Reforming the EU’s Budget Revenue
The case for a visible VAT-based resource
Gabriele Cipriani
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Abstract

The long-awaited reform of the EU’s revenue arrangements can be pursued within the current legal framework, thus keeping member states’ fiscal sovereignty unaffected. In order to have a chance of approval by national parliaments, reform options should concentrate on known grounds and operational solutions. These include providing a reliable estimate of potential revenue and expected burden sharing as compared with the current arrangements.

A key issue is whether the EU budget should be financed by a visible fiscal source. Making citizens directly liable for funding the EU budget would represent a major political decision. This study argues that the value added tax provides an operational solution to ensure the visibility of EU contributions without increasing the overall tax burden.

Since EU revenue and expenditure are set as a comprehensive package, there is also a need to consider the extent to which the current spending programmes provide the best value and achieve objectives of common interest with demonstrable results. Such assessment should inspire the proposal for the multiannual financial framework after 2020, to be presented by the Commission in about a year’s time.
CONTENTS

1. The EU budget: Revenue and expenditure go hand in hand ........................................... 1

2. Amending the EU revenue system: Why? ................................................................. 3
   2.1 EU financial autonomy: Fighting a losing battle? ............................................. 4
   2.2 Greater equity: Easier said than done .......................................................... 4
   2.3 Visibility of EU revenue: The elephant in the room ........................................ 7

3. Amending the EU revenue system: How? .............................................................. 9
   3.1 A simple solution: A contribution scale ....................................................... 11
   3.2 One, two or more ‘EU’ taxes? ................................................................. 11
   3.3 The case for a visible VAT resource .............................................................. 13

4. One year to go ....................................................................................................... 18
   4.1 Setting the basis for the new MFF after 2020 ........................................ 18
   4.2 Assessing the economic impacts of EU expenditure .................................. 20
   4.3 Promoting EU revenue visibility ................................................................. 20

References ................................................................................................................. 22

List of Figures and Tables

Figure 1. Contribution to the EU budget as a % of GNI and per capita (nominal value, €) – Deviation from EU-27 average (outturn 2007-15) ........................................... 6
Figure 2. Making visible the VAT accruing to the EU budget ........................................ 15

Table 1. Funding of the EU budget through national contributions (VAT and GNI-based resources) in comparison with EU GNI (outturn 2007-15, EU-27, €) ....................... 5
Table 2. Estimated impact of three scenarios in comparison with current arrangements (€) .................................................................................................................. 17
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Gabriele Cipriani*

CEPS Special Report No. 150 / November 2016

1. The EU budget: Revenue and expenditure go hand in hand

The Treaties indicate that the Union shall “pursue its objectives by appropriate means commensurate with the competences”\(^1\) and “provide itself with the means necessary to attain its objectives and carry through its policies”.\(^2\) As a result, EU competences, objectives and resources should be mutually consistent.

EU funding is only one among the possible options of EU intervention. In fact, EU objectives are mainly pursued through legislative and coordination actions that are often the main drivers for bringing different national laws in line with each other and effecting changes in the member countries’ basic economic, social and political structures. For example, in stimulating lasting growth, the EU’s rules matter more than transferring money across member states.\(^3\)

As for any EU action, the raison d’être of the EU budget is to offer value beyond what member states’ action alone can deliver (EU added value).\(^4\) The key word is ‘additionality’. Thus, “spending at EU level means a better deal for citizens than spending at national level”; the expectation is to reduce rather than increase overall public expenditure (and the burden on taxpayers).\(^5\)

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1 See Art. 3(6) of the Treaty on European Union (TEU).

2 See Art. 311, first paragraph, of the Treaty on the functioning of the European Union (TFEU). It should be added that Art. 323 TFEU provides: “The European Parliament, the Council and the Commission shall ensure that the financial means are made available to allow the Union to fulfil its legal obligations in respect of third parties.”


4 The test is done through an ex ante impact assessment undertaken by the Commission for any initiative likely to have significant economic, environmental or social impacts. The aim is to assess the logical reasoning linking the problem to be addressed, its underlying drivers, the raison d’être of EU action, its potential objectives and a range of policy options (including no action at the EU level) taking account of what can be learned from experience. See also European Commission, “The added value of the EU budget”, SEC(2011) 867 final, Brussels, 29.6.2011.

5 See European Commission, Communication on the EU budget review, COM(2010) 700, Brussels, 19.10.2010, p. 5. One may note that in its resolution of 6.7.2016 on the preparation of the post-electoral revision of the MFF 2014–20, the European Parliament asked the Commission “to produce a study on
The EU budget is framed in a rather inflexible way through a multiannual financial framework (MFF), a comprehensive package in which revenue and expenditure go hand in hand. The MFF, negotiated for over two years and approved through member states’ unanimity, sets the overall amount of the resources that can be called upon over the period (conventionally at around 1% of the total of member states’ estimated gross national income, GNI), the maximum amounts that can be spent each year on broad policy areas, the burden sharing among member states and their funds’ pre-allocation for the main spending programmes.

The EU budget is driven by ‘expenditure’; revenue is adjusted accordingly. Expenditure and revenue must be in balance. The EU revenue system is regulated by an ‘own resources’ decision setting in particular their type and their nature. EU revenue consists mostly of member states’ financial contributions funded out of the cashbox of national taxation, therefore with no direct link with individual taxpayers. This reflects a ‘pooled’ competence by member states, based on a ‘sharing’ of national fiscal resources.

With the aim of preserving member states’ fiscal sovereignty, the adoption of the own resources decision follows a two-stage approval process: unanimity by the Council after consultation with the European Parliament, and further approval by each member state in accordance with its constitutional requirements.

Member states regard EU revenue as expenditure in their own budgets. As a result, EU revenue arrangements are highly influenced by the cash concept of ‘net budgetary balances’, or the difference between member states’ contributions to the EU budget and the payments they expect to receive from the various EU policies. The concept translates into a zero-sum logic, where the accounting advantage of one member state is considered in practice to come at the expense of the other member states. However, these calculations are merely an accounting exercise. Assessing the economic impact of EU expenditure would need a more comprehensive approach.

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6 The current MFF was proposed by the Commission in June 2011, agreed by the European Council in February 2013 and finally adopted in December 2013. The MFF Regulation is adopted unanimously by the Council, on a proposal from the Commission and after obtaining the consent of the European Parliament. This means that Parliament can only adopt or reject the whole MFF, but has no genuine power of co-decision. For the 2014–20 MFF, see Council Regulation (EU, EURATOM) No. 1311/2013 of 2 December 2013 laying down the multiannual financial framework for the years 2014–2020, OJ L 347, 20.12.2013. See also Bauer and Becker (2017, forthcoming).

7 More than 80% of those contributions are based on GNI and the value added tax (VAT) taxable basis. In addition, EU revenue consists of the duties collected on imports from third countries, levies on the production and storage of sugar, as well as various other sources (such as tax on EU staff remunerations, contributions from non-EU countries to certain programmes and fines following infringements to the competition policy).

8 The Treaty (Art. 353 TFEU) expressly excludes that such a decision could be adopted by the Council with a qualified majority. For the current MFF, see Council Decision 2014/335/EU, Euratom of 26 May 2014 on the system of own resources of the European Union, OJ L 168, 7.6.2014. After a ratification process lasting more than two years, this decision entered into force on 1.10.2016.


