvement au profit de l’Union Européenne*) alongside the appropriation for the benefit of local government.

A more detailed table (in p.215 of the French budget) specifies (31 items) the attributions of EUR 54.3 billion to the local governmental bodies but does not specify the appropriation to the EU. The presentation of motives, however, provides an indication of the approach to the calculation of the EU contribution:

For 2014, the contribution of France to the EU budget\(^{14}\) is estimated at EUR 20.14 billion. This contribution takes the form of a levy on state revenue. It is composed of different resources paid by France in accordance with the Decision on the system of own resources of the European Communities 2007/436/EC, Euratom, adopted by the Council June 7, 2007 following the agreement on the prospects 2007-2013 financial December 2005, pending the entry into force of the new decision for the period 2014-2020.

The contribution to the EU is positioned in the French central government budget as an equivalent to the attributions (levies) to the local governments. This is pertinent insofar as, in budgetary accounting terms, French central administration and government are placed as a level of administration with local public administrations “below” and the EU “above”. This does indeed correspond to the old model of the EU as the higher level of administration, liable to receive own resources in the same way as the national administration.

The French case is also an appropriate illustration of inter-governmental fiscal relations within a Member State insofar as France now has four levels of sub-national public administration, in addition to its social security administration. Thus, the budget of a French region, which can be considered as the French equivalent of a German Land or a US state, is financed by attributions from the central government\(^{15}\) but also by own resources in the form of fixed property taxes, a local petrol tax and a local tax on the registration of automobiles. Until 2010, the budget of a region was also funded by a tax on businesses, but from 2011 taxes on business and fixed property taxes were replaced by a share in the value added of local business and a special fee charged on transport networks.

At the lower level, the French Department, the only own resource is a tax on fixed property, imposed locally while respecting certain national constraints as regards the annual increase. The

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\(^{13}\) Projet de loi de finances (PLF 2013).

\(^{14}\) Budget bill for 2014 (registered by the National Assembly on 23 September 2013) (www.assemblee-nationale.fr/14/projets/pl1395.asp).

\(^{15}\) In a relatively ‘rich’ region such as Aquitaine, transfers from the central government account for less than the total revenue of the region.
remainder of the budget is funded by transfers from the Central Government. A Department comprises cantons and communes, each with a separate budget and funding, which, without going into detail, illustrates the complexity of the fiscal arrangements that ensure the funding of the budget of these local communities.

4.1.2 Germany

The German central government budget\(^{16}\) for 2014 provides a tabular presentation of income from taxation and other sorts of income, with a detailed breakdown by institutional units. By far the most important income category is, of course, income from taxation, amounting to EUR 269 billion for 2014. This is a net figure, insofar as the own resources of the EU are entered as an attribution indicated as such (EU Eigenmittel). Although this approach is slightly different from that applied by France, what is important is the classification of the contribution to the EU as a cut, that is, an appropriation levied for the EU and a reduction in government income.

The EU own resources for 2014 are estimated at EUR 27 billion, without any specification. This is roughly in the same order of magnitude as the Commission’s estimate of own resources for Germany for 2014: EUR 28.5 billion, but does not provide any breakdown by category.

4.1.3 The United Kingdom

The case of the United Kingdom is special, due to the UK rebate, and is therefore considered here before the joint review of other Member States.

Neither the central government budget for 2013\(^{17}\) nor, in fact, the autumn statement issued in December 2013 provides much information on the handling of the UK’s contribution to the European Union. The forecasts of receipts prepared by the Office of Budgetary Responsibility (OBR) provide an estimate of the receipts from EU ETS auctions and presents expenditure and entry concerning ‘expenditure transfers to EU institutions’, which is be explored a bit further.

However, a brief search yields a specific HM Treasury report on the EU finances 2013 (note 25) which provides extensive details on the general budget, the estimates of receipts from traditional own resources (TOR), the VAT-based contribution and the GNI-based contribution as well. The document presents the main figures as follows:

The EU financial year runs from 1 January to 31 December, whereas the UK’s runs from 6 April to 5 April. Table 3 gives a breakdown of the UK’s transactions (estimated outturn) with the EU on a financial yearly basis between 2008 and 2013.

The Office for Budget Responsibility forecasts contributions made by the UK to the EU annual budget in future years, covering the latest estimated UK transactions with the EU over the period 2013-2014 to 2017-2018.

The UK is reimbursed roughly by two-thirds of the difference between its contribution to the EU budget (excluding traditional own resources) and the amount it receives back from the budget (see section 2.2 for details). In 2011, the UK rebate amounted to EUR 3.6 billion. In principle, other EU

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\(^{16}\) Deutscher Bundestag Drucksache 17/14300, 17. Wahlperiode 09.08.2013, Gesetzentwurf der Bundesregierung Entwurf eines Gesetzes über die Feststellung des Bundeshaushaltsplans für das Haushaltsjahr 2014 (Haushaltsgesetz 2014); http://dipbt.bundestag.de/doc/btd/17/143/1714300.pdf (see page 42 and 121-125)

Member States share the cost of the UK rebate in proportion to their relative contribution to the EU GNI.

The current UK rebate, which dates back to the 1984 Fontainebleau European Council, has no expiry date and thus remains valid for the present MFF until a new own resource reform is agreed. The UK classifies the contribution to the EU as a transfer from the UK exchequer to the EU, not as an appropriation for the EU.

Table 3. Gross payments, rebate and receipts in the UK (£ million) (financial years – outturn)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross payments$^1$</td>
<td>13,155</td>
<td>13,733</td>
<td>15,593</td>
<td>15,700</td>
<td>16,871</td>
</tr>
<tr>
<td>Less: UK rebate</td>
<td>-5,595</td>
<td>-4,218</td>
<td>-2,678</td>
<td>-3,516</td>
<td>-3,172</td>
</tr>
<tr>
<td>Less: Public sector receipts</td>
<td>-4,558</td>
<td>-4,788</td>
<td>-3,998</td>
<td>-4,771</td>
<td>-4,020</td>
</tr>
<tr>
<td>Net contributions to EU budget$^2$</td>
<td>3,002</td>
<td>4,727</td>
<td>8,917</td>
<td>7,413</td>
<td>9,679</td>
</tr>
<tr>
<td>Payments to EU budget attributed to the aid programme$^3$</td>
<td>-751</td>
<td>-928</td>
<td>-966</td>
<td>-871</td>
<td>-889</td>
</tr>
<tr>
<td>Other attributed costs</td>
<td>0</td>
<td>-69</td>
<td>-43</td>
<td>-163</td>
<td>-82</td>
</tr>
<tr>
<td>Net payments to EU institutions (excluding Overseas Aid)$^2$</td>
<td>2,252</td>
<td>3,730</td>
<td>7,908</td>
<td>6,380</td>
<td>8,708</td>
</tr>
</tbody>
</table>

Sources: Office for Budget Responsibility Forecast and HM Treasury calculations.

4.1.4 Belgium

The Belgian general budget$^{18}$ provides detailed estimates and forecasts of the fiscal and non-fiscal receipts. The section on the VAT receipts (Article 36.30.01) indicates, in line with the original Treaty provisions, that the federal government’s receipts exclude the attribution of VAT to the European Union, and for 2014 provides an amount in conformity with the Commission’s 2014 budget as regards the VAT-based own resources. The appropriation to the EU is followed by an attribution of the amount to the Belgian Federal States as could be assumed in this vertical version of fiscal federalism.

The Belgian GNI-based contribution is, however, classified as government expenditure. The central government budget for 2014 provides an indication of the GNI-based contribution (EUR 3.1 billion), which is broadly in line with the Commission’s budget for 2014 (EUR 2.9 billion).

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4.1.5 Bulgaria

Our review of the Bulgarian national budget suggests that the contribution to the EU is categorised as an attribution of government receipts, alongside other inter-governmental transfers. In fact, the Bulgarian national budget is divided into four main parts: Revenues Grants and Donations (ПРИХОДИ, ПОМОЩИ И ДАРЕНИЯ); Costs (РАЗХОДИ); Budget relationships (transfers) – NET and Contribution to the General Budget of the European Union (ВНОСКА В ОБЩИЯ БЮДЖЕТ НА ЕВРОПЕЙСКАЯ СЪЮЗ). Thus, it seems that Bulgaria does indeed apply the original concept of own resources as regards the contribution to the EU’s budget.

4.1.6 Czech Republic

State budget revenues in Czech Republic are classified according to the usual approach as: taxes, social security insurance and contribution to the state employment policy and non-tax revenues. Under the category “Aggregate income and expenditure state budget” (Úhrnná ilance příjmů a výdajů státního rozpočtu), no entry considers the revenues/contribution to the EU budget. The contributions to the European Union budget are considered as a separate expenditure of the government. The budget does not include community and other programmes that are financed in advance from the EU-budget. In the financial plans of ministries and agencies, revenues from the EU budget are considered as income.

The estimation of the contributions to the European Union budget is based on data from the EU budget 2014, the European Commission proposals, the development of the EU budget in previous years and the Commission’s estimates of the exchange rate. The approved budget for the EU will be changed, in relation to changes made on the expenditure side. The budget can be automatically adjusted on the revenue side, if changes in expenditures are made.

4.1.7 Denmark

The Danish government budget for 2014 clearly classifies the contribution to the EU budget as a government expenditure and, thus, not as an appropriation for the EU. It presents an overall estimate of Denmark’s contribution to the EU own resources, comprising expenditure of DKK 20,760 million (EUR 2,768 million) and income of DKK 3,849 million (EUR 513 million). The Danish expenditure estimate is very close to the Commission’s forecast of the total of traditional own resources plus the VAT and GNI-based income of EUR 2,578 million.

The Danish budget presents a detailed forecast for the Danish contribution to the EU OR, providing a breakdown by TOR, VAT and GNI-based expenditures, including more detailed figures for customs tariffs, sugar tariffs and an explanation of the relationship between the VAT-based contribution and the GNI as a residual.

The Danish rebate of EUR 513 million is presented as an appropriation of spending for EU policies in which Denmark has not agreed to participate. It is emphasised that “the size of this rebate may be influenced by decisions concerning Danish participation on an inter-governmental basis in special legal acts in the fields in which Denmark has opted out”. Furthermore, it is stressed that any further

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22 Zpráva k návrhu zákona o státním rozpočtu ČR na rok 2014, p. 43.
23 Zpráva k návrhu zákona o státním rozpočtu ČR na rok 2014, p. 41.

participation with economic consequences will be presented for a decision by the Folketing with an analysis of the economic consequences and their impact on the Danish rebate and thus the overall Danish EU contribution.

4.1.8 Estonia

The general presentation of the central government budget for Estonia\(^{25}\) does not mention contributions to the EU. The budget, as far as can be seen, does not apply the concept of OR and includes contributions to the EU among the government expenditure items.

4.1.9 Ireland

The Irish “composite budget for 2014”,\(^{26}\) which constitutes a summary of the legislative documents, only briefly mentions the contribution to the EU budget. The budgetary report (p. C12) indicates: “the EU Budget contribution will be ca. EUR 300 million higher than the amount included in Budget 2013 due to a combination of higher EU spending and upwards revisions to Ireland’s estimated gross national income (GNI) for previous years on which our EU Budget contribution is calculated.” However, a government White Paper\(^{27}\) presenting estimates of receipts and expenditure for the year 2014 in a table on “non-voted current expenditure” provides a figure for the Irish contribution to the EU budget, estimated for 2014 at EUR 1,590 million, which is of the same order of magnitude as the Commission’s initial proposal of EUR 1,515 million. Consequently, Ireland must be grouped in the category of Member States that do not apply the concept of OR in the national budget.

4.1.10 Spain

The Spanish central government budget\(^{28}\) classifies the contribution to the EU among the expenditure items. The budget for 2013, as presented by the Ministry of Finance, includes an indication of the EU contribution of EUR 11 billion, which is compatible with the Commission’s estimates of the expenditure commitments both for 2013 and 2014. In the summary table, the contribution to the EU is categorised alongside the pensions to public sector employees. The first section of this table provides overall expenditure estimates of transfers to social security, interest on central government debt and transfers to local authorities. The Spanish budgets make a reference to OR but do not, as indicated, apply the concept of attribution of Spanish government revenue to the EU, thus classifying the Spanish contribution as central government expenditure.