10 For example, as indicated in Cipriani and Pisani (2004), it can be assumed that an EU payment triggers an increase in demand for the production of goods and/or services beyond the recipient country since, to be satisfied, the increase in the production will generate import flows from other countries.
Member states’ search for an acceptable net budgetary balance has caused the progressive introduction of numerous ‘corrective’ measures on revenue arrangements. While the benchmark for such abatements is the concept of net budgetary balances, the basis for their calculation is purely conventional. There is in fact no other rationale than reaching unanimous consent on a package (the MFF) that each government trusts to be politically defensible at home.

2. Amending the EU revenue system: Why?

The EU budget has a significant number of ‘followers’, at the origin of hundreds of studies and reform proposals. This mighty effort has generated only limited change, in particular for revenue. Still, the own resources decision guarantees the financing of the budget. Why then change the system, with the risk of opening a ‘Pandora’s box’ of claims of any kind?

The European Parliament and the Commission have repeatedly advocated a shift from a system of national contributions to one based on genuine EU revenue. The main reasons are the complexity of the current revenue arrangements (due to the calculation of the assessment basis of the GNI and VAT resources and the UK rebate), their lack of transparency (given the ‘fiscal anaesthesia’ induced by lack of visibility), their unfairness (notably on a per-capita basis across the Union) and their inadequacy towards a true democratic accountability (since there is only indirect consent through national parliaments, as part of national taxation).

The review decided upon in connection with the 2014–20 MFF agreement is based on four guiding criteria (simplicity, transparency, equity and democratic accountability), which reflect to a large extent the concerns expressed above.

The most sensitive issues seem three in particular: giving the EU financial autonomy, ensuring greater equity in the revenue arrangements and making taxpayers’ contributions visible.

(Within/outside the EU). For example, EU funds disbursed to build a road investment in country X will trigger an increase of production also in the countries whose economic actors participate in the construction by providing workforce, materials and machinery. This increased demand represents a meaningful proxy of the economic benefits generated by such payment (see also Cipriani, 2007, pp. 90-97). For instance, an evaluation (Instytut Badań Strukturalnych, 2011, pp. 35-39) of the benefits that the EU-15 countries draw from the financing of the cohesion policy in the Czech Republic, Slovakia, Hungary and Poland shows that, on average, €1 of financing generates 61 cents of additional exports to those countries.

11 The most known is the abatement in favour of the UK, consisting of reducing by two-thirds the balance between the financial contribution of this country and the EU payments received. There are other abatements of which 11 member states are currently benefitting (see Cipriani, 2014, pp. 16-19).

12 This is despite the fact that the own resources decisions adopted in 1988, 1994, 2000 and 2007 have advocated a review of the EU revenue system.


14 The review is undertaken by a High-Level Group composed of representatives of the Council, European Parliament and Commission and chaired by former Italian Prime Minister and European Commissioner Mario Monti.
2.1 EU financial autonomy: Fighting a losing battle?

As an expression of national sovereignty, fiscal policy is an exclusive member state competence. Thus, member states can establish tax systems in accordance with their societal choices. Taxes are levied and collected by national administrations. This explains why EU revenue arrangements require approval by member states through a constitutional process and why the EU budget is mostly funded from the cashbox of national taxation.

EU revenue arrangements reflect the sharing of competences between the EU and its member states. EU financial autonomy, or the power for the EU to raise taxes and autonomously set the amount of its resources, would upset this sharing of competences fundamentally. Its impact would go beyond a question of public finances, and directly affect the actual nature of the EU integration process. Yet, in this respect views are not univocal concerning the creation of “an ever closer union among the peoples of Europe”.15 If the six founding member states have discarded the possibility opened by the Treaty of Rome for giving the EU financial autonomy,16 it seems unrealistic to reach such a goal today. That is not least because the prospect of a change of the Treaties might stimulate appetite for changes in other areas, thus adding difficulty to difficulty.

A reform of the EU revenue system does not require giving the EU financial autonomy. Subject to modifying the own resources decision, it would still be possible not only to change the funding sources but also, if need be, to increase the overall amount of the resources.

2.2 Greater equity: Easier said than done

As noted by the High-Level Group on Own Resources, there is no undisputed measure of the concept of equity/fairness. The concept can be translated into different courses of action, leading to different opinions, arguments and value judgements. And it can be looked at from a ‘vertical’ perspective (income redistribution), horizontally (equivalent impact on taxpayers) or from the point of view of member states’ ability to pay. Not unimportantly, the concept can be based on both measures and perceptions.17

The equity of the current system is assessed at the level of member states rather than citizens and it is based, in principle, on proportionality and not on progressivity. At the same time, some reallocation of resources across member states (and/or regions) is sought through EU expenditure, notably cohesion measures (Goulard and Nava, 2002, p. 41).

15 See Art. 1 TEU, second paragraph.
16 By providing the possibility to replace national contributions with genuine own resources, the Treaty of Rome (Art. 201 EEC) opened the door to a shift of sovereignty on the part of member states, allowing the Union to exert a direct power of taxation over EU citizens. As observed by Ehlermann (1982, pp. 572, 584-585), the Treaty envisaged an exceptional procedure (unanimity in the Council plus ratification by national parliaments) similar to that for introducing direct elections of the European Parliament (Art. 138(3) EEC). This coincidence should be interpreted as the wish to make the EU financially independent from member states, just as direct elections of the European Parliament severed its ‘umbilical cord’ with national parliaments. Therefore, the purpose of these provisions would have been to disengage the Community progressively from the member states. One may also refer to Strasser (1991, p. 91), who defined ‘own resources’ as a tax borne directly by EU taxpayers, which is included under revenue in the EU general budget and does not appear in the budgets of the member states. This transition should have been ensured in principle through a resource based on VAT (see Council Decision 70/243/ECSC, EEC, Euratom of 21 April 1970 on the replacement of financial contributions from member states by the Communities’ own resources, OJ L 94, 28.4.1970).
17 See the High-Level Group on Own Resources (2014), p. 27.
GNI is often considered the best indicator of a member state’s ability to contribute (i.e. proportionality of gross contributions to income across the member states). However, owing to a number of specific arrangements for some member states, actual contributions are not necessarily proportional to GNI. As shown by Table 1 below, this is notably the case for the UK thanks to the abatement it has secured.

Table 1 also shows that to varying degrees, other member states (Germany, the Netherlands, Austria and Sweden) have contributed a lower proportion of their GNI share. As a result, the contributions of the other EU countries are higher than their share of EU GNI.

Table 1. Funding of the EU budget through national contributions (VAT and GNI-based resources) in comparison with EU GNI (outturn 2007–15, EU-27, €)

<table>
<thead>
<tr>
<th>Member states</th>
<th>Share in total ‘national contributions’ (%)</th>
<th>Share in EU GNI (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1)</td>
<td>(2)</td>
<td>(3)</td>
</tr>
<tr>
<td>Belgium</td>
<td>3.16</td>
<td>2.87</td>
</tr>
<tr>
<td>Bulgaria</td>
<td>0.33</td>
<td>0.28</td>
</tr>
<tr>
<td>Czech Republic</td>
<td>1.21</td>
<td>1.09</td>
</tr>
<tr>
<td>Denmark</td>
<td>2.05</td>
<td>1.90</td>
</tr>
<tr>
<td>Germany</td>
<td>20.26</td>
<td>20.81</td>
</tr>
<tr>
<td>Estonia</td>
<td>0.14</td>
<td>0.12</td>
</tr>
<tr>
<td>Ireland</td>
<td>1.27</td>
<td>1.16</td>
</tr>
<tr>
<td>Greece</td>
<td>1.82</td>
<td>1.55</td>
</tr>
<tr>
<td>Spain</td>
<td>8.87</td>
<td>8.00</td>
</tr>
<tr>
<td>France</td>
<td>17.44</td>
<td>15.78</td>
</tr>
<tr>
<td>Italy</td>
<td>13.24</td>
<td>12.16</td>
</tr>
<tr>
<td>Cyprus</td>
<td>0.15</td>
<td>0.13</td>
</tr>
<tr>
<td>Latvia</td>
<td>0.18</td>
<td>0.17</td>
</tr>
<tr>
<td>Lithuania</td>
<td>0.26</td>
<td>0.24</td>
</tr>
<tr>
<td>Luxembourg</td>
<td>0.26</td>
<td>0.22</td>
</tr>
<tr>
<td>Hungary</td>
<td>0.80</td>
<td>0.73</td>
</tr>
<tr>
<td>Malta</td>
<td>0.06</td>
<td>0.05</td>
</tr>
<tr>
<td>Netherlands</td>
<td>4.12</td>
<td>4.83</td>
</tr>
<tr>
<td>Austria</td>
<td>2.31</td>
<td>2.33</td>
</tr>
<tr>
<td>Poland</td>
<td>3.07</td>
<td>2.71</td>
</tr>
<tr>
<td>Portugal</td>
<td>1.46</td>
<td>1.29</td>
</tr>
<tr>
<td>Romania</td>
<td>1.11</td>
<td>1.02</td>
</tr>
<tr>
<td>Slovenia</td>
<td>0.31</td>
<td>0.27</td>
</tr>
<tr>
<td>Slovakia</td>
<td>0.55</td>
<td>0.51</td>
</tr>
<tr>
<td>Finland</td>
<td>1.61</td>
<td>1.48</td>
</tr>
<tr>
<td>Sweden</td>
<td>2.79</td>
<td>3.05</td>
</tr>
<tr>
<td>UK</td>
<td>11.17</td>
<td>15.27</td>
</tr>
<tr>
<td>Total</td>
<td>100.00</td>
<td>100.00</td>
</tr>
</tbody>
</table>


According to the Commission, “no own resource can be more equitable”. Along the same lines, the European Parliament has indicated that the GNI resource is “equitable in relating contributions to the general level of prosperity of Member States” (see European Commission, “Financing the European Union”, COM(1998) 560, Brussels, 7.10.1998, p. 11 and the European Parliament resolution of 29 March 2007 on the future of the European Union’s own resources, paragraph 23). See also Schäuble (2016), for whom the GNI-based resource “is the most transparent and fairest own resource”.

See note 11. In 2015, the amount of this abatement was about €6 billion.
This shows the nature of the MFF as a package where revenue and expenditure go hand in hand. In such a context, the concept of net budgetary balances represents for each member state an ideal instrument of measure for deciding the level at which its contribution is ‘zumutbar’ or sustainable, to mean ‘equitable’ in relation to the anticipated expenditure.

Since the current system reflects purely a member state perspective, how “the resources are levied for the EU budget is not an EU matter” (Núñez Ferrer et al., 2016, p. 19). Still, as shown by Figure 1 below, there are significant discrepancies across the member states. For this reason it has been argued that, overall, the present system of national contributions is ‘regressive’.  

Figure 1. Contribution to the EU budget as a % of GNI and per capita (nominal value, €) – Deviation from EU-27 average (outturn 2007–15)


More in detail, Figure 1 shows that member states can be divided basically into four categories:

i. countries whose contributions are below average for both the GNI ratio and the per capita contribution. The UK is the only member state in such a situation (0.59% of its GNI and €1,648 of per capita contribution);

ii. those whose contributions are below average in terms of the GNI ratio but above average in terms of per capita contribution. This is the case of Austria (0.80% of its GNI and €2,563 of per capita contribution), Germany (0.78% of its GNI and €2,381 of per capita contribution), Sweden (0.74% of its GNI and €2,736 of per capita contribution) and the Netherlands (0.69% of its GNI and €2,335 of per capita contribution);

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20 See also Cipriani (2014), Table 7.
21 See the High-Level Group on Own Resources (2014), p. 28.
iii. those whose contributions are above average for both the GNI ratio and the per capita contribution. Luxembourg, Denmark, Finland, Belgium, Ireland, France and Italy meet these conditions; and

iv. those whose contributions are above average for the GNI ratio but below average in terms of per capita contribution. This is the case of Spain, Greece and Portugal as well as the member states having joined the Union after May 2004.

Since the subjects of the Union “comprise not only the Member States but also their nationals” there is a rationale for considering equity also at the level of EU taxpayers. This ultimately means the need for “a compromise between at least two notions of fairness”, at the member state and the taxpayer levels (Núñez Ferrer et al., 2016, p. 82).

An explicit fiscal source will naturally make taxpayers more sensitive to any unjustified difference among them. The perception of the EU budget’s scope will also play a role. Is the EU budget for Europeans as a whole, or just for certain categories (e.g. those who most directly benefit from its spending)?

2.3 Visibility of EU revenue: The elephant in the room

“We have made Europe, now we must make Europeans, otherwise we risk losing it” (Geremek, 2007, p. 26). The visibility of EU revenue is potentially a means to enhance among EU citizens the sense of belonging to Europe and could thus contribute to ‘making Europeans’. EU citizenship, which is additional to the national one, cannot be an empty shell. “To declare to nationals of the Member States that they are citizens of the Union is not merely a matter of defining rights and duties; it also creates expectations.” One may observe that the Treaties repeat several times the principle of taking decisions “as closely as possible to the citizen”.

If, in view of fostering democratic debate, contributing to the participation of citizens in the Union’s decision-making process and reinforcing institutional control and scrutiny over Union expenditure, citizens should be “able to know where, and for what purpose, funds are spent by the Union”, an equivalent right must exist for taxpayers to understand how the EU budget is financed and to ascertain what individual contributions they are making to fund it.

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23 The original text reads: “(…) après avoir fait l’Europe nous devons faire maintenant les Européens. Et ajouter : sinon nous risquons de la perdre”.

24 See Art. 9 TEU and Art. 20 TFEU.

25 See European Court of Justice, Opinion of Advocate General Szpunar in Cases C-165/14 Alfredo Rendón Marín v Administración del Estado and C-304/14 CS v Secretary of State for the Home Department, paragraph 117.

26 Also, the Treaties provide that the EU institutional framework should serve the interests of both the citizens and the member states (see the Preamble of the TEU, last but one recital; Arts 1 TEU, 10(3) TEU, 13(1) TEU, 15 TFEU and the Protocol (No. 2) on the application of the principles of subsidiarity and proportionality).


28 Ibid.; see also Arts 34, 35 and 59(1) of the same regulation.
This could only encourage their engagement concerning the implementation of the Union budget as recently suggested by the Commission.29

By virtue of the own resources decision, fiscal obligations are created on individuals through national legislation. Hence, EU citizens have a duty to contribute to the EU budget and there is therefore a case for applying the principles of transparency and taxation by consent also to EU revenue. The recognition of EU citizens’ liability in the own resources decision cannot be excluded by arguing that EU law provisions “do not yet have the same level of democratic legitimacy as member states’ tax laws” (Bundesministerium der Finanzen, 2016, p. 16).30 In fact, by requiring double unanimity (the Council and each member state in accordance with their constitutional requirements) the own resources decision has the value of a ‘Treaty within the Treaty’.