4.1.11 Italy

Italy’s contribution to the financing of the EU budget is registered on the expenditure side of the general government budget.\(^{29}\) In particular, it is allocated in the Central State budget of the Ministry of Economy and Finance. More precisely, it is reported in two different sections of the budget: one dedicated to VAT resources and GNI (budget line 2751) and the other to the traditional own resources (budget line 2752).

\(^{28}\) Government by category (Presupuesto por programas y memoria de objetivos. Tomo XV, (Secciones 31 a 36) www.senp.pap.minhap.oeb.es/Presup/PGE2014/Proyecto/MaestroTomos/PGE-ROM/doc/14_A_G18.PDF (see p. 180).
These appropriations are partially offset by entries in the state budget. This is the case for customs duties (for which there are special sections of the budget where entries are recorded from charges levied at customs) and the VAT resource (the amount of which is also included as part of the total revenue of the state for this tax). There is, however, no offsetting entry to the GNI resource. In addition, with respect to customs duties, 25 % of the amounts collected by the state (which, according to the EU framework, is retained by Member States as a lump-sum contribution to the costs of collection) are then poured into the receipts of the state budget.

The financial flows between Italy and the EU are shown in an ad-hoc publication of the State General Accounting Department (Ragioneria Generale dello Stato), called “Italy – European Union Financial Flows Report”30 (“Flussi Finanziari Italia-Unione Europea”). This document, published annually, lays out and analyses overall trends in financial flows between Italy and the EU. In addition to the yearly document, a quarterly publication of the General Accounting Department, “Quarterly Situation of Italy-EU Financial Flows” (“Flussi Finanziari Trimestrali Italia-Unione Europea”), examines the overall trend of financial flows between Italy and the European Union concerning the different quarters of the year. This publication describes Italy’s contribution to the EU general budget on a monthly basis and reports the net position of Italy towards the EU for each quarter.

A specific chapter of the document illustrates the participation of Italy in the EU budget exercise, and one of the tables shows the data related to the specific provision of own resources from Italy. This table compares these resources with the overall EU own resources, both regarding the initial and the final estimates. The document expressly underlines how the total share of Italy’s contribution entered in the final budget for 2012 is EUR 16,436 million, equal to 12.78 % of the total EU resources. The GNI resource reported in the table includes both the correction for the UK and also the GNI reduction in favour of the Netherlands and Sweden. Finally, with regard to the data for the customs duties and sugar levies, the figures are presented in the table net of 25 % of reimbursement of collection costs.

4.1.12 Cyprus

Information on public revenue and expenditure in Cyprus can be found on the website of the Ministry of Finance and the full annual budget is provided in a bilingual version, in Greek and English31. The overview of government expenditure classifies the contribution to the EU as expenditure (transfers) by the Ministry of Finance (item 180115) with a breakdown showing the three main categories – TOR, VAT-based and GNI-based transfers – which indicates that even the traditional own resources are treated as if they were first owned by the Cypriot government.

4.1.13 Lithuania

In Lithuania contributions to the EU-budget are considered as expenditures on general public services32. Appropriations for the European Union financial assistance and co-financing of programmes are transferred in accordance with contracts33.

4.1.14 Luxembourg

The Commission’s budget proposal for 2014 estimates own resources accruing from Luxembourg at EUR 334.8 million. Due to elections in October 2013, the government did not publish a detailed
budget for 2014 but only a plan based on no-policy-change options. The more detailed budget for 2013 presented in 2012 does not seem to provide an estimate of the attribution of government receipts in line with French and German estimates. The TOR and VAT attributed to the EU are deducted from the government revenues and the GNI contribution is added as expenditure.

4.1.15 Hungary

In the Hungarian government accounts, the contribution to the EU is categorised as government expenditure. In fact, contributions of Hungary to the EU budget are regarded as “International membership fees and payments to the EU” (“Nemzetközi tagdíjak és európai uniós befizetések”) and are a part of the “Managed appropriations” (“Kezelésű előírányzatok”). The legislative acts also specify: “Payment obligations arising from membership of the European Union and other international obligations” (“Európai uniós tagságból és más nemzetközi kötelezettségekből származó fizetési kötelezettségek”) are regarded as “Budgetary expenditures” (“Költségvetési kiadások”).

4.1.16 The Netherlands

The budget for 2014 and the forecasts up to 2018 provide indications of the commitments and estimated spending. The Dutch contribution, classified as expenditure, provides a breakdown on GNI-based contribution, VAT-based contribution, sugar levies, special contributions to policies addressing third countries and developing countries, etc. The Dutch participation in the UK rebate is not explicitly mentioned, nor are the Dutch financial flows received from the EU budget.

4.1.17 Austria

In the Austrian national budget, EU contributions are depicted according to §29 (4) BHG 2013 of Austria on the income side of the budget as a negative income, i.e. a “reduction of earnings and deposits to public expenditures” (“Verminderung der Erträge und Einzahlungen (Ab-Überweisungen) an öffentliche Abgaben” (GB 16.01.042)).

This approach is similar to the one applied in Germany, where contributions are also listed on the income side. In Austria the parliament is not concerned with the national contributions as they are listed as (negative) income. The presentation of the national contribution is gross; a net presentation would contradict the budgeting rules. According to the Finanzausgleichsgesetz 2008 (§ 9 (2 Z 3 und 3) (national fiscal transfers) Länder and municipalities contribute to the financing of EU contributions. Their contributions are treated as a reduction of transfers of earnings to Länder and municipalities from the perspective of the Bund (federation).

Furthermore, the budget law for 2013 does indeed (Article III, 2) authorise the Ministry of Finance to adjust the EU contribution in accordance with payments outcomes so as to ensure the appropriate cash flow. A detailed presentation of the general EU budget and the Austrian contribution is provided in a document by the Ministry of Finance. This document provides a much more detailed breakdown of the benefits from the EU budget by category and local government than found in most other Member States.

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4.1.18 Poland

Poland classifies the contribution to the EU as public expenditure. Non-repayable EU funds are considered in the Polish state budget as a separate category (together with tax revenues and non-tax revenues)\(^{39}\). Expenditures of each unit included in state budget are presented in detail in Appendix 2 of the Budget Act, Position 84 on the expenditure side of the Polish budget is “own resources of the European Union” (Środki własne Unii Europejskiej), which considers the Polish contribution to the EU budget (Rozliczenia z budżetem ogólnym Unii Europejskiej z tytułu środków własnych). The OR of the EU are part of “different settlements” (Różne rozliczenia) considered in the summary statement by divisions (Zestawienie zbiorcze według działów)\(^{40}\). The amount from this position is equal to the position “own resources of the European Union”.

The Public Finance Act (Ustawa o Finansach Publicznych) considers the Multiannual Financial Plan (Wieloletni Plan Finansowy), which includes the forecasts of revenue and expenditure of the EU budget funds and the balance of the European funds. The Public Finance Act (Ustawa o Finansach Publicznych) includes the forecasts of revenue and expenditure of the EU budget funds and the balance of the European funds. The budget includes long-term limits of liabilities and expenses concerning the EU budget. Own resources of the European Union are estimated based on the EU budget and include: share in duties, agricultural payments, VAT payments, resources calculated based on GNI.\(^{41}\)

The income side of the State Budget Plan for 2014\(^{42}\) includes non-repayable funds from the EU in the amount of PLN 1 654.1 million,\(^{43}\) while own resources on the expenditure side of the budget amount to PLN 17 765 million. Planned expenditure of the Polish local governments (voivodeship - województwa) are presented in detail in Appendix 2 of the Budget Act (position 85). Co-financing projects with participation of the European Union are included in the planned expenditures of local governments\(^{44}\). Own resources of the EU is a separate category of the expenditures.

4.1.19 Portugal

The overview of the financial situation of Portuguese public administration for 2012, 2013 and 2014\(^ {45}\) classifies the contribution to the EU as expenditure of the central government, alongside transfers to social security and local authorities. The transfer to the EU is of a level compatible with the estimates and projections in the Commission’s Financial Report.

4.1.20 Romania

The Romanian annual budget\(^ {46}\) does not categorise the contribution to the EU as an attribution of government revenue nor indeed as government expenditure. As shown in more detail in the section on the categorisation of government receipts from the EU, the Romanian contribution to the EU is actually shown as deducted from the receipts from the EU budget.

\(^{39}\) Załącznik 1 do Ustawy o Budżetowej na 2013 rok
\(^{40}\) Ibid.
\(^{41}\) Ibid. Ustawa o Finansach Publicznych Art. 117-125
\(^{43}\) Załącznik 1 do Projektu ustawy budżetowej na 2014 rok.
\(^{44}\) Załącznik 2 do Projektu ustawy budżetowej na 2014 rok.
4.1.21 Finland

The Finnish government’s annual budget for 2014 provides an overview of the flow of contributions between Finland and the EU. The budget classifies the contribution to the EU as expenditure and presents a breakdown on VAT payments, GNI payments, the Finnish share of the UK rebate and the Finnish contribution to the European Development Fund. The amounts indicated are consistent with the EU budget for 2014 prepared by the Commission. This breakdown does not specify the sugar levies and the customs duties, most likely because these are accepted as directly owned by the EU.

4.1.22 Sweden

The Swedish budget for 2014 presents the contribution to the EU as expenditure alongside 26 other categories of spending. The authorisation (the bill) includes the gross contribution of SKR 37 billion (EUR 4.190 billion) and also specifies the special Swedish rebate, amounting to SKR 5.3 billion (EUR 0.59 billion).

The budget bill provides comprehensive details on both the gross Swedish contribution, with a breakdown on customs tariffs (SKR 4.745 billion), sugar fees (SKR 22 million), VAT share (SKR 5.1 billion), GNI-based contribution (SKR 27.6 billion) and the Swedish share in the UK rebate (SKR 291 million), calculated on the basis of the total GNI-based contribution.

The budget bill also includes a breakdown of the Special Swedish rebate: reduction of the GNI-based contribution (SKR 1.2 billion), reduction of the VAT-based contribution (SKR 3.2 billion) and reduction of the Swedish share of the UK rebate (SKR 896 million).

The reduction of the Swedish share of the UK rebate (equivalent to EUR 100 million) seems to be in contradiction to the Swedish share of the UK rebate, estimated in the Commission’s budget, indicating a Swedish share of EUR 52.2 million and is also out of line with the amount of SKR 291 million (EUR 32 million) indicated as the Swedish share of EUR 32 million in Table 2.5 in the Swedish budget for 2014, suggesting a need for further clarification.

4.2 HOW DO MEMBER STATES SHOW BENEFITS FROM THE EU BUDGET?

A detailed allocation of EU funds by category and recipient country can be found in the Commission’s Financial Reports. As regards the 2012 transactions, the principal features described on the Commission’s website in the following terms:

In 2012, total executed EU expenditure amounted to EUR 135,851.6 million (excluding EUR 2,831.9 million of expenditure made up of earmarked revenue and including EUR 249.6 million of expenditure made up of EFTA contributions), or EUR 138,683.4 million when including earmarked revenue and that from EFTA, of which EUR 126,349.3 million (i.e. 91.1 %) was allocated to Member States and EUR 6,239.2 million to non-member countries.

In addition, an amount of EUR 3,263.1 million was allocated to various states, in which the country of the final beneficiary cannot be unequivocally determined.

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In 2012, EU expenditure allocated to non-member countries (i.e. EUR 6,239.2 million) concerned mainly part of "The EU as a global player" (EUR 5,037.0 million), research (EUR 621.6 million), TEN (Trans-European Networks) (EUR 208.8 million), fisheries (EUR 97.1 million) and other (EUR 274.6 million).