Moreover, a direct link between the fiscal source and its destination will provide taxpayers with a means of control. Any increase of EU expenditure would need to be adequately justified. In a context of weak accountability, in particular for results and impacts achieved by EU expenditure,31 the visibility of EU revenue would provide an incentive to hold the responsible managers to account.

More generally, visibility would shed light on the true size of the EU budget and of national contributions whose amounts “are usually grossly exaggerated” (Núñez Ferrer et al., 2016, pp. 83-84). In this respect, an enquiry made in the UK (November 2010) revealed that a large majority of respondents were significantly incorrect (including among the most educated segments) on the size of the EU budget and the UK’s contribution.32 Interestingly, the latter was overestimated to a greater extent by the groups that expressed consistently unfavourable views about the EU and the UK’s membership.

Hopefully, the visibility of EU revenue would encourage a better understanding of EU spending.33 Not least, it would help to refute the false idea that EU funds ‘grow on trees’ and that they therefore constitute a kind of ‘manna’ to be taken advantage of.

Raising awareness among EU citizens of their contribution to the EU budget would, however, represent a major political decision with no practical possible reversal. It would entail a political ‘cost’ and it could ultimately prompt an unprecedented debate about the European integration process itself. It has been argued that an explicit fiscal source would make the costs of EU policies more visible to citizens but not necessarily the benefits (Fuest et al., 2015, p. 7).

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30 The original text reads: “Rechtsakte der Union nach wie vor nicht den gleichen Grad demokratischer Legitimation aufweisen wie mitgliedstaatliche Steuergesetze”.
32 Three-quarters of respondents believed that the EU budget was larger than the UK’s (in fact the UK’s budget was almost six times larger than the EU’s). On average, they estimated that the UK annually transferred 19% of its GNI to the EU (or about 12% of GNI for the most educated segment) while it represents actually about 0.6% of GNI (and half of this value if one considers the net balance) (see European Commission, “Attitudes towards the EU in the UK”, Flash EB No. 318, Brussels, 2011, pp. 5, 15-16, 19). One may also wonder how many UK citizens are aware that their country is the only one whose contribution to the EU budget is below the EU average in proportion to the GNI as well as on a per capita basis (see above, Figure 1).
33 For example, ‘Administrative and personnel costs, buildings’ continues to be perceived by EU citizens as the EU’s main item of expenditure (see European Commission, “The EU Budget”, Standard Eurobarometer 83, Brussels, 2015, p. 10).
In such circumstances one might doubt that pro-EU politicians would support the visibility of EU costs, a move that requires first being able to show the benefits if one does not want to increase further EU citizens’ scepticism towards the EU (Schratzenstaller et al., 2016, p. 30).

It is clear that there is difficulty in reporting convincingly on results and impacts achieved by EU expenditure, notwithstanding the requirement for the Commission to annually submit “an evaluation report on the Union’s finances based on the results achieved”. This difficulty stems from several reasons (notably, a lack of critical mass for many spending programmes, the input-based nature of spending schemes and an absence of meaningful indicators). The proposal for the next MFF should make clear the extent to which a shift towards results-oriented spending will be possible. The first measures proposed after the launch, in 2015, of the ‘EU Budget Focused on Results’ initiative seem rather to reduce the possibility to demonstrate the immediate effects of the programme on beneficiaries and long-term changes in society triggered by EU expenditure.

Whatever it could be, leaving taxpayers in the dark cannot be the remedy to such an accountability gap. The “EU needs to regain the trust of its citizens”, as the European Court of Auditors said recently. This concerns in particular the significant share of EU citizens who believe that EU spending delivers poor value for money (43%) or express no opinion on this subject (26%). Without a demonstration of the added value of EU spending, the raison d’être of the EU budget and, at the same time, the foundations for the legitimacy of EU revenue risk being put into question anyway.

3. Amending the EU revenue system: How?

Any reform of the EU revenue system is potentially controversial. To maximise the chances of success the parameter for the reform should set out that, in line with the Treaties, member states’ fiscal sovereignty should remain unaffected. Thus, the EU budget should continue to be funded through a sharing of fiscal resources collected by the member states, whose origin (type of taxation) should remain in the hands of the Council (and further confirmed by national parliaments), and whose overall volume should be determined in the framework of

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34 This is a repetitive conclusion for almost all of the European Court of Auditors’ special reports. For example, the Court observed in a recent special report (no. 26/2016) that while about one-third of EU spending is linked to farmers’ compliance with basic rules for the environment, food safety, animal health and welfare, and good agricultural and environmental conditions, the Commission currently cannot be sure whether the system is contributing to a more sustainable and environmentally friendly agriculture in the EU.


36 In a recent proposal for amending the EU financial rules (see European Commission, COM(2016) 605 final, 14.9.2016, op. cit.), the Commission advocates a shift from disbursements towards results. For example, it would be possible in all management modes to link funds to outputs instead of items of eligible spending. However, the notion of SMART objectives (specific, measurable, achievable, relevant and timed objectives) for all sectors of activity would disappear. This would make it extremely difficult to establish a correlation between performance information and budgetary allocations and to evaluate and report on progress made in relation to the goals pursued.


38 See European Commission, Standard Eurobarometer 83 (op. cit.), 2015, p. 7.
the MFF. All indications are that in the present circumstances the current overall ceiling should not be increased.\textsuperscript{39}

The option of introducing direct fiscal resources has been explored at length.\textsuperscript{40} The most recent conclusion drawn by Núñez Ferrer et al. (2016, p. 15) is that there are many potential tax instruments “but there is no panacea, no single optimal solution or first best”. Still, they find that four options stand out: VAT, corporate income tax, the financial transaction tax and options for carbon levies.

The contentious issue will be the weighting of the traditional criteria (such as equity; an adequate, stable and harmonised assessment basis; efficiency and cost-effectiveness of revenue collection; and visibility to taxpayers).\textsuperscript{41} It should also be noted that no hierarchy has been established among the four guiding criteria set for the current review of EU revenue (simplicity, transparency, equity and democratic accountability). This will require compromise solutions and adaptation to the nature of each specific resource. One may also expect that the operational feasibility of the available options, including the timing needed for their introduction, will play a role in the assessment.

Clarity would be essential on three things: the objectives pursued through the potential candidates for funding the EU budget, the burden sharing estimated at the member states’ level for the different options and the impact on overall taxation. Setting the scene in full, with all the financial and political implications of the different options, should put the reform on the agenda at the highest level, in the hands of governments and parliaments, rather than demote it to a mere ‘accounting’ exercise. An appropriate communication strategy would also be needed for explaining to EU citizens the full context.

Two options are examined below, one radically simplifying the current system and another seeking to deprive taxpayers of “the least possible feathers without preventing the cries”.\textsuperscript{42}

\textsuperscript{39} One may add that both the European Parliament and the Commission have indicated that the aim of a reform of the own resources system is not to increase the overall EU budget but to find a different mix of resources (see as a background reference the European Parliament resolution of 29 March 2007 (op. cit.), paragraph 28; resolution of 8 June 2011 (op. cit.), paragraph 168; European Commission, COM(2010) 700, 19.10.2010 (op. cit.), p. 26; and European Commission, Communication on a budget for Europe 2020, COM(2011) 500, Brussels, 29.6.2011, part I, p. 7).