The 2012 EU expenditure with undetermined beneficiary (i.e. EUR 3,263.1 million) falls into the following categories: part of expenditure under "The EU as a global player" (EUR 1,650.1 million); and expenditure which, by its nature, cannot be attributed to specific Member States (EUR 1,613.0 million). This latter concerns part of administration (EUR 488.2 million), research (EUR 838.1 million), competitiveness and innovation (EUR 111.3 million) and other (EUR 55.2 million).

The Report, in annexes, notably Annex 2, provides the details with respect to the breakdown of receipts and expenditure by category and recipients and, thus, provides all the elements needed for the calculation of the net flow for the individual Member States. However, at Member State level, the allocation of, and accounting for, receipts are extremely complex and vary from one Member State to another.

The CAP constitutes a good example of the issues raised by the accounting for the receipts from the EU budget. In fact, owing to the way in which the Common Agricultural Policy has developed and to the use of 'historical references', the level of aid may vary considerably from one farm to another, from one member country to another and from one region to another. One of the main objectives of the CAP reform adopted in 2013 is to reduce the gap in levels of support between member countries, regions and farmers over the period 2014-2020. The aim is to make the CAP fairer. In the case of a Member State or a region that formed part of the EU before 2004, the current state of affairs is explained by the fact that, initially, the amount of aid obtained depended on the support that the farm received during the 2000-2002 reference period, the area of land farmed and the aid model adopted by each member country. As a result, one farmer might receive aid of EUR 50 per hectare while his neighbour might receive EUR 500 per hectare for what is, in agronomic terms, absolutely identical pieces of land.

But the CAP is not the only area where benefits accrue at different levels, depending upon the nature and national systems. The implementation of the European Social Fund (ESF) on the ground is achieved through projects that are applied for and implemented by a wide range of organisations, both in the public and private sectors. These include national, regional and local authorities, educational and training institutions, non-governmental organisations (NGOs) and the voluntary sector, as well as social partners, for example, trade unions and works councils, industry and professional associations, and individual companies.

There are various beneficiaries of ESF projects, for example, individual workers, groups of citizens, industrial sectors, trade unions, public administrations or individual firms. Vulnerable groups of people who have particular difficulty in finding work or advancing in their jobs, such as the long-term unemployed and women, constitute a particular target group.

Economic impacts, however, are never included in the budgetary reports and rarely treated in the national documents on EU funding flows.

The European Code of Conduct on the Partnership Principle requires Member States to strengthen cooperation between their authorities responsible for spending EU structural funds, investment funds and project partners so as to facilitate the sharing of information, experience, results and good practices in the 2014-2020 programming period, and so help to ensure that this money is spent effectively. Such partners could be regional, local, urban and other public authorities, trade
unions, employers, non-governmental organisations or bodies responsible for promoting social inclusion, gender equality and non-discrimination. The Code of Conduct, which takes the form of a legally binding Commission Regulation, sets out objectives and criteria to ensure that Member States implement the partnership principle.

The Regulation establishes the principles that Member States must embrace but leaves ample flexibility to Member States to organise the precise practical details for involving relevant partners in the different stages of the programming. Clearly, this is an area where the benefits accrue not only to central or local government services but also to a large segment of the private economy.

4.2.1 France

France is a good example to illustrate both the various issues raised as regards the way in which Member States receive and categorise receipts from the EU budget and the way in which flows arrive to the final beneficiaries. In particular, the management of the Common Agricultural Policy offers a good illustration of the accrual of national benefits.

France is the principal beneficiary of the CAP (receiving 17-18% of the CAP). Direct aids to French agriculture constitute 80% of the receipts accruing directly from the EU budget. These flows show up in the accounts of the agricultural exploitations, which nowadays are frequently not individual farmers but agricultural conglomerates directly related to food production.

Consequently, this item of EU expenditure does not and cannot show up in the French national budget and must therefore not constitute an item in French government accounts but rather an element in French national accounts.

Similarly, benefits from the European Social Fund are not made explicit in government accounts and therefore can be assumed to show up in general in the national accounts, although in some cases, like the receipts from other parts of the Structural Funds, such receipts will accrue to local authorities undertaking investments in infrastructure.

4.2.2 Germany

The German Bundeshaustraltsplan provides a detailed presentation of the central government’s income in 2012 from EU sources; the most important of which are the Social Fund (EUR 480 million), the Regional Fund (EUR 209.7 million), transfers from the Trans-European Networks (EUR 80 million) and the EU External Borders Fund (EUR 24 million). These amounts concern only the central government and the much larger amounts of income accruing to the local governments and authorities (Länder and communes) are not shown in the central government budget. The total expenditure of the EU budget in Germany for 2012 was in fact EUR 12,245 million.

4.2.3 United Kingdom

As regards the UK, the budget report provides an estimate of “public sector receipts”, amounting for 2012-2013 to £4,020 million. This may be assumed to cover receipts from the various EU programmes, notably the CAP, the Structural Funds, the Framework Programme for Research, etc. The order of magnitude of the UK rebate in the UK report for 2012-13, £3,172 million, is smaller than the UK rebate indicated in the Commission’s budget for 2014 (EUR 5,297 million), thus leaving a difference to be explained.

50 For more details, see the Commission’s website [http://ec.europa.eu/esf/main.jsp?catId=67&langId=en&newsId=8248].
However, as indicated in the UK report, “the EU makes some payments directly to the private sector, for example to carry out research activities. These payments do not appear in the public sector’s accounts. In 2013, these receipts are expected to be around £925 million. These payments are not included in Tables 3.A or 3.B-E, which provide data on public sector receipts only.” When these receipts are added to the public sector receipts, the UK figures appear to be broadly consistent with the budget figures of the EU51.

This leaves the UK operating with a net expenditure of £8,708 million minus the UK estimates of receipts accruing outside the public sector. This approach, however, must involve a detailed estimation of UK benefits from the EU policies and this for all levels of public administration and certain private institutions. If, for example, a private British university benefits from funding of research projects via the Framework Programme (now Horizon 2020), how will such funding enter into the estimates of UK benefits and through which accounting procedure? The European Commission’s records of the financial flows to institutes provide this information.

4.2.4 Belgium

Belgium classifies the contribution to the EU as government expenditure; as regards the GNI-based contribution (section 52, in the budget on “ways and means” part 252. The old TOR (traditional own resources) are classified as an attribution of income.

The Belgian budget provides a good illustration of the problems of ensuring consistency between the budget entries (as regards projections and credits) and the day-to-day management of receipts and expenditure as regards the EU common policies. For example, commitments under the European Social Fund for the Federal programming 2007-2013 and in the framework of European Integration Fund can be financed from the national budget53 before revenues related are perceived (point S. 2.44.8 in the budget statement in application of Article 62 § 254). In addition, another paragraph of this article creates the possibility to solve temporary problems of illiquidity of ESF flows for federal programming 2007-2013.

As a federal state with common social policies, but separate policies in most other areas, the EU transfers are divided between the national and federal budgets, which in turn do not follow the same policy priorities. The use of EU funds is thus not easy to follow in the national budget.

4.2.5 Bulgaria

The Bulgarian annual budget does not explicitly show receipts from the EU. In fact, Article 8 of the Public Finance Act (ЗАКОН За Публичните Финанси) states that funds of the European Union and related national financing are administered and managed by budget organisations through specially created accounts for EU funds. Funds from the European Union and related national financing can be spent by corresponding budgetary organisations with respect to the law or the Council of Ministers.

4.2.6 Czech Republic

The Czech Republic attaches more importance to the benefits from the EU budget than to the attributions to the latter as own resources. The expected receipts from the EU budget amount to CZK 98,025.5 million while the contributions to the EU budget amount to CZK 36,400 million. In the Law on the State Budget of the Czech Republic 2014 (Zákona o Státním Rozpočtu České Republiky na rok 2014), estimates of total revenues and expenditures are presented for each ministry and agency.

51 Details of public sector receipts from the EU are provided in another table, not reproduced here.
53 Last subparagraph of the law of 22 May 2003 on the organisation of the budget and the accounts of the federal State
54 Last subparagraph of the law of 22 May 2003 on the organisation of the budget and the accounts of the federal State
The document includes a general overview of state budget revenues by the state units (*Celkový přehled příjmů státního rozpočtu podle kapitol*). The revenues from the EU budget are specified for each ministry or agency (see Table 4 below). This amount includes both the funds directly from the EU budget and funds by the National Fund. In the overview of the Czech state budget, we find the general estimations of the Contributions to the European Union Budget (2014-2016)\(^\text{55}\).

### Table 4. Revenues from the EU budget in the Czech Republic

<table>
<thead>
<tr>
<th>UNIT</th>
<th>REVENUES FROM THE EU BUDGET (MIO CZK)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Úřad vlády České republiky (Government of the Czech Republic)</td>
<td>22.2</td>
</tr>
<tr>
<td>Ministerstvo obrany (Ministry of Defence)</td>
<td>140.5</td>
</tr>
<tr>
<td>Národní bezpečnostní úřad (National Security Authority)</td>
<td>1.4</td>
</tr>
<tr>
<td>Ministerstvo financí (Ministry of Finance)</td>
<td>278.5</td>
</tr>
<tr>
<td>Ministerstvo práce a sociálních věcí (Ministry of Labour and Social Affairs)</td>
<td>6,337.7</td>
</tr>
<tr>
<td>Ministerstvo vnitra (Ministry of the Interior)</td>
<td>377.9</td>
</tr>
<tr>
<td>Ministerstvo životního prostředí (Ministry of the Environment)</td>
<td>8,513.7</td>
</tr>
<tr>
<td>Ministerstvo pro místní rozvoj (Ministry of Regional Development)</td>
<td>8,961.4</td>
</tr>
<tr>
<td>Ministerstvo průmyslu a obchodu (Ministry of Industry and Trade)</td>
<td>12,067.3</td>
</tr>
<tr>
<td>Ministerstvo dopravy (Ministry of Transport)</td>
<td>13,587.6</td>
</tr>
<tr>
<td>Český telekomunikační úřad (Czech Telecommunication Office)</td>
<td>24.2</td>
</tr>
<tr>
<td>Ministerstvo zemědělství (Ministry of Agriculture)</td>
<td>34,690.9</td>
</tr>
<tr>
<td>Ministerstvo školství, mládeže a tělovýchovy (Ministry of Education, Youth and Sports)</td>
<td>12,217.5</td>
</tr>
<tr>
<td>Ministerstvo kultury (Ministry of Culture)</td>
<td>509.3</td>
</tr>
<tr>
<td>Ministerstvo zdravotnictví (Ministry of Health)</td>
<td>207.3</td>
</tr>
<tr>
<td>Ministerstvo spravedlností (Ministry of Justice)</td>
<td>65.4</td>
</tr>
<tr>
<td>Úřad průmyslového vlastnictví (Industrial Property Office)</td>
<td>1.6</td>
</tr>
<tr>
<td>Český statistický úřad (Czech Statistical Office)</td>
<td>15.6</td>
</tr>
<tr>
<td>Český úřad zeměměřický a katastrální (Czech Office for Surveying, Mapping and Cadastre)</td>
<td>0.98</td>
</tr>
<tr>
<td>Český báňský úřad (Czech Mining Office)</td>
<td>0.86</td>
</tr>
<tr>
<td>Ústav pro studium totalitních režimů (Institute for the Study of Totalitarian Regimes)</td>
<td>3.7</td>
</tr>
</tbody>
</table>


### 4.2.7 Denmark

The Danish annual budget exercise does not include estimates of the returns resulting from EU expenditures, whether to public administrations or private sector recipients. Furthermore, a document, including a comprehensive discussion of public budgetary issues, stresses that the category of “net receipts” constitutes an artificial accounting concept that does not account for the important non-monetary benefits of EU membership\(^\text{56}\).

### 4.2.8 Estonia

The Estonian annual budget does not explicitly show receipts from the EU budget (at least not in the version available in English).

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\(^55\) Zákona o Státním Rozpočtu České Republiky na rok 2014, p. 43.