\textsuperscript{40} Examples include an aviation sector tax; a resource based on emissions auctioning in the context of the EU Emissions Trading System; a tax on energy based on the revised Energy Taxation Directive; EU corporate income tax; excise duty on motor fuel for transport and other energy taxes; excise duty on tobacco and alcohol; a tax on corporate profits; a tax on dealings in securities; a tax on transport or telecommunication services; withholding tax on interest; ECB profits (seigniorage); an eco-tax; taxes on currency transactions; a tax on savings; and taxes on financial transactions. See also the website of the High-Level Group on Own Resources (http://ec.europa.eu/budget/mff/hlgor/documents/technical-documents_en.cfm).


\textsuperscript{42} Expression borrowed from Goulard and Nava (2002), p. 50. The original text reads: “le moins de plumes possible sans éviter les cris”.
3.1 A simple solution: A contribution scale

If, with respect to EU revenue, an overarching objective is to ensure acceptable burden sharing among member states on the basis of the ‘budgetary balances’ concept, there is a simpler (and administratively cheaper) solution than today’s arrangements. A contribution scale, similar to what is provided by Art. 200 of the EEC founding Treaty, could keep the essence of the current system but in a radically simplified way. Such a scale could be set in proportion to GNI, and therefore subject to some fluctuation. Alternatively, to fully reflect the ad hoc corrections of the current system, the scale could be based on a fixed percentage deemed suitable to accommodate real or perceived imbalances at the member state level. Table 1 (column 2) above and Table 2 (column 3) in section 3.3 provide examples of how such a scale might look.

In such a scenario the other criteria of the review would have to be addressed with sub-optimal solutions. ‘Equity’ would be represented by the lowest common denominator of what member states consider their reasonable net contribution. Concerning ‘transparency’, there would be at the very best a clearer presentation in national budgetary documents, although out of immediate reach of a large majority of citizens. ‘Democratic accountability’ would not be specific for EU revenue, but merged within the procedures applied in each member state to hold governments to account.

3.2 One, two or more ‘EU’ taxes?

Since fiscal policy is an exclusive national competence, there is no room for European taxes. The Treaties provide for a certain degree of fiscal harmonisation but not for an absolute one. Indeed, the Council may (unanimously) adopt provisions “for the harmonisation of legislation concerning turnover taxes, excise duties and other forms of indirect taxation to the extent that such harmonisation is necessary to ensure the establishment and the functioning of the internal market and to avoid distortion of competition” (emphasis added). It is in particular when there is a transnational dimension that an EU legal framework may represent the most appropriate means to ensure consistency across member states and more effectiveness. A typical case is the VAT that is regulated by a number of EU provisions but remains a national tax.

43 For example, setting EU revenue burden sharing among member states requires a number of calculations presented in six tables of the budgetary documents.

44 The GNI is subject to periodical adjustments affecting the burden sharing among member states. One may recall the UK’s discontent in October 2014 because, following a revision of member states’ GNI, this country had to pay some €2 billion more to the EU budget.

45 It may be added that with the entry into force, on 1.10.2016, of the own resources decision applicable to the MFF 2014–20 (Council Decision 2014/335/EU, Euratom of 26 May 2014, op. cit.) new rules apply retroactively as of 1.1.2014. This will entail a slight change in the burden sharing among member states (see European Commission, Draft Amending Budget No. 5 to the Budget for 2016, COM(2016) 660 final, Brussels, 7.10.2016).

46 The only true EU tax possible in the current legal framework is the tax charged on salaries, wages and emoluments of the members and staff of EU institutions and bodies. The proceeds of this tax represent a source of revenue for the EU budget.

47 See Art. 113 TFEU.

48 For example, one of the reasons for introducing a financial transaction tax at the EU level was to avoid an uncoordinated patchwork of similar national taxes (see European Commission, Proposal for a Council Directive on a common system of financial transaction tax and amending Directive 2008/7/EC, COM(2011) 594, Brussels, 28.9.2011).
One may also argue that regulation at the EU level is appropriate to achieve a common policy goal (e.g. the reduction of carbon emissions) through taxation of activities with negative externalities. Another example is the case of unexploited funding sources, linked in particular to the emerging digital economy and that, due to the high mobility of the tax base, “become available only through international exchange and cooperation” (Tarschys, 2015, pp. 5, 7).

Establishing new EU-regulated taxes will require first convincing governments to take responsibility before their parliaments and citizens to introduce such taxes in their fiscal systems. Only then may the Council decide to regard such taxes as the EU’s own resources. These are two distinct decisions, the first being justified by reasons of fiscal policy while the second is essentially concerned with providing sufficient resources to the EU budget. Thus, a rationale for introducing new EU-regulated taxes does not imply that there is equally a good case for allocating the proceeds of such taxes to the EU budget.

What then could be a good reason for governments to decide to allocate the proceeds of EU-regulated taxes to the EU budget, if its resources will potentially remain the same and be fixed anyway by member states’ collective decision?

It has been argued that new EU-regulated taxes would reduce correspondingly the current financial transfers to the EU budget and free resources for national budgets. The tricky issue, however, is whether the proceeds of these new taxes would be offset by a reduction of taxation elsewhere in order to compensate the current financial transfers to the EU budget. If this is not the case, the overall tax burden would increase, with the EU paradoxically having to lay the blame for each and every new EU-regulated tax, while its financial resources would remain the same (or even be curbed as a result of discontent). Moreover, the EU may be accused of using the EU budget as a ‘Trojan horse’ for acquiring fiscal competences and free hands on its resources. Associating the EU with a plurality of new taxes to fund its budget will definitively not increase its popularity.

Another argument is that funding the EU budget with some new EU-regulated taxes may provide more fairness in EU budget burden sharing (Bordignon and Scabrosetti, 2016, p. 17). Yet, as discussed earlier, the assessment of ‘equity’ is subject to interpretation and it is therefore not a straightforward issue. There is also no evidence that the introduction of a ‘cocktail’ of EU-regulated taxes with the aim of ensuring broader coverage of economic criteria on the whole, would by itself guarantee greater equity. What nonetheless seems sure is that the introduction of several new fiscal sources will not make reform of EU revenue easier. It will multiply the intrinsic difficulties linked to any new tax while making it more complicated for taxpayers to identify their overall contribution.

The case of the financial transaction tax, proposed by the Commission in 2011 as an EU-regulated ‘Robin Hood’ tax to make the financial sector contribute to the cost of the crisis while

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50 When unanimous agreement among member states cannot be reached, it is possible to activate ‘enhanced cooperation’ (see Art. 20 TEU and Arts 326 to 334 TFEU), thus allowing like-minded member states to move ahead. Authorisation is granted by the Council, on a proposal from the Commission and after obtaining the consent of the European Parliament. This has been the case for the financial transaction tax (see note 53).

51 The Council “may establish new categories of own resources or abolish an existing category” (see Art. 311 TFEU, third paragraph).

providing a source to fund the EU budget, is illustrative of the potential difficulties. Ultimately, only ten member states have agreed to consider the introduction of such a common tax. Furthermore, key elements are still under discussion five years later.53

The above suggests that allocating to the EU budget the proceeds of new EU-regulated taxes may be problematic, especially if the candidates are not operational. As observed by Schratzenstaller et al. (2016, pp. 30-31), only a few taxes (an EU VAT and certain excise duties) would be suitable for ensuring visibility to taxpayers. In this respect, a single and already-existing tax seems the most practical option.

3.3 The case for a visible VAT resource

VAT seems an obvious choice as a source of EU revenue for a number of reasons. VAT is a general tax with a broad and relatively price-inelastic basis. As a pillar of the EU single market, VAT is regulated by EU law and is part of the acquis communautaire.

VAT is ultimately paid by final consumers.54 It is charged as a percentage of price, which means that the actual tax burden is visible to taxpayers. The traditional view that VAT has a regressive impact, raising proportionally more from the poor than from the rich (Schratzenstaller et al., 2016, pp. 31, 45), does not find univocal evidence, at least concerning the extent of such an impact.55 VAT actually represents a main source of revenue for national budgets, with a marked growing trend since 2008 and above the OECD average.56 VAT also contributes about 11% to EU revenue. To this effect, a harmonised basis is calculated each year by the Commission as part of the EU budget procedure.

If “the best resource is one that is introduced in all Member States and is universally accepted as a common resource” (Núñez Ferrer et al., 2016, p. 111), VAT fulfils in principle these conditions.

A main concern associated with VAT is its vulnerability to fraud. Available estimates show that VAT losses are significant and that no member state is spared.57 In this respect, the

53 For an analysis of the context for introducing a financial transaction tax, see Cipriani (2014), pp. 39-44. The participating member states are Belgium, France, Slovakia, Slovenia, Germany, Portugal, Spain, Austria, Greece and Italy. The main aspects of the tax (such as collection, the transactions liable for the tax, tax rates, tax basis and geographical scope) are still under discussion. These aspects would determine the volume of revenue and its allocation to the budgets of the participating countries.

54 This includes households and other economic actors that cannot deduct the VAT on their purchases of goods and services, such as general governmental institutions and businesses with VAT exempt or non-taxable supplies.


56 The 21 OECD countries that are members of the EU had in 2014 an average standard VAT rate of 21.7%, which is significantly above the OECD average (19.1%). See OECD, Consumption Tax Trends 2014, OECD Publishing, Paris, 2014 (http://dx.doi.org/10.1787/ctt-2014-en).

57 The total amount of VAT lost across the EU due to fraud and evasion, tax avoidance, bankruptcies, financial insolvencies and miscalculations has been estimated at €168 billion (2013) (see European Commission, “VAT Action Plan: Commission presents measures to modernise VAT in the EU”, Press release, IP/16/1022, Brussels, 7.4.2016). It should be observed that there is no common methodology to estimate the VAT gap, i.e. the difference between the total amounts of tax theoretically collectable based on the applicable law and the total amounts of tax actually collected in a given period. The reliability and usefulness of the estimations made strongly depend on the methodology and the data used. In
‘transitional’ intra-community VAT regime plays an important role. Cross-border fraud itself is estimated to be responsible for a VAT revenue loss of around €50 billion a year.\textsuperscript{58}

It is a fact that collection systems managed by different administrations have the potential for disparities and variable degrees of efficiency. VAT losses have far-reaching implications for national budgets, also as a result of the ‘domino’ effect on other direct taxation and social security contributions,\textsuperscript{59} and finally on the level of public debt. The effects extend beyond the borders. This is owing to the intra-community VAT regime, but what is also at stake is a key condition for fair competition within the EU single market that is clearly endangered by the development of the underground economy. Therefore, an efficient management of VAT in all member states is in the EU’s overall interest. Reinforcing the link between EU revenue and VAT would accentuate the European rationale of the tax and could encourage initiatives to improve the efficiency of national systems.

The idea of using VAT to fund the EU budget was introduced in 1970.\textsuperscript{60} Although, to protect their fiscal sovereignty, member states quickly turned this resource into a de facto national contribution,\textsuperscript{61} numerous studies have continued to consider VAT a potential, direct fiscal source of EU revenue. This is notably the case of a Commission proposal made in 2004 and reiterated in 2010.\textsuperscript{62}

Building on this proposal, it would be possible to introduce a true VAT-based resource operating in ‘symbiosis’ with the national VAT systems and calculated from taxable persons’ returns. Key features like the regulatory framework underlying the assessment basis, the management of the tax and its collection could rest with the national administration. As a result, no dual system would need to be created.

The proposed VAT-based resource would require setting an EU VAT rate as part of the national rate. Thus, the fiscal burden on final consumers would remain unchanged. As the VAT base is large, only a small percentage would be needed to fund the EU budget (a ‘politically’ favourable circumstance). The danger that member states might try “to exempt more goods from VAT so that their contribution to the EU budget declines” (Fuest et al., 2015, pp. 7-8) seems limited by the fact that the EU legal framework restricts the possibilities for exemption and that member states’ treasuries would be the first to suffer.

The EU VAT rate could be made visible through an appropriate mention in fiscal receipts. As shown in Figure 2 below, retailers are accustomed to delivering a receipt for each purchase, particular, a key factor is the relative importance, scope and accuracy of national account adjustments for the non-observed economy. In this respect, underlying data are kept confidential and the measured values of the non-observed economy in the national accounts are often not published. As a result, any comparison across countries of both the non-observed economy and the tax gap is rather problematic. For this reason, it is more meaningful to put the emphasis on the trend in the estimated results rather than on the absolute numbers (see European Commission, FISCALIS Tax Gap Project Group, \textit{The concept of tax gaps, Report on VAT Gap Estimations}, Brussels, March 2016).

\textsuperscript{58} See European Commission, IP/16/1022 (op. cit.), 7.4.2016.

\textsuperscript{59} VAT avoidance has the potential to generate a ‘domino effect’ on simultaneous avoidance of direct taxation revenue and social security contributions, since taxpayers’ returns are based on the same components of the VAT assessment base (Tremonti and Vitaletti, 1991, p. 21).

\textsuperscript{60} See Council Decision 70/243/ECSC, EEC, Euratom of 21.4.1970 (op. cit.).

\textsuperscript{61} For a discussion about the ups and downs of the VAT resource, see Cipriani (2007), pp. 46-55.

showing not just the final price paid by customers but also the taxable amount per rate, the VAT rate and the VAT amount payable. It would be sufficient to slightly ‘enhance’ this information in the receipts by indicating that a fraction of the VAT incorporated in the final price (1% in the example) would accrue to the EU budget.

Figure 2. Making visible the VAT accruing to the EU budget

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\text{Figure 2. Making visible the VAT accruing to the EU budget}
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In such a way, the EU VAT rate would be put under taxpayers’ control. In the event of a rate increase, it would be easy to identify to whom this extra burden is allocated.

In principle, the EU VAT rate should be the same in all member states. It could be set in the own resources decision as an overall ‘ceiling’, thus respecting member states’ constitutional requirements. The actual rate (possibly lower) could be established in the framework of the annual budgetary procedure. Member states would pay to the EU an amount equivalent to the EU VAT rate applied on the final consumption, as shown in taxable persons’ VAT returns. Also, the VAT resource could fluctuate (upwards or downwards) with national consumption, thus putting the EU budget in line with economic circumstances.

63 Applying the same logic, Fuest et al. (2015, p. 6) suggest that the MFF should be limited to the budget ceiling, leaving to the annual budgetary procedure the decision on how to spend the money.