4.2.9 Spain

The details of Spanish benefits from the EU are provided notably in a comprehensive publication from 2011\(^\text{57}\). The document provides details concerning the Spanish receipts from the Regional Fund (commitments) up to 2013, including a breakdown of categories and regions. Similarly, details are provided concerning the level and distribution by category and region of receipts from the Cohesion Fund, from FEOGA, the Fisheries Fund and other smaller sources of receipts from the EU. A final section in the report provides estimates of the Spanish net (positive) receipts from the EU for the period 2007-2011.

4.2.10 Ireland

The Irish White Paper on government receipts and expenditure\(^\text{58}\) provides estimates of what is identified as “capital receipts” in 2014 from the European Regional Development Fund, amounting to a total of EUR 46 million, and from the EAGF Fund (FEOGA), amounting to EUR 720 million. A table providing an overview of ‘non-voted capital expenditure’ indicates payments up to EUR 10 million under the ERDF and Cohesion Fund of the European Communities Acts and EUR 800 million under FEOGA. Other receipts and expenditure related to EU policies are not specified in this White Paper, thus, Ireland does not directly operate under the concept of “net return”.

4.2.11 Italy

With reference to the expenditure of the EU budget, in order to allow for greater speed and transparency of financial procedures related to the activation of EU resources, the law n.183/1987 has established the “Rotation Fund for the Implementation of Community Policies” (“Fondo di Rotazione per l’Implementazione delle Politiche Comunitarie”). Although the Fund is established within the State General Accounting Department, it is subject to independent financial management (outside the National Budget). The Fund has the major task of intermediating financial flows from the EU to Italy.

The Rotation Fund shall ensure the centralisation at the State Treasury of most of the cash flows from the EU and the exclusive management of the subsequent transfers to government administrations. This structure allows the State General Accounting Department to monitor the impact of EU flows on public finance aggregates, especially with regard to the constraints in terms of a balanced budget imposed by the European Stability Pact. Some EU budget expenditures, however, do not pass through the Rotation Fund. This is the case, for instance, of expenditure on research and other measures under Heading 1A of the EU budget; in these cases, the payments from the EU budget are accounted for in the budgets of the beneficiary entities.

As a result of this system, the consolidation of flows into/out and from/to the EU and the calculation of the net amount are conducted off the balance sheet and show, on the one hand, Italy’s contributions to the EU budget’s own resources, and on the other hand, the returns from the EU budget credited to the Rotation Fund.

Two separate reports – “Italy – European Union Financial Flows Report” and the “Quarterly situation of Italy-EU financial flows”\(^\text{59}\) – provide details on EU-Italy transfers for the implementation of EU policies. Amounts are reported for both the sums paid in compliance with the FEOGA guarantee section to support agricultural policy and those made to the Rotation Fund.


\(^{59}\) See [www.rgs.mef.gov.it/_Documenti/VERSIONE-I/Attivit--i/Rapporti-f/Le-Pubblic/Flussi-Fin/Anni-prece/FF2012.pdf](http://www.rgs.mef.gov.it/_Documenti/VERSIONE-I/Attivit--i/Rapporti-f/Le-Pubblic/Flussi-Fin/Anni-prece/FF2012.pdf). The website of the Department has also an ad-hoc section in which all the documents related to the Italy-EU financial relationship are reported [www.rgs.mef.gov.it/VERSIONE-I/Attivit--i/Rapporti-f/](http://www.rgs.mef.gov.it/VERSIONE-I/Attivit--i/Rapporti-f/).
The first report – “Italy – European Union Financial Flows Report” – shows how the EU credited EUR 9,768.94 million in 2012 towards the paying institutions charged with implementing the FEOGA in support of the Common Agricultural Policy, and towards the Rotation Fund. The documents also report how the Rotation Fund has been accredited with approximately EUR 12,997.34 million, of which EUR 6,830.93 million comes from domestic financing and EUR 6,166.41 million from EU co-financing. These documents stress how the transfers made by the Rotation Fund amounted in 2012 to a total of EUR 11,373.68 million, of which EUR 5,064.77 million related to national funding and EUR 6,308.91 million related to EU co-financing.

4.2.12 Cyprus

The government’s annual budget for 2014 does not seem to provide a general overview of monetary benefits from the EU budget. However, in the presentation of details of revenue of certain ministries, notably the Ministry of Agriculture, there is an item showing grants from the EU, which presumably could represent an estimate of the receipts at the ministerial level of the benefits from the CAP.

4.2.13 Lithuania

In Lithuania, the Ministry of Finance is responsible for the distribution of the European Union funds60.

The budget for 2014 indicates that LTL 4,839 million from the EU investment funds will be invested in projects for SMEs, exports promotion, transport infrastructure modernisation, research and development, fostering the competitiveness of the economy, tourism, development of information society, increasing energy efficiency and support of rural development and farmers. The Ministry of Economy will be provided with LTL 866 million, the Ministry of Transport, with LTL 1,508 million and the Ministry of Agriculture with LTL 2,670 million. Environmental projects in 2014 will be provided with LTL 482 million, social projects are estimated at about LTL 319 million, educational projects with LTL 639 million and health projects with LTL 95 million61. The EU contributions are estimated at about 3.6 % of total budget expenses (LTL 1,354 million)62.

4.2.14 Luxembourg

The 2013 budget for Luxembourg includes some receipts from the EU programmes among the receipts of the relevant ministries. Thus, section 65.6, which provides an overview of current receipts from the “EU institutions and other international organisations”, states the estimates of receipts from the FEDER and FEADER. As far as can be seen, receipts accruing to other public or private bodies are not necessarily included in government receipts.

4.2.15 Hungary

On the revenue side, Hungary provides an explicit account of receipts from the EU programmes. In fact, paragraph 5 of the Public Finance Act (2011. évi CXCV. Törvény) states that EU funds (“Európai uniós forrásokból”) and grants from outside the state budget are part of “Budget revenues” (“Költségvetési bevételek”). Revenues are divided into the following categories: “Reimbursement of pre-financing of EU aid programmes” (“Európai Uniós támogatások programok előfinanszírozásának visszatérítése”), “European Union agricultural subsidies” (“Európai Uniós agrártámogatás finanszírozási bevétele”) and “Revenues from other EU membership funds” (“Egyéb EU tagságból eredő finanszírozási bevételek”).

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61 See www.finmin.lt/web/finmin/pranesimai_spaudai?erp_item=naujiena_002115
62 See www.finmin.lt/web/finmin/2014_biudzetas
4.2.16 The Netherlands

The Netherlands does not appear to quantify receipts from the EU budget in the national budget, but the presentation of the contribution from the EU emphasises that the most important benefits are non-monetary.

4.2.17 Austria

In Austria, returns (benefits) from the EU budget are listed as income in the relevant ministries. The Ministry for Labour and Social Issues is the relevant authority for the European Social Fund (ESF); the Federal Chancellery is the authority concerned with the European Regional Development Fund (ERDF) and the Ministry for Agriculture is responsible for agricultural funding.

4.2.18 Poland

The Public Finance Act (Ustawa o Finansach Publicznych) considers the Multiannual Financial Plan (Wieloletni Plan Finansowy), which includes the forecasts of revenues and expenditures of the EU budget funds and the balance of the European funds. As far as can be seen, the Polish annual budget does not include an explicit estimate of the monetary benefits from the EU budget.

4.2.19 Portugal

The Portuguese overview of government finances in section III.2 provides details with respect to the Portuguese monetary benefits from the EU, with a breakdown on benefits from EAGGF, ERDF, ESF, etc. The details and the total of these transfers are compatible with the data provided in the Commission’s Financial Report.

4.2.20 Romania

The Romanian approach to accounting for the financial relations with the EU is a special case as the emphasis is clearly on the revenue side. In fact, in Romania, financial relations with the EU are taken into consideration in the state budget and in the net financial balance (Balanța financiară netă, BFN). BFN is an instrument for determining the national net financial position in relation to the EU budget – comparing financial flows to and from the Community budget. Romania’s contribution to the EU budget (Contributia Romaniei la bugetul U.E) is regarded as “Other transfers” (Alte transferuri).

Financial resources granted from the EU programmes (European Regional Development Fund, European Social Fund, European Agricultural Fund for Rural Development, European Fisheries Fund, European Agricultural Guarantee Fund, European Neighbourhood, inter alia) are classified in the Romanian budget as “Projects financed from external grants (NEF) post-accession” (Proiecte cu finantare din fonduri externe nerambursabile (FEN) postaderare). On the revenue side of the budget, EU resources are classified as “Income framed in own resources of the European Union” (Venituri incadrate in Resursele Proprii ale bugetului Uniunii Europene), which is regarded as “Tax on foreign trade and international transactions” (Impozit pe comertul exterior si tranzactiile internaționale) and “Amounts received from the EU/other donors made payments and prefinancing” (Sume primite de la UE/alti donatori în contul platilor efectuate si prefinantari), which is a part of “Subsidies” (Subventii).

63 Ustawa o Finansach Publicznych Art. 117-125
65 Article 55, Paragraph 55.03 of the Classification of public finance indicators (Clasificatia indicatorilor privind finantele publice).
66 Article 56 of the Classification of public finance indicators (Clasificatia indicatorilor privind finantele publice).
67 Article 17 of the Classification of public finance indicators (Clasificatia indicatorilor privind finantele publice).
68 Article 45 of the Classification of public finance indicators (Clasificatia indicatorilor privind finantele publice).
The “net balance” is not equivalent to the net balance calculated by the European Commission in line with the calculation of the UK rebate, as the Romanian budget includes every fund.

Table 5. Net financial balance in Romania (€ mil)

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>1</td>
<td>I. The amounts received from the EU budget (A+B)</td>
<td>15,529.64</td>
<td>5,814.21</td>
<td>8,601.63</td>
</tr>
<tr>
<td>2</td>
<td>A. Pre-accession funds</td>
<td>2,628.35</td>
<td>81.08</td>
<td>0.00</td>
<td>2,709.44</td>
</tr>
<tr>
<td>3</td>
<td>B. Post-accession funds:</td>
<td>12,901.29</td>
<td>5,733.13</td>
<td>8,601.63</td>
<td>27,236.05</td>
</tr>
<tr>
<td>4</td>
<td>a) Advances</td>
<td>3,755.72</td>
<td>106.74</td>
<td>0.00</td>
<td>3,862.45</td>
</tr>
<tr>
<td>5</td>
<td>b) Refunds (including EAGF)</td>
<td>9,145.57</td>
<td>5,626.39</td>
<td>8,601.63</td>
<td>23,373.59</td>
</tr>
<tr>
<td>6</td>
<td>B1. Structural and Cohesion Funds (SCF)</td>
<td>4,372.49</td>
<td>2,859.35</td>
<td>6,103.11</td>
<td>13,334.95</td>
</tr>
<tr>
<td>7</td>
<td>a) Advances in SCF</td>
<td>2,125.81</td>
<td>0.00</td>
<td>0.00</td>
<td>2,125.81</td>
</tr>
<tr>
<td>8</td>
<td>b) Reimbursement of SCF</td>
<td>2,246.68</td>
<td>2,859.35</td>
<td>6,103.11</td>
<td>11,209.14</td>
</tr>
<tr>
<td>9</td>
<td>B2. Funds for rural development and fisheries (EAFRD + EFF)</td>
<td>3,893.38</td>
<td>1,427.54</td>
<td>1,169.50</td>
<td>6,490.42</td>
</tr>
<tr>
<td>10</td>
<td>a) Advances (EAFRD + EFF)</td>
<td>600.99</td>
<td>0.00</td>
<td>0.00</td>
<td>600.99</td>
</tr>
<tr>
<td>11</td>
<td>b) Refunds (EAFRD + EFF)</td>
<td>3,292.39</td>
<td>1,427.54</td>
<td>1,169.50</td>
<td>5,889.43</td>
</tr>
<tr>
<td>12</td>
<td>B3. European Agricultural Guarantee Fund (EAGF)</td>
<td>3,468.70</td>
<td>1,323.59</td>
<td>1,329.02</td>
<td>6,121.31</td>
</tr>
<tr>
<td>13</td>
<td>B4. Other (post-accession)</td>
<td>1,166.72</td>
<td>122.64</td>
<td>0.00</td>
<td>1,289.36</td>
</tr>
<tr>
<td>14</td>
<td>a) Advances</td>
<td>1,028.91</td>
<td>106.74</td>
<td>0.00</td>
<td>1,135.65</td>
</tr>
<tr>
<td>15</td>
<td>b) Refunds</td>
<td>137.80</td>
<td>15.91</td>
<td>0.00</td>
<td>153.71</td>
</tr>
<tr>
<td>16</td>
<td>II. Amounts paid to the EU (C + D)</td>
<td>7,667.17</td>
<td>1,581.35</td>
<td>1,580.10</td>
<td>10,828.62</td>
</tr>
<tr>
<td>17</td>
<td>C. Romanian contribution to the EU budget</td>
<td>7,440.47</td>
<td>1,516.30</td>
<td>1,580.10</td>
<td>10,536.87</td>
</tr>
<tr>
<td>18</td>
<td>D. Other contributions</td>
<td>226.70</td>
<td>65.05</td>
<td>291.75</td>
<td></td>
</tr>
<tr>
<td>19</td>
<td>III. The balance of flows = I-II</td>
<td>7,862.47</td>
<td>4,232.86</td>
<td>7,021.53</td>
<td>19,116.86</td>
</tr>
</tbody>
</table>

Source: Ministry of Finance (Ministerul Finantelor Publice), 2014.