64 To allow the calculation of the amount due to the EU, taxable persons should identify in their periodical returns the part of final consumption subject to the EU rate. Similarly, they will have to identify the EU VAT rate as part of the national rate in their invoices and fiscal receipts. Since such information should be readily available to taxable persons, it is unlikely that this new requirement would have an appreciable impact on their compliance costs. As matter of fact, VAT returns in Italy already provide such information.

65 Linking EU revenue from VAT to the economic trend will create a parallelism with national budgets.
Being a levy on final consumption, to respect ‘horizontal’ equity the EU VAT rate should apply in principle to the same goods and services in all member states. This is to avoid inequality among EU final consumers with identical consumption patterns on the basis of their residence. However, since in some member states (in particular, the UK, Ireland and Malta) a number of basic goods and services are subject to zero VAT rates as a legacy of pre-EU legislation, it would seem more ‘politically’ acceptable to exclude such goods from the scope of the EU VAT rate. Otherwise, the inclusion of zero-rated transactions would de facto create an ‘EU tax’ on those transactions on which, in accordance with EU rules, no revenue is collected by the member states.

The equity of EU contributions should also take account of their relative size (per capita) as compared with the overall tax burden. In 2014, the average ratio was 1 to 32. This suggests that the size of EU contributions is not significant enough to fundamentally upset the current taxation burden among EU taxpayers, notwithstanding the variations from country to country. The fact that EU expenditure is most likely to remain at the current level should give some reassurance concerning the future as well. Furthermore, in the absence of an EU fiscal power, and in line with the nature of ‘simil tax’ of the VAT-based resource designed as a tax-sharing mechanism, a parallelism between EU revenue and the pattern of a broad national fiscal source seems a legitimate and ‘equitable’ solution for contributions paid directly by the public.

A second issue is whether the EU rate should apply to all transactions other than zero-rated ones, irrespective of the national rate applied (reduced or standard). On one hand, an EU rate of 1% as part of, for example, a 4% reduced national rate may appear excessive to consumers given the social relevance of such a rate. On the other hand, applying the EU rate only to the slice of the consumption taxed at the standard rate would reduce the basis of the VAT-based resource, and so eventually require a higher EU VAT rate. This dilemma needs to be addressed at the political level, which should decide whether the priority is to ensure that the EU VAT rate applies to as many goods and services as possible across the Union, or whether the social relevance of reduced rates justifies restricting the assessment basis.

Table 2 presents an estimate of the share of the financial burden at the member state and taxpayer levels according to three possible scenarios. These estimates are based on the 2017 draft budget as presented by the Commission, in particular on the anticipated burden sharing among the member states for funding €113 billion of national contributions (VAT and GNI-based resources – column 1), representing 85% of total revenue.

As envisaged in 1994 by the European Parliament’s Langes report, and most interestingly in the current economic context, the requirement of a balanced budget might not have to be achieved in all circumstances through a top-up resource; a reduction of expenditure could also be considered. This is an issue that should be part of the annual budgetary procedure debate, in the light of the outcome of an ongoing monitoring of expected results and lessons learned from the various spending programmes. While it is understandable that predictability is necessary in multiannual programmes, this principle cannot justify a member state’s ‘drawing right’ despite poor results, only because the overall MFF agreement is meant to be a global financial package.

66 It is estimated that in those countries between 17% and 20% of the taxable base is represented by zero-rated transactions.

67 The ratio has been calculated on the basis of Eurostat data (Main national accounts tax aggregates [gov_10a_taxag]) and national contributions as reported in European Commission, Financial Report 2014, Luxembourg, 2015.

68 This ratio ranged from 1/59 (Denmark) to 1/19 (Lithuania).
The first scenario (column 5) is a conservative one. It assumes that there should be no change in the current burden sharing. As a result, the EU VAT rate has to be different for each member state. The second scenario (column 7) assumes a full financing of the EU budget through a VAT-based resource with the same EU VAT rate (about 1.75%) for all member states. The third scenario (column 10) results from a limitation of a VAT resource to 1% of the taxable basis, the rest being funded in proportion to the GNI. Concerning these last two scenarios, columns 8 and 11 respectively indicate the difference for each member state as compared with the current burden sharing.

These scenarios are of course purely speculative. The only advantage is that they provide an indication of the financial impact of this proposal and draw attention to the fact that for any reform options it will be inevitable to compare the future with the past.

Unsurprisingly, as compared with current arrangements, the table shows a number of significant differences for several member states. This is notably the case of the UK, due to its large VAT basis. The contributions of other countries like Croatia, Cyprus, Luxembourg and Malta would also be significantly higher. This suggests that “a compensation scheme might have to be part of the package as well” (Núñez Ferrer et al., 2016, p. 18). The impact of the

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69 The UK has the second-largest VAT base after Germany.
possible exclusion of zero-rated or reduced transactions mentioned earlier could be dealt with as well by such compensation scheme.

However, the prospect of the UK leaving the EU will fundamentally change the context. A key point would be to know whether the UK will continue to participate in EU policies and on what basis as far as the financial arrangements are concerned.

4. **One year to go**

The High-Level Group on Own Resources,\(^{70}\) set up following the 2014–20 MFF agreement with a view to considering possible reforms, is expected to present its final report by the end of this year. The Commission should then assess if new initiatives are appropriate on the revenue side for the next MFF starting in 2021.

Since EU revenue and expenditure go hand in hand, a reform of the revenue system in isolation has little chance of success. The link between the two sides of the budget is also advocated by the Commission, for which the “introduction of new own resources would mirror the progressive shift of the budget structure towards policies closer to EU citizens and aiming at delivering European public goods and a higher EU added value”.\(^{71}\) Should the Commission decide to put forward a reform of EU revenue, this will most likely be part of the proposal for the new MFF to be presented by the end of 2017.

Proposals for reform will have to be assessed and finally approved by all national parliaments. Although such proposals may not meet the established criteria in full, concentrating reform options on known grounds and operational solutions is a critical condition for a positive outcome. This includes providing a reliable estimate of potential revenue and expected burden sharing as compared with current arrangements.

4.1 **Setting the basis for the new MFF after 2020**

While usually the “best predictor of the next long-term budget of the Union is still the present one” (Tarschys, 2015, p. 1), one may hope that the MFF after 2020 will address the main concerns raised by EU spending (the specific dimension over and above current national measures, demonstration of results and impacts, and the administrative capacity to deliver). What is ultimately at stake is the legitimacy of EU revenue through the capacity of the EU budget to demonstrate its added value.

In this respect, there cannot be EU added value everywhere. Adding new priorities to existing priorities eventually means that there are no priorities.\(^ {72}\) The current ‘goal congestion’ requires a careful assessment of the types of benefits and of the strengths, longevity and sustainability of the intended effects (Tarschys, 2011, pp. 14-15, 24, 26). Selective choices are needed, including setting negative priorities, also taking account of the numerous programmes with

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\(^ {70}\) See note 14.


\(^ {72}\) De Feo (2017, forthcoming) observes that according to the Commission, 56 programme statements for the legislative package 2014–20 have about 300 objectives and 700 indicators, between general and specific, almost half of the programmes have more than 10 objectives, some have more than 20 and a few more than 40.
no critical mass. Furthermore, the often proclaimed ability of ‘financial instruments’ to ‘do more with less’ needs to be examined with care.