4.2.21 Finland

The Finnish budget review for 2014, in addition to the specification of the contributions to the EU classified as expenditure, provides estimates of the central government receipts from the EU budget with a breakdown for the following items:

- Agricultural support
- Rural development support
- Subsidies from the structural funds and cohesion funds
- Custom duties and other levies
- Intervention Fund of Agriculture
- Development Fund of Agriculture

The document also provides the amount of customs duties, agricultural payments and sugar payments collected on behalf of EU.

How do Member States handle contributions to the EU budget in their national budgets?

4.2.22 Sweden

The Swedish budget classifies the contribution to the EU as a public expenditure but does not, as far as can be seen, deal explicitly with the monetary benefits from the EU. However, other documents show that estimates of the monetary benefits from the EU budget are readily available and regularly estimated. The documentation, however, stress that since Sweden has a large export industry and a relatively small agricultural sector composed mainly of small farm units, the Swedish benefits from the EU are mainly non-monetary in nature, derived essentially from the economic integration and the internal market.

4.3 Do Member States show a “net return” from the EU budget?

Without a doubt, the most striking use of the concept “net return” is associated with Margaret Thatcher’s famous intervention: “I want my money back.” This expression can, however, be considered as a politicised expression of the fact that the United Kingdom from the very beginning argued that the CAP did not take account correctly of the differences between the UK and the main continental countries with regard to the structure of agriculture and other primary industries.

Thus, as shown above, the argument of the UK rebate is firmly rooted in the resistance of the UK to the application of the continentally-oriented CAP, which promotes a seriously flawed concept of the costs and benefits of the Internal Market and the full panoply of common policies.

Nevertheless, the very existence of the UK rebate may also be at the origin of the decision of other Member States to “opt out” of certain policies considered to be in contradiction to, or at least, not the be in “accordance with” national priorities. Here the Danish rebate constitutes an interesting case, as explained in the Danish government’s budget for 2014: “Denmark annually receives a rebate of the EU attribution due to the fact that Denmark, as a result of the Danish “reservation”, does not participate in certain EU activities. The rebate will be refunded on 1 December 2013. The size of the funding may be influenced by decisions as regards the Danish adhesion on an inter-governmental basis to legal acts in the areas of reservation. Cases with such an inter-governmental adhesion with economic consequences will in each case be presented to the Europe Commission of the Folketing with a description of the economic consequences as regards the Danish reservation and, thus, the Danish contribution to the EU.”

Also Germany and Austria apply an explicit accounting for the net return and thus, in fact, report to their citizens both the EU contribution in gross terms and the monetary benefits accruing from the spending. Generally Member States do not estimate the benefits in terms of economic impacts from the European Union, which may be many times larger than the purely monetary costs.

In Ireland, the 2014 budget overview does not directly show a net return, but as indicated above, the contribution to the EU is entered as a current expenditure and receipts from the Regional Fund and FEOGA are shown explicitly, thereby allowing stakeholders to see that Ireland receives large amounts in return from these two areas of EU programmes.

A document from the Swedish Parliament provides not only a time series on the Swedish net monetary benefit from the EU budget, but also emphasises that the position of countries as net contributors or beneficiaries is largely determined by the level of per capita income and that the non-monetary benefits must be taken into account in assessing the full range of costs and benefits of membership.

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70 See http://www.eu-upplysningen.se/Sverige-i-EU/Sveriges-EU-avgift/
71 See http://www.eu-upplysningen.se/Sverige-i-EU/Sveriges-EU-avgift/
In Italy, the report on the financial relations between the EU and Italy provides rich details on the outflows and inflows and plots the evolution of the net outflow over recent years in a figure, projected up to 2015.

In Spain, an annual report provides details on the Spanish net monetary benefits from the EU budget. Similarly the Portuguese “RELATORIO OE2014”, in the table on transfers to and monetary benefits from the EU, presents the balance of such transfers, showing that it is indeed highly positive.

Among the new Member States, Romania, stands out as a special case where the state budget, as shown in the section on revenue classification, classifies the contribution to the EU as a deduction of financial benefits. The same table then explicitly indicates an estimate of the net balance of financial flows. The net balance is highly positive and the amount paid (or to be paid under the MMF) is in line with the Commission’s budgetary forecasts as regards the level.

The annual budgets for the other Member States reviewed do not operate under the concept of a net monetary benefit from the EU budget, unless it is necessary for the calculation of the UK rebate.

4.4 SUMMARY OF ASSESSMENTS

This first review of the central government budgets for 2014 shows a high degree of diversity as regards the way in which Member States handle the accounting of EU contributions. This diversity in particular is manifested in the following aspects:

1. the classification of the EU contribution in the general budget, which in some countries is considered an attribution of national government revenue and in others as an expenditure of the central government;

2. the degree to which the expenditure of the Union is shown as a receipt in the accounts of national and local governments;

3. the consolidation of the contribution to and receipts from the EU to arrive at a net monetary balance; and

4. the degree to which national governments’ accounts stress that benefits from the EU are both monetary and non-monetary.

Only a handful of countries attribute contributions to the EU budget directly as appropriations to the EU and thus as a reduction in income of the central government (notably Austria, France, Germany and Romania). The majority considers the contributions to the EU budget as government expenditures. The exception is for the traditional own resources, and at times the VAT contribution, but practices vary even in those cases.

So far we have found that only the budgets of the United Kingdom, Austria, the Czech Republic, Lithuania and Romania include a consolidated estimate of the receipts accruing to the country as a result of the EU common policies. The European Commission, through the Financial Report prepared by the Directorate-General for the Budget, presents estimated figures for all Member States.

The origin of this problem is probably rooted in the fact that EU contributions by the Member States normally constitute an appropriation to the EU of central government receipts, while EU expenditure most often benefits local governments (regions and communes) or private bodies.
Nevertheless, a document produced by the Swedish Parliament\textsuperscript{72} shows both annual data for the period 1995 to 2013 for the Swedish net receipts from the EU and data for 2012 on the net receipts of all Member States. The “return flows” are shown for the main expenditure items, such as FEOGA, the Fisheries Fund, the Regional Fund and the Trans-European Network, suggesting that Sweden must keep a relatively detailed account of the receipts from EU policies. The Swedish data are drawn from the Commission’s Financial Report for 2012, which is not generally referred to in our findings on the Member States’ annual budgets\textsuperscript{73}.

The Finnish budget review does not explicitly indicate a net outflow but the data provided, presenting outflows and inflows on the same page, allow the reader to calculate this variable.

\textsuperscript{72} See http://www.eu-upplysningen.se/Om-EU/EUs-budget/Vad-EU-landerna-betalar-och-vad-de-far-tillbaka/

\textsuperscript{73} http://ec.europa.eu/budget/financialreport/pdf/financialreport-2012_en.pdf
5 OPTIONS FOR REFORMING THE OWN RESOURCES SYSTEM

Without a doubt, there are a large number of reasons to reform the OR system. Claims for radical reforms are often based on the arguments that the present OR design is opaque and that resources today consist primarily of a contribution from Member States’ national budgets rather than being a direct ‘own’ revenue for the EU. The absence of genuine own resources is identified as the cause for the focus of Member States on their net-balances, spearheaded by the UK rebate. There seems to be a widespread belief amongst analysts and policy-makers that the system of OR is responsible for misallocations at the expenditure level. The inability to reform the Common Agricultural Policy or the Cohesion Policy is seen as a consequence of the Member States’ unwillingness to finance policies that do not benefit them directly (see Núñez Ferrer, 2007).

Many analysts share the belief that there is a need to dissociate resources from national budgets in order to allow the EU budget to operate efficiently. The recent report by distinguished Members of the European Parliament in collaboration with renowned EU policy scholars offers an authoritative and alternative analysis of the options for new own resources, and proposes the abolition of the GNI resource. On the expenditure side, the problems seem generally considered to be a consequence of the method used for resource collection. As a result, the European Commission’s proposed OR reforms with a focus on the introduction of tax-based revenues aim at dissociating revenues from the Member States’ national budgets. Such reforms would limit the direct contribution of national budgets to the EU budget and reduce the Member States’ net balance focus on the budget.

There is, however, a different school of thought based on game theory, which links the net balance disputes with the voting power of Member States. A number of well-known studies on the impact of national voting power on the EU budget net balances (e.g. Kauppi and Widgren, 2005; Widgren, 2006; Kauppi and Widgren, 2009) indicate that the net balances of Member States will remain similar regardless of the resource system used. This research, which has been further elaborated and refined by other analysts, indicates that there is much more behind the problems of net balances than the origin of EU resources alone. After all, the UK rebate was the result of a disagreement on the impacts of the Common Agricultural Policy and how a poor country (the UK in the late 1980s) was disproportionally supporting wealthier Member States through the agricultural policy, and not on the resources system of the EU budget.

Widgren’s research fitted reality well, and in purely mathematical terms there is no way out of net balance disputes and corrections. Kauppi and Widgren (2009) do concede that some net contributing Member States have net balance levels that do not conform to their voting power, with deviations only explainable by Member States’ acceptance of common objectives in coalitions. This would indicate that political support for policies is the main determinant to reduce net balance considerations. Political support for EU policies needs to be strong; otherwise (following the logic of their analysis) any reform of the own resources to eliminate net balance demands is likely to fail. A logical follow up to this analysis is that in the present context, tax-based own resources with correction mechanisms may easily lead to an even-more complex system than the one in place today, having to compensate member states for a tax incidence that is higher than under a GNI contribution system. This means that a strong consensus on expenditures of the EU budget needs to be reached first (see Núñez Ferrer, 2007).

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74 See for example Haug, Lamassoure, Verhofstadt, at al. (2011); or Haineman, Mohl, Osterloh (2008), which discuss the lack of fiscal autonomy and the reasons for this.

75 Haug, Lamassoure, Verhofstadt, at al. (2011)
How do Member States handle contributions to the EU budget in their national budgets?

Following the logic of Kauppi and Widgren, net balance disputes will remain very influential, especially when Member States consider budget operations politically unjustifiable. Without a strong political support for policies, Member States will be unwilling to contribute to the budget when the European Value Added of an EU policy does not benefit the individual country more than a smaller local investment (i.e. when the local opportunity cost is higher than the local impact of the EU policy). In less diplomatic terms, the behaviour of the EU suffers from ‘pork barrel politics’. The UK rebate, the special concessions to net contributors, and the difficulties to reform the Common Agricultural Policy or reallocate any regionally pre-allocated funding seem to support this theory.

If governments and citizens question the objectives of the EU and the budget expenditures, can replacing the GNI contribution by EU taxes represent a solution to net balances? The political connotations of this question are very important and much more serious than the technical debates on the merits of taxes vs. GNI can reflect.

This report finds that the stronger the dissociation of electorates and governments from EU objectives and policies, the stronger the net-balance disputes, regardless of the resources used. The changes in the perception of Europe by electorates in formerly strongly pro-European countries, such as the Netherlands, Denmark or France has also been accompanied by increasing calls for net balance corrections. This change in position was also accompanied by a net balance deterioration due to the enlargement and CAP reforms (see Núñez Ferrer, 2007). It thus argues that OR reforms should not be undertaken primarily in order to solve net balance problems, but rather to improve the overall management, stability and transparency of the EU budget. To free the EU budget from net balance disputes would also require a much more focused debate on policy quality followed by further reforms, as well as a vigorous awareness campaign on how Europe would benefit. As the Eurobarometer polls can testify, citizens’ support for the European Union institutions has deteriorated considerably in the last years (see Eurobaromenter 2013). In addition, for 27% of respondents the EU is a ‘waste of money’, up from 24% in 2006. A reform of the own resources system will unlikely address their concerns nor bring an end to the questions on why funds are redistributed through the EU budget and for what.

In this report, we not only question the validity of the arguments in support of tax-based own resources, but also argue that the approach taken to introduce new own resources neglects the opportunities to reform the GNI resource, transforming it into a more ‘genuine’ own resource. This may today be a much better and relatively uncontroversial step to improve the own resources system in the short run. It is in any case clear for all those involved in the process of reforming the OR system that the abolition of the GNI resource is not presently a viable option. We have indicated a large number of weaknesses in the way the resources are collected and recorded, with most member states ignoring the letter of the Treaty on the definition of own resources by not handling the appropriation for the EU outside their national budget. There is a need to reform the way the EU GNI resource is handled at national level. This is perfectly compatible with a gradual introduction of any other resource and may even facilitate future reforms.

This chapter presents a short overview of the European Commission’s arguments and proposals for OR reform. We also analyse the GNI resource with the same criteria used to identify the merits of new ‘own resources’. The following sub-section shortly analyses the GNI resource under the criteria used to justify new resources.

76 Most EU analysts have reached this conclusion; see Balwin et al. (2001, 2005), Kauppi and Widgren (2006), Nunez Ferrer (2007) and Jones, Menon and Weatherhill (2012).
5.1 PROPOSED REFORMS OF THE EU BUDGET

Following up on the recognition that the establishment of a real set of own resources is of importance for the functioning of the EU budget, two sets of ground-breaking proposals have been made by the Commission to reform the OR: an unsuccessful one in 2004 for the 2007-2013 MFF and the present proposal presented to the Council and the European Parliament in 2011.

In 2004\(^{77}\), the Commission proposed the introduction of a new set of new own resources financed through taxation that would have generated up to 50% of the budget. At that time, the Commission limited its proposal to three options:

- EU energy taxation. The Commission proposed a EU levy on the tax base related to motor fuel used for road transport (which was already harmonised at an EU level), eventually to be supplemented with a levy on aviation fuel or the related emissions.
- A fiscal VAT resource. In place of the statistical VAT resource, the EU rate would have been levied as part of the national VAT rate paid by taxpayers, together with the national rate on the same taxable base. Citizens would have not sustained an additional tax burden, as the EU rate would have been offset by an equivalent decrease in the national VAT rate.
- A resource based on the taxation of corporate income. This option was indeed the most problematic as it required a prior definition of a common consolidated tax base.

No agreement was reached on the proposed proposal and an OR decision ended being very similar to the preceding one. A more complex proposal has been launched in 2011\(^{78}\) aiming at a reform of the OR for the 2014-2020 MFF. This proposal was not adopted before the start of the MFF. A High Level Group (HLG) has been established in April 2014 by the three European Institutions (Council, Parliament, and Commission) to seek a solution. A first assessment from the HLG should be produced by 2014, offering a ‘general review of the Own Resources system guided by the overall objectives of simplicity, transparency, equity and democratic accountability’\(^{79}\). The work will be regularly assessed at political level at least once every six months. This process will be concluded with an inter-institutional conference in 2016 which will include representatives of national parliaments to assess the outcome. The European Commission will then determine if on the basis of this work the Own Resources initiatives are appropriate. The assessment of the Own Resources will be done ‘in parallel to the review referred to in Article 2 of the MFF Regulation with a view to possible reforms to be considered for the period covered by the next multiannual financial framework’\(^{80}\).

5.1.1 The 2011 Commission Proposal

The 2011 Commission proposal for a review of the OR system is based on important novelties introduced by the Lisbon Treaty:

1. Art. 311(3) TFEU establishes that “the Council may establish new categories of own resources or abolish an existing category”;

2. Art. 311(4) TFEU establishes that the Council “acting by means of regulations in accordance with a special legislative procedure, shall lay down implementing measures for the Union’s resources system in so far as this is provided for in the decision”.

\(^{79}\) Council of the European Union, ‘Addendum to the Draft Interinstitutional Agreement between the European Parliament, the Council and the Commission on budgetary discipline, cooperation in budgetary matters and on sound financial management’, Interinstitutional File: 2011/0177 (APP), point four of the Joint Declaration on Own Resources
\(^{80}\) ibid., point six of the Joint Declaration on Own Resources
The Commission, fully exploiting the wider room of action created by Art. 311 TFEU, proposed a radical reform of the existing VAT-based OR, the creation of new resources and set a new organisation of implementing measures for the OR system.

In a 2010 Communication\(^1\), the Commission originally identified six potential new OR:

1. The revenues coming from a Financial Transaction Tax (FTT)
2. A new VAT resource
3. EU revenues from auctioning under the greenhouse gas Emissions Trading System (ETS)
4. EU energy tax
5. EU corporate income tax
6. EU charge related to air transport

The 2011 Commission proposal includes only the first two of the above-mentioned candidates: the FTT and a new VAT resource.

The new VAT resource, grounded on the inputs from the Green Paper on the future of VAT\(^2\), will be more transparent, simple and based on a higher harmonisation of the national VAT systems. The new VAT-based OR will eliminate a number of exemptions that are detrimental to the proper functioning of the Internal Market and foresees specific measures to reduce VAT fraud in the EU.

Exploiting a favourable political momentum, the Commission proposed the introduction of an FTT for the entire European Union in September 2011\(^3\). The proposed tax, in order to minimise distortions such as the relocation outside of the EU of the tax base, applies to all markets (such as regulated markets and OTC transactions), all actors (banks, shadow banks, asset managers, etc.) and all financial instruments. The proposal sets minimum rates (0,1 % for shares and bonds and 0,01 % for derivatives) for all transactions on secondary financial markets, once at least one EU party is involved in this transaction (residence principle). The revenues from such taxation would be shared by Member States (1/3) and the EU (2/3) reducing by the same amount the GNI-based contribution of Member States.

The Commission envisaged the introduction of a financial transactions tax at the EU level by the 1\(^{st}\) of January 2014 and the new VAT system by the 1\(^{st}\) of January 2018. According to the original Commission estimations, in 2020 revenues from the FTT and the new VAT would account respectively for EUR 37bn and EUR 29.4bn (together, 40 % of the total 2020 EU budget). Traditional own resources will account for 20 % of the total budget while the GNI-based own resources will still remain the single most important resource, financing 40 % of the total budget” (COM(2011), 510).

The stark opposition of Member States hosting major European financial hubs made it impossible to reach a unanimous agreement in the Council. In October 2012, 11 Member States decided eventually to implement the FTT under the enhanced cooperation procedure, but the lack of a EU unanimous agreement de facto defeated the project of using the FTT as a real new OR.

The options included in the 2011 Commission proposal were evaluated and assessed against the following principles:

- A closer link between the new resources, the acquis and the objectives of the EU;
- An OR cross-border nature covering the whole internal market;

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The application of formulas calculated on a harmonised base;
• The possibility of autonomous resource collection, i.e. directly collected by the EU outside national budgets;
• The absence of new or heavy administrative burdens on the EU linked to the resource collection;
• The insurance of an equitable application; and
• An assessment of the cumulative impact on specific sectors of the economy.

The 2011 Commission proposals foresaw important novelties even for correction mechanisms (i.e. the corrections in favour of Germany, the Netherlands, Sweden and the UK). The revision of these mechanisms is necessary not only because the economic reasons on which they were originally grounded have evolved, but also because some data for the calculation of the current corrections will no longer be available following the reform of the VAT-based resource. In this view, Art. 11 of the proposal provides that the “past or current existence of a correction mechanism does not, by itself, constitute a justification for maintaining it in the future. A correction should be transparent and easy to understand, and last only as long as it serves its purposes. These objectives can be best achieved through a system of lump sum reductions in the GNI-based own resources payments.” In the same spirit of transparency and fairness, Art. 14 of the proposal foresees that the hidden correction mechanism through which Member States retain 25% of TOR should be reduced to 10% and properly incorporated into lump sums.

The proposal of the European Commission offers different tax based resources sustaining the suitability of these options in light of a number of principles. These tax resources have been assessed at length in the Commission’s analysis, and thus this report will not review these options in detail. What is missing in the Commission’s analysis is an assessment of the GNI resource based on the same principles on which the tax resources have been evaluated. This report performs this analysis adding to the picture one other important criterion, which was central in the 2004 report, namely the ability to stabilise and create predictable resources.

It is interesting to note that one important principle of the 2004 proposals for new OR is no longer part of the assessment list, namely visibility. According to our analysis, in fact, the visibility of the EU budget to the citizens has not been particularly improved, regardless of the resources system introduced. Tax resources are typically opaque and hardly reflect the actual size of the budget. Even the proposed VAT resource linked to the actual VAT, is not designed to be visibly presented on the price tags of goods and services in the EU. This report supports the view that visibility could be already greatly enhanced by improving the way in which Member States record and present contributions to and receipts from the EU budget.

The next sub-sections assess the GNI resource under the criteria used to assess resources proposed by the European Commission and compare it to other resources.

5.1.2 Link to the acquis and the objectives of the EU

The GNI resource is completely policy neutral. Thus this criterion does not apply. Indeed fiscal resources can be designed to create incentives in line with EU objectives (e.g. such taxation of fuels or carbon emissions creates price signals promoting greenhouse gas mitigation actions). This cannot be done through a GNI-based resource.
5.1.3 Cross-border in nature and based on a system covering the whole internal market

This does not apply to a GNI resource.

The European Commission seeks to find tax resources that show geographical arbitrariness (i.e. where the source of the funds taxed cannot be attributed to domestic activities). This would prevent Member States from treating the taxes as national contributions to the EU. However, even proposed taxes may fulfil these criteria, Member States will most likely still consider them as their contribution and ask for corrective actions if the contributions deviate from the GNI share of the country. Corporate taxes, for example, would affect certain countries considerably more than others, while the ETS-based taxation hits high carbon-emitters harder, such as Poland. By analogy, emissions taxes on aviation would have a stronger effect on countries with the largest airports (such as the UK). For these reasons, it is unlikely that such resources will be easily accepted. Recurring disputes with the Netherlands over the contributions from the customs duties show quite clearly the problems ahead.

Breaking the link with national budgets may be difficult to achieve in practice. National authorities will still collect taxes, and their impact on national fiscal resources will be clearly identified. When the incidence of a number of different taxes is quite different from the present GNI distribution, this can lead to a call for corrections. Depending on the tax resource, Member States could find themselves in a situation in which the loss in receipts for the domestic state budget exceeds the previous contribution to the EU budget. The consequences for the public budget cannot be ignored and will likely lead to claims for horizontal equity, i.e. proportionality of contributions to wealth/GNI share. The increase in the retention of customs duties from 10 to 25% in the previous MFF and the panoply of ceilings on the VAT resource illustrate the problem well. These problems will be similar for any tax system introduced.

5.1.4 Harmonising the base of taxes

The GNI contributions are based on Eurostat GNI reporting methods. While some issues have yet to be resolved (see section 3.2), the basis on which those calculations are made is generally recognised as valid.