As the Commission pointed out, “[i]dentifying those areas where the EU dimension can offer more is not in itself sufficient. Spending on the right policies is only worthwhile if it secures the desired results.” This requires showing the relationship between the problems to be solved, the objectives pursued and the expected effects of the programme on direct addressees or recipients. On this basis, the way progress and performance will be measured could be defined.

The availability of funds is a necessary though not sufficient condition for achieving objectives. “No matter how good a policy may be, it cannot succeed unless somebody implements it, and whoever implements has a key influence over what and how much is delivered, and to whom” (Levy, 2000, p. 203). Adequate administrative capacity at all management levels is a critical issue for actually delivering the expected results. The standing qualification by the European Court of Auditors on EU spending for more than 20 years and serious criticism of the performance achieved in all policy fields shows a lack of administrative capacity to set up intervention strategies, select viable and sustainable investments, and manage complex processes like procurement of public works. This suggests an increased role of the

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73 For example, only for 12 out of the over 50 spending programmes is the average yearly amount available more than €1 billion, while for 21 programmes the yearly funds available vary from €1 million to €75 million.

74 As compared with grants, financial instruments have the potential to mobilise additional private and public funds to complement the initial public funding (leverage). Also, their capital endowment has in principle a revolving nature (i.e. the use of the same funds in several cycles). The Commission plans doubling the use of financial instruments under European Structural and Investment Funds during the current MFF (see Commission Staff Working Document, SWD(2016) 299 final, Brussels, 14.9.2016, p. 24) as well as the duration and financial capacity of the European Fund for Strategic Investments (see European Commission, COM(2016) 597 final, Brussels, 14.9.2016). In its special report no. 5/2016 on financial instruments in the area of rural development the European Court of Auditors found, however, that these instruments had so far been unsuccessful, mainly because they were overcapitalised and had not fulfilled their potential in terms of the desired leverage and revolving effects. In another special report (no. 19/2016) the Court observed that a significant number of 2007–13 financial instruments for cohesion policy continued to face significant problems in disbursing their capital endowments to projects. Only a limited number of them have been successful in providing revolving financial support. High levels of management costs and fees (significantly higher than those of centrally-managed instruments or private-sector investment funds) were observed compared with the actual financial support to final recipients. Overall, financial instruments for both shared and central management were not successful in attracting private capital.


76 The main difficulties refer to a lack of clarity about the purpose of the funding and its possible impact; the broad objectives and the absence of priorities; the lack of a specific EU dimension over and above current national measures; the non-availability of information about what was actually achieved and the benefits brought (see European Court of Auditors, Making the best use of EU money: A landscape review of the risks to the financial management of the EU budget, Luxembourg, 2014, p. 24).

77 The difficulty of spending the funds available is also a consequence of insufficient administrative capacity. In 2015, the second year of the current MFF, more than three-quarters of operational spending still concerned the schemes of the previous MFF. The Commission estimates that less than 60% of available European Structural and Investment Funds under the current MFF will have been paid out by 2020 (see European Commission, “Mid-term review/revision of the multiannual financial framework 2014-2020: An EU budget focused on results”, Commission Staff Working Document, SWD(2016) 299 final (op. cit.), 14.9.2016 – Annex 6, p. 58). D’Alfonso and Sapala (2017, forthcoming) observe that a
Commission in the assessment of delegated management and safeguards, and closer supervision during the implementation stage on the ground.\textsuperscript{78}

4.2 Assessing the economic impacts of EU expenditure

As has been observed, the ‘juste retour’ thinking is reflected in the expenditure side of EU the budget and can therefore be overcome only through a reform of spending schemes (Bundesministerium der Finanzen, 2016, p. 5; Núñez Ferrer et al., 2016, pp. 12, 17). Admittedly, this approach “had a negative impact on the quality of delivery and reduced the EU added value”.\textsuperscript{79}

Identifying the areas where EU spending can pursue common interests with demonstrable results can contribute to changing this ‘accounting’ mentality and weakening the juste retour thinking. The problem is not that member states try to assess the benefits they get from the EU budget, but rather that they are using the ‘wrong’ instrument. Net balance calculations are a way of assigning importance to what can be measured rather than measuring what is important. However, in the absence of a better instrument of measure, these calculations will continue to play a significant role in the EU budget negotiations – not least because of their appealing simplicity.

The economic impact of EU expenditure can be assessed in a more meaningful way,\textsuperscript{80} also because nowadays relevant data (notably the input–output tables) are made available with greater frequency. Given that assessing the benefits of EU expenditure is a legitimate ambition, it would seem appropriate for the Commission to develop alternative and more meaningful methods than net balance calculations. The Commission’s evaluation report on the results achieved\textsuperscript{81} provides an ideal framework for such assessment.

4.3 Promoting EU revenue visibility

The principles of transparency and taxation by consent require visibility of the contributions irrespective of EU revenue arrangements.

The Commission could consider encouraging the introduction of forms of visibility for citizens, along the lines of the example in Figure 2 in section 3.3. This could take place through a specific recommendation following Art. 292 TFEU.\textsuperscript{82} In particular, fiscal receipts could readily be used as a ‘vehicle’ to convey a message, such as ‘an amount equal to \([x]\)\% of the VAT assessment base is transferred to the EU budget’. Using the same logic, Fuest et al. (2015, p. 6) propose using VAT receipts as a merely ‘declaratory’ means to make contributions

\textsuperscript{78}See in this respect Cipriani (2010, pp. 77-80 and 2017, forthcoming).
\textsuperscript{80}See note 10.
\textsuperscript{81}See note 35.
\textsuperscript{82}For example, to encourage and facilitate the dissemination of information to voters on the occasion of the last elections to the European Parliament, the Commission adopted a specific recommendation on 12.3.2013 on enhancing the democratic and efficient conduct of the elections to the European Parliament (OJ L 79, 21.3.2013, p. 29). In this document, the Commission stressed the need to reinforce the democratic legitimacy of the EU decision-making process and bridge the divide between politics and citizens of the Union (see “Whereas” 1, 2, 4, 9, 10).
visible, without a link to actual financial flows to the EU budget.\textsuperscript{83} While the problem is that such a move could be somewhat misleading for citizens (Bordignon and Scabrosetti, 2016, p. 19), there is merit in initiating a process towards transparency.

Such measures could be introduced progressively, without an absolute need to implement them in all member states and at the same time.\textsuperscript{84} One may expect that citizens and consumer organisations would support such measures, starting with those member states that have taken voluntary initiatives to reinforce the accountability of financial management of EU funds.\textsuperscript{85}

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\textsuperscript{83} Two options are envisaged. The first option would be to translate the national GNI-based contribution into the EU VAT rate. The second option would be to determine the EU VAT rate by translating the GNI contributions of all member states into an EU-wide and uniform EU VAT rate.

\textsuperscript{84} For example, this is actually what happened before the EU adopted, at the end of 1998, a common format for vehicle registration plates (a blue section on the extreme left with the EU circle of stars and the country code). This format was based on models that several member states (Ireland, Portugal and Germany) had introduced on their own initiative.

\textsuperscript{85} This refers to the initiative taken by the European Parliament to introduce national management declarations at member states’ highest political level, certifying that the EU funds managed by them fully comply with EU law. These declarations are voluntary (see Art. 59(5), last sentence, of Regulation (EU, Euratom) No. 966/2012 of the European Parliament and of the Council of 25.10.2012, op. cit.). Only few member states establish such a declaration, such as Denmark, Netherlands, Sweden and the UK.
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