The EU is characterised by the heterogeneity of governance systems and thus methods of taxation. There are significant differences in tax rates and tax bases in the Member States, and tax diversity is in theory desirable for economic efficiency. However, basing the EU financing on the proceeds of varying national taxes would be perceived as unequal treatment. This precludes the possibility of using a percentage of Member States’ receipts from a non-harmonised tax. Introducing tax-based instruments would require the harmonisation of the bases of the tax, which in the case of VAT is easily achievable, but could be very complex for other taxes. The harmonisation of some tax bases poses not only political or administrative problems, but also raises questions as to the economic efficiency of such a move.

The history of the VAT resource shows that even a harmonised tax rate can lead to contributory deviations compared to a pure GNI key that Member States will not accept. This would then lead to calls for “corrections” with the absurd result that after a large number of those “corrections”, the virtual amount transferred to the EU budget could end up to close to the GNI share! A solution to this dilemma, while maintaining a real tax system (compared to the virtual VAT resource), could be the use of the GNI resource in such a way that all Member States pay the same share of revenues to the EU budget as a percentage of GNI regardless of the tax composition (with the exception of the TOR). This means, however, that the so-called ‘independence’ of the EU resources from Member States’ treasuries would practically be non-existent. In addition, this would lead to a constant estimation, recalculation and correction of contributions to make up for any
changes in the tax yield. Given the present position of Member States on EU resources, it is difficult to imagine that contributory deviations in the yield of EU taxes in comparison with GNI contributions will be ignored. Perhaps the financial transaction tax could have this characteristic, but with London being the potential source of a disproportionate part of the revenues, this is unlikely to be accepted by the UK political class.

### 5.1.5 Autonomous resource collection

Autonomous resource collection entails that taxes are collected on behalf of the EU and are not recorded as government revenue. If the GNI resource is reformed as proposed, where the revenue is set aside for the EU and not recorded in the national budgets, these criteria will be fulfilled. Such a reform is rather straightforward.

For other resources, this would mean using a system, such as the common customs tariffs. As already mentioned, this has not stopped Member States from questioning the tariff revenues and changing the share of the tariff transferred to the budget. Member States will also still have to use their offices and tax collection organisations and the “ownership” of the tax will remain disputed, regardless of the tax.

An aviation tax would affect large airline hubs, such as the London airports in particular. The introduction of corporate taxes faces a real uphill struggle, as the tax rates vary substantially across EU countries. A recent study shows how official corporate tax rates and effective tax rates are radically different across Member States, based on a large panoply of specific rates, allowed deductions and tax incentives. While in Ireland the official statutory corporation tax rate is considered quite low at 12.5% and lower than many other Member States (such as France 33.33%, Luxembourg 29.2%), the effective tax rate is similar in Ireland (12.3%), but much lower for France (8.7%) and Luxembourg (4.1%)§. Harmonising corporate tax bases seems unrealistic at this time.

The introduction of a Financial Transaction Tax seems to be the most straightforward, as the issue on the harmonised bases is not relevant and the geographical arbitrariness on the source of the funds taxed applies. Nevertheless, the banks processing transactions are geographically located in specific places. The UK government has already flagged its strong opposition based on arguments of a risk of a delocalisation of the banking sector from the UK. While Member States may individually create such a tax, as seems to be the case with the use of the reinforced cooperation procedures, it is unlikely that it can become an own resource for the EU soon.

### 5.1.6 Cumulative impact on particular sectors

A GNI resource is the most likely to avoid an uneven burden distribution across citizens and sectors. The EU at the moment has not had to face the complexities of asymmetric tax impacts with respect to sectors. The financial transactions tax, aviation tax, energy tax or corporate tax, may lead to variable incidences geographically and sectorally. This will most likely complicate debates on EU resources rather than reduce them.

### 5.1.7 Administrative burden

The GNI contribution has the lowest administrative burden of any other resource, as there is no requirement for a different collection procedure from the existing general taxation collection. Changes in the way in which the budget resources are recorded should also not impose any additional administrative burden.

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5.1.8 Sufficiency and stability of the budget

It is important that the budget disposes the necessary means to finance its obligations. The GNI key has generally guaranteed this, except in the latest annual budgetary discussions, where some Member States have sought to reduce their contribution to the EU budget.

The tax contributions will still require a GNI resource to cover residuals. Tax rates will need to be set in a manner to avoid excess revenues by the EU and a GNI residual resource will remain a necessity. This residual resource will also be needed to correct for possible disagreements on the incidence of the taxes.

5.2 CAN THE GNI RESOURCE BECOME A ‘GENUINE’ OWN RESOURCE?

The GNI resource was originally introduced as a residual to cover shortcomings from the traditional own resources and the VAT resource. It was not designed to become an ‘own resource’ of the EU and this concept has generally been considered incompatible. It is not inconceivable, as we have described in our assessment of national practices, to reform the method of collection and recording of the GNI resource in such a way as to make it close to an own resource. Developed initially as a residual to cover the margin between real own resources and the EU budget requirements, the GNI resource does not include rules for the member states on how to raise the funding and transfer it to the EU budget. This should, however, be changed, as the GNI resource is and will remain important as one of the primary funding mechanisms of the budget.

The GNI resource can easily be made to approximate a genuine own resource with a simple reform. The amount of the GNI resource should be levied from general taxation but not be recorded as income in the government accounts. The funding for the GNI contribution should appear as revenue attributed to the European Union, i.e. funding collected on behalf of the European Union. This is the case in France, Germany, Austria and Romania (see section 4.4).

This simple change may seem symbolic, but it would increase visibility of the contributions and clarify that the GNI resource is collected on behalf of and thus is owned by the EU. Given the lack of harmonised tax bases with the exception of VAT, Member States should be given the freedom to choose which revenue streams to attribute to the EU.

5.3 WHICH TAX-BASED RESOURCE IS REALISTIC IN TODAY’S SITUATION?

The introduction of tax-based resources has been at the forefront of discussions on the EU budget for many years and the European Parliament always has strongly supported such a move.

While there are many substantiated arguments for creating tax-based resources as proposed by the Commission or by Haug, Lamassoure and Verhofstadt (2011), the present political environment is particularly negative in this respect. The history of the VAT resource shows how relatively small deviations in contributions compared to a GNI-based contribution may, more often than not, be challenged. This will remain true even if taxes are levied directly. Member States will know the ‘collection’ points. In the short term, ambitions will need to be realistically more modest.

Given the small size of the EU budget as a share of EU GNI, small structural differences in the composition of the economy and therefore the size of the taxable base of the sectors covered, can cause significant differences in the distribution of the contributions amongst Member States. With Member States having repeatedly disputed their contributions and their net balances at the level of a fraction of a percentage of GNI, any difference is contentious⁸⁵. The EU has not reached a level of

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⁸⁵ This begs the question, if the deviations that are being corrected are significant given the error margins in the calculations of GNI.
political integration to expect governments and citizens to accept a different burden of taxation. Equity of contributions (and even receipts) is still perceived at national (and even in some cases at sub-national) level and not interpersonally or amongst sectors, and this position has even been strengthened over the past few years.

The transformation of any own resource into a ‘genuine’ EU resource will most likely require time and more than one-step. Unless a resource and its diverging geographical incidence is fully accepted by the Member States, a mechanism will need to be created to compensate for perceived ‘inequalities’ in the incidence of the taxes. There are principally two approaches.

The first would be, as has happened with the VAT resource, to impose caps on the resource. The way to do so would be to limit the share of the tax levied transferred to the Commission. This is not conductive, however, to increasing transparency to citizens. It is also important that any resource is clearly de facto in existence on the ground, avoiding the artificiality of the present VAT resource.

The second solution is to compensate the difference in contributions from new resources through the GNI key, which would need to be recalculated each year to compensate for deviations, using for example the lump sum reductions proposed by the Commission. This would of course be complex and suffer from a time lag, but it would not add any particular complexity, compared to the present system of recalculations based on updates in GNI estimations and corrections to contributions to the UK rebate. The compensations can also be undertaken with lump-sum transfers to Member States.

This report finds that two options have reached a sufficiently mature stage: 1) reform the GNI resource into a ‘more genuine’ own resource, and 2) introduce a genuine VAT resource, which is applied on the ground and made visible to citizens.

From the potential tax resources, only the VAT resource seems readily applicable in the foreseeable future. One of the main reasons for its relative ease of implementation is the existence of a harmonised base, which would allow the imposition of a standard rate across the EU on goods and services. The actual method proposed by the European Commission has been described in a European Parliament report\(^\text{86}\).

The system is a considerable improvement over the present virtual VAT, but it is still relatively complicated and while more transparent, not directly applied to the citizens. This means that there is no provision for the VAT contribution to be represented as a visible specific percentage of VAT attributed to the EU. The Commission argues that technically, the introduction of a VAT resource alongside the national VAT resource would pose serious implementation problems. Unfortunately the absence of a direct allocation of a clear share of the VAT resource to the EU means that the direct link between the citizens and the budget is missing. The contribution to the budget would thus still emanate from the national VAT collection. Member States can attribute a share of VAT collected at source directly to the EU, which is what this report also suggests be done with the GNI resource. The European Parliament report de facto requests the European Commission to introduce a mechanism to have the share of VAT accruing to the EU collected at source, as is done with the common customs tariff. In fact, all funding for the European Union, regardless of its source, should be attributed to the EU and not first the general budget of the state. For visibility, a EU VAT rate could be visually presented to citizens in their products and invoices, but this has not been proposed.

\(^{86}\) European Parliament (2013), Report on the proposal for a Council regulation on the methods and procedure for making available the own resource based on the value added tax, Rapporteur; Jean Luc Dehaene, A7-0316/2012.
How do Member States handle contributions to the EU budget in their national budgets?

There is still a risk that Member States will eventually disagree over deviations from the GNI share from a VAT-based resource. Estimations of deviations are shown by the European Commission 2004 report on own resources. However, the traditional argument that a VAT resource penalises poorer Member States, as consumption is higher in proportion to income, has been challenged by a CEPS Policy Brief using actual VAT figures. The current proposal reduces the size of the discrepancies, because it includes only goods and services under standard VAT rates across the EU, avoiding problems with particular items, e.g. those exempt from VAT in some member states.

There will still be unavoidable differences in the incidence, which may cause Member States to ask for ‘corrections’. Rather than reinventing a virtual VAT and introducing caps and ceilings, the GNI resource can be used to rebalance the contribution. This of course introduces some complications, but should be manageable and is easier than the present system. Such a VAT resource could cover a significant part of the EU budget and help in making the EU budget more visible to taxpayers (a 1% VAT rate is estimated by the European Commission to be enough to cover half of the EU budget).

The GNI resource should be set up to guarantee an equitable level of contributions by Member States from any resource, as long as distributional deviations from a GNI resource are not accepted. This may take the form of ‘lump-sum reductions’ in the contributions, as the European Commission proposes, or lump sum transfers.

5.4 A more flexible and simplified budgetary procedure

The European Union budget has been suffering from increasing pressures by the Member States to reduce its size. On the one hand, this stems from the poor image the EU budget has in some Member States, in particular the net contributors. On the other hand, it is compounded by the financial crisis and the pressures on Member States’ budgets. This affects not only the MFF negotiations, but also the annual budgetary procedure. In addition to tax-based resources and/or a reformed GNI key, the annual budgetary procedure could be amended to avoid that member states use the procedure to reduce their contributions to the EU.

The European Parliament highlighted the difficulties encountered in the annual budgetary procedures and the risks to the functioning of the budget, and requested a change in the way the annual budgets are set. It pinpointed the absurdity that the present system can simultaneously lead to reimbursements to Member States from under-implementation of the budget and imposition of fines in connection with the internal market, and then to end up with a subsequent lack of funds to cover the commitments in the same budgetary year. Greater efforts should be made to reform the annual budgetary procedure with a view to improving the implementation.

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90 Or the rejection of adjustments requested in a draft amending budget, which was the case in 2010 when unpaid commitments were rolled over to 2011, increasing the RAL.
6 SUMMARY AND CONCLUSIONS

The budget of the European Union is financed by own resources and other revenue. When the Parliament and the Council approve the annual budget, total revenue must equal total expenditure. The total amount needed to finance the budget follows automatically from the level of total expenditure. However, since outturns of revenue and expenditure usually differ from the budgeted amounts, a balancing exercise is required resulting from the implementation. This exercise has been very contentious over the last three years as member states under-provisioned the EU budget, thereby creating de facto a ‘structural deficit’ with substantial unpaid commitments being transferred to the following year.

First of all, the report has explored the way in which Member States handle the contributions to the EU and in particular the GNI resource. The review of the central government budgets for 2014 shows a high degree of diversity as regards Member States’ handling of the accounting for their contribution to the EU. This diversity is reflected in particular in the following basic areas:

1. The classification of the EU contribution in the general budget, which in some countries is considered as an attribution of national government revenue and, in most countries, as an expenditure of the central government;

2. The degree to which the expenditure of the Union is shown as a receipt in the national government’s or local government’s accounts;

3. The ‘consolidation’ of the contribution to and receipts from the EU to arrive at a net ‘return’ (monetary); and

4. The degree to which the national governments’ accounts stress that benefits from the EU are both monetary and non-monetary.

Only the budgets for the United Kingdom, Austria, the Czech Republic, Lithuania and Romania include an estimate of the receipts accruing to the country’s economy as a result of the EU common policies, notably the CAP, the Structural Funds and the R&D framework programme (now Horizon 2020).

The fairness and appropriateness of contributions by the Member States to the EU budget depend strongly on the appropriate estimation of the GNI of Member States. The detailed examination by the Court of Auditors, the Commission’s response and Eurostat’s handling more generally of the ‘monitoring’ of GNI show that this is not a simple exercise and that some areas of contention remain. Nevertheless, the examination also shows that Member States and the Commission handle the estimation of GNI and thus the GNI resources to the EU with utmost attention. GNI contributions are, to some extent, less precise (in theory) than the use of shares of revenue from taxes. Indirectly, tax revenues are also affected by errors, tax evasion and unrecorded economic activity and thus are reliable or unreliable as GNI estimates. Nevertheless, our conclusion is that GNI estimations and thus estimates of the dependent share of EU revenue and expenditure are performed with credible commitment by all administrations.

Although the GNI-based contribution now counts for some two-thirds of the funding of the EU budget, the original arguments for the existence of own resources remain valid. This would, in particular, be the case for new sources accruing essentially to the EU in general, such as, for example, a real VAT resource, and receipts from a financial transactions tax or income from the carbon emissions market. However, even if there are valid arguments for including new taxes and other receipts among own resources as partial replacements of the GNI-based contribution, the
study concludes that the benefits of tax resources need to be weighed against the considerable barriers still in place for such a move.

Another important conclusion of the present study is that the handling of the Member States' contributions to the EU must be fully harmonised in the sense of ensuring that all Member States classify this contribution as an attribution of government receipts and not as expenditure. On the other hand, local rules and procedures for the allocation of funding and the handling of cash flows are likely to remain largely determined by the national institutional systems for financing local governments' spending and inter-governmental fiscal relations. The classification of receipts from the EU's budget may therefore best be left to the Member States. Thus, in contrast to the pressing need for harmonisation of the handling of the contribution to the EU, there is hardly a valid argument for the harmonisation any time soon of Member States' handling of receipts from the EU.

Harmonising the handling of the GNI resource opens the opportunity to transform the GNI resource into something close to a 'genuine own resource' by requiring that the resource be appropriated for the EU from the source, as some Member States already do. In addition to the harmonisation of the handling of the contributions to the EU, this report considers that a 'genuine' VAT resource is the most appropriate of the list of potential additional new resources that have been discussed in the framework of reforming the own resources.
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How do Member States handle contributions to the EU budget in their national budgets?


## ANNEX 1. COURT OF AUDITORS’ REMARKS AND THE COMMISSION’S RESPONSE

<table>
<thead>
<tr>
<th>REMARKS BY THE COURT OF AUDITORS (EXECUTIVE SUMMARY)</th>
<th>REPLY OF THE COMMISSION</th>
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<tbody>
<tr>
<td><strong>I.</strong> Member States’ gross national income (GNI) is the basis for the calculation of the most significant share of the revenue in the EU budget. Revenue derived from this source has increased from around 50% of the budget in 2002 (EUR 46 billion) to 70% in 2012 (EUR 98 billion).</td>
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<td><strong>II.</strong> GNI is a macroeconomic aggregate whose compilation process should comply with ESA95. The Commission verifies GNI data provided by Member States in order to ensure that their contributions to the EU budget are correct. The GNI Committee assists the Commission in its verification work.</td>
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<td><strong>III.</strong> The Court’s audit examined the effectiveness of the Commission’s verification of GNI data for the years 2002 to 2007 used for own resource purposes. Such data became definitive in 2012. The audit determined the risks in compiling GNI and assessed the Commission’s performance in addressing these risks.</td>
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<td><strong>IV.</strong> The Court’s auditors applied a more structured verification than the Commission, focusing on a limited number of material and risky components. If the Commission applied a similar approach, this would require no increase in Eurostat staff dedicated to the verification of GNI data for own resource purposes.</td>
<td>The Commission has a well-established and multi-faceted verification system. It emphasises quality, peer review and has sufficient flexibility to deal with exceptional circumstances. The Commission will further develop its strategy for GNI verification to incorporate a more structured and formalised programme. This will include a risk analysis and take full account of cost-effectiveness. The Commission notes the model used by the Court and will consider which elements could be beneficial to this process. The Commission considers that an evaluation of the staff resources needed is complex and has yet to be made.</td>
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<td><strong>V.</strong> The Commission completed its verification cycle in January 2012. There was an excessive use of general reservations and major revisions carried out by Member States between 2008 and 2011 were not sufficiently examined by the Commission.</td>
<td>The Commission agrees that general reservations should be used as infrequently as possible. Yet they are an essential part of protecting EU financial interests and thus cannot be foregone completely. The Commission’s control system is also robust enough to accommodate major regular revisions, such as the incorporation of changes in basic data sources or new estimation methods.</td>
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<td><strong>VI.</strong> The Commission’s verification can be expected to improve the quality of Member States’ GNI data. However, the Court concludes that this verification was not sufficiently structured and focused for the following reasons: (a) Verification strategy/approach: the Commission did not plan and prioritise its work in an appropriate way, as the risks were not appropriately assessed;</td>
<td>(a) The Commission considers that it has a well-established risk-based procedure for planning and prioritising its work which includes the prior agreement of plans by the GNI Committee.</td>
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<tr>
<td>Remarks by the Court of Auditors (Executive Summary)</td>
<td>Reply of the Commission</td>
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<td>(b) Verification process: the Commission did not apply a consistent approach when carrying out its verifications in Member States resulting in particular in weaknesses in the performance of direct verification and a lack of criteria for setting country-specific reservations, and it did not carry out sufficient work at that level; and (c) Reporting: the verifications have not been adequately reported.</td>
<td>(b) The Commission applies the same verification methodology in all Member States. As agreed with the GNI Committee, direct verification is used as a supplement to the verification of each country’s GNI inventory based on the GNI Inventory Assessment Questionnaire (GIAQ). (c) The verification results have been reported to the GNI Committee which has considered this information sufficient to issue its opinion of the data.</td>
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</table>

VII. The Court’s audit found cases of material non-compliance with ESA95 or lack of quality of GNI estimates in terms of their reliability, comparability and exhaustiveness, which the Commission had not detected. The Commission has examined each case quoted in the report in detail and does not share the view of the Court concerning a number of the findings the Court presents.

VIII. The Court recommends in particular that: (a) the Commission carry out a structured and formalised planning and prioritisation exercise, reduce the duration of the verification cycle and limit the use of general reservations; (b) The Commission carry out a more focused verification of material and risky GNI components on the basis of risk assessment, paying particular attention to the exhaustiveness of GNI, where possible assess the potential impact or the amount at risk of its findings, and set materiality criteria for placing specific reservations; (c) The assessment reports on the Member States’ GNI include a more complete, transparent and consistent overview of the results of the Commission’s verifications; the annual opinions of the GNI Committee: (i) include a clear assessment of whether the Member States’ GNI data are appropriate for own resource purposes, (ii) comply with the requirements of the GNI regulation, and (iii) are appropriately used in the budgetary procedure as provided for in the own resources’ regulation; the annual activity reports of DG Budget and Eurostat provide a true and fair view of the verification of Member States’ GNI data, and of the management of GNI-based own resources. (a) The Commission will further develop its strategy taking account of the findings of the audit, aiming at shorter verification cycles. The Commission in the meantime has implemented a policy restricting the use of general reservations. (b) The Commission is of the opinion that the approach it applied (desk checks of the GNI questionnaires and quality reports, the verification of GNI inventories using the GIAQ supplemented by a direct verification, with all steps subject to peer review) was appropriate for a final assessment of the Member States’ GNI for own resources. However, the Commission will look into formalising explicitly the criteria to be used for selecting the components to be verified by direct verification and making other improvements in documentation. (c) The Commission’s reporting on GNI verifications was continuously improved over the past years. Nevertheless, the Commission takes note of the Court’s findings and agrees with the need to continue efforts to improve. The Commission has always considered reporting to be adequate and compliant with the GNI regulation and that the annual opinion of the GNI Committee is sufficient. The Court’s recommendation on the annual opinion will be put to the GNI Committee. Elsewhere in this report the Court recognises the improvements that have already been made while recommendations made during the audit were taken into account in the most recent annual activity report. The Commission considers that the opinions of the GNI Committee have always been appropriately used for budgetary purposes.
How do Member States handle contributions to the EU budget in their national budgets?

**ANNEX 2. CONTRIBUTIONS TO THE EU BY CATEGORY AND MEMBER STATES (€ MIL)**

<table>
<thead>
<tr>
<th>GNI</th>
<th>MS</th>
<th>VAT own resource</th>
<th>GNI own resource</th>
<th>UK correction</th>
<th>Reduction in GNI own resource granted to NL and SE</th>
<th>Total national contribution</th>
<th>%</th>
<th>%GNI</th>
<th>Traditional own resources (TOR) net (75%)</th>
<th>Total own resources</th>
<th>%</th>
<th>%GNI</th>
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<td>16 453.4</td>
<td>129 429.8</td>
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<td>26 213.8</td>
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<td>4 173.3</td>
<td>1 906.9</td>
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<td>0.95%</td>
<td>2 942.2</td>
<td>2.3%</td>
</tr>
<tr>
<td>GNI</td>
<td>MS</td>
<td>VAT own resource</td>
<td>GNI own resource</td>
<td>UK correction</td>
<td>Reduction in GNI own resource granted to NL and SE</td>
<td>Total national contribution</td>
<td>%</td>
<td>%GNI</td>
<td>Traditional own resources (TOR) net (75%)</td>
<td>Total own resources</td>
<td>%</td>
<td>%GNI</td>
</tr>
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</table>

(*) For simplicity of the presentation, the GNI-based own resource includes the JHA-adjustment.

(**) Totals for UK correction payments and GNI reduction granted to NL and SE are not equal to zero on account of exchange rate differences.

| Surplus from previous year | 1,497.0 |
| Surplus external aid guarantee fund | 0.0 |
| Other revenue | 8,613.8 |
| Total revenue | 139,540.5 |
How do Member States handle contributions to the EU budget in their national budgets?

Table 6. Expenditure and revenue by Member States 2012 (€ mil)

<table>
<thead>
<tr>
<th>Member State</th>
<th>Total Revenue</th>
<th>Total Expenditure</th>
<th>Contribution to EU Budget</th>
<th>Central Government</th>
<th>Taxation</th>
<th>Social contributions</th>
<th>Charges</th>
<th>Other</th>
<th>Total Non-Structural Funds</th>
<th>Other Financial Operations</th>
<th>Total State Finance</th>
<th>Total Domestic</th>
<th>Total Financial</th>
<th>Total Financial (as % of GDP)</th>
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</thead>
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<td>2.2</td>
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Policy departments are research units that provide specialised advice to committees, inter-parliamentary delegations and other parliamentary bodies.

Policy Areas

- Budgets
- Budgetary Control

Documents