Competition, Cooperation, Solidarity

The Case for a European Tax: Benefits, Practical Aspects and Options for Endowing the EU with a Veritable Own Resource

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This note presents in a concise way *Notre Europe*'s contributions to the debate on the creation of a veritable 'own resource' for Europe. It will serve as basis for discussion at the HEC Europe Symposium, which will take place the 1st and 2nd February 2008 (www.hec.fr/europe-symposium). This prestigious seminar will bring together a restricted number of leading international figures, who hold or have held the highest responsibilities in the world of politics, business, and academia. Its ambition is to invite this selected group of participants to reflect on Europe's evolutions and suggest key priorities for the European Union.

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Table of Contents

Introduction: the problems of the current EU Financing system

The EU is currently financed by three revenue sources: i) custom and agricultural levies (the so-called TOR, or 'traditional own resources'); ii) a levy on national VAT receipts and iii) member states' contributions paid according to GNI levels (also called the 'fourth resource').

Initially conceived to play a residual role, over the last decade this 'fourth resource' has come to represent three-quarters of total revenues. This strong dependency on national contributions presents a number of problems. First, it contradicts Art 269 TEC (retained in the Treaty of Lisbon), which prescribes that "without prejudice of other revenue, the budget shall be financed wholly from own resources". Secondly, the overt character of national contributions, which have a clear link to the national treasuries, feeds the tendency of member states to calculate their net budgetary return (that is, the difference between what they pay and what they receive from the EU) and to focus on maximising this return in EU budgetary negotiations[1]. Thirdly, a budget financed by national contributions might be adequate for an international organisation such as the UN but it does not reflect the status of the European Union. Taking the national government as the sole unit of contribution is not coherent with a Union defined in the Treaties as a community not only of member states but also of citizens. It is, in particular, at odds with current EU efforts to make the EU more democratic and closer to citizens[2].

1 For a critical analysis of the notion of 'net return' and the way it is used in EU budgetary negotiations see Le Cacheux (2005)
2 For a more detailed explanation of these arguments see Institut Montaigne (2003), Cattoir (2004), SGES (2005), Le Cacheux (2007) and Jouen and Rubio (2007).

Giving to Europe the power to tax: More than a 'budgetary' arrangement

Some people consider that the arguments provided above are not sufficient to justify a major reform of the EU financing system. They argue that the current funding system, based on GNI-based national contributions, works reasonably well. They argue that it is stable and predictable and, leaving aside the rebates, that it is equitable as member states contribute according to their wealth[3]. This way of reasoning assumes that a) an EU tax-based system certainly implies unstable and uncertain revenues and b) it would lead to an unfair distribution of the fiscal burden among member states. The two statements have to be qualified. With respect to the first, unstable and uncertain revenues would only occur if the new EU tax would become the only source of revenue. This option would clash with art 268 TEC, which prescribes the need to keep the EU budget always 'in balance'. Even in the hypothesis of a budget mostly covered by an EU own resource, a mechanism to prevent unforeseen differences between revenues and expenditures will have to be put in place, whether it takes the form of national GNI-based contributions or not[4]. As for the second argument (unfair distribution of the fiscal burden), one should bear in mind that, in a tax-based system, the requirement of inter-country equity would take second seat behind the criterion of inter-personal equity. Having said this, most scholars agree that inter-country fairness will never be totally disregarded, as an EU tax creating unwarranted inter-country differences in the number of taxpayers and/or level of revenues will not be politically acceptable[5].

3 See Caesar (2002) and Nuñez Ferrer (2007).
4 Le Cacheux (2007) suggests as an alternative the establishment of a rather 'high' tax rate combined with a system of 'rainy-day' funds to accumulate budgetary reserves in periods of economic buoyancy.
5 This is the main obstacle to a broad EU energy excise, whose revenues would differ substantially across member states on account of differences of climatic conditions (i.e. fuel for heating purposes). In contrast, an EU tax on motor fuel for road transport or on kerosene (charging air transport) would create justifiable inter-country differences, reflecting levels of development and/or intensity in the use of public transportation.

Apart from these misunderstandings, those against the establishment of an EU tax tend to undermine the political implications of such a move. Financing the EU budget with a genuine EU own resource implies shifting the financial power from the European Council to the European parliament, since the latter would then be responsible for defining the tax regime- i.e. deciding the tax base and setting the tax levels. By giving the power to the European parliament, a tax-based system would enhance the accountability of the Union, hence honouring the principle of "no taxation without representation". Besides, taxes are not only means of yielding revenues, but also policy instruments. They serve to alter patterns of private consumption (e.g. reducing CO2 emissions) and/or induce other public and private actors to adopt the 'right' decisions (e.g. raise R&D investment). The EU should have the right to make full use of taxation, as the other levels of government do. In fact, taxes are a particularly appropriate instrument for a supra-national authority having a low budget and practically no direct implementation capacity[6].

Three EU tax candidates

Three tax instruments have been pointed out as likely candidates:

- An EU surcharge on VAT[7]–it is undoubtedly the easiest to put into effect, as national VAT bases are already highly harmonised. Yet, being a general broad-based consumption tax, it is not appropriate to promote specific EU policy goals.
- An EU corporate income tax—This option presents two main advantages. It would eliminate the distortions and negative effects

6 In a recent journal article, Olivier Derruine suggests an original way of using taxation as a tool to promote the implementation of EU decisions (Et si l'indiscipline des États renflouait les caisses, L'Echo, 5th December 2007). This member of the Economic and Social Committee proposes the establishment of an EU tax sanctioning member states' delay in the implementation of the EU directives. According to his calculus, such a tax would have yielded for 2007 an additional revenue of approximately 27 bn Euro.
7 The difference between the current levy on national VAT receipts and an EU surcharge on VAT should be remarked. The present VAT-based resource is drawn from the revenues which each member state collects from VAT. It works hence as a national contribution. An EU surcharge on VAT would be a percentage of the quantity paid by the VAT taxpayer that would directly go to the EU.

derived from the existence of different national corporate tax systems. It would also give the EU a leverage to conduct a genuine EU industrial policy (by inducing EU corporations towards certain types of investments, such as research, environmental protection, etc.). However, given the existence of large differences in the national corporate income tax base, it would require a preceding process of tax harmonisation[8].

• An eco-tax—This may also be regarded as an interesting alternative. It would flag the EU commitment in the fight against climate change and would induce warranted changes in consumption. However, the logic of an eco-tax – that is, to discourage certain types of behaviour - may contradict the aim of creating an EU tax to yield resources for the EU.

Conclusion

The creation of an EU tax is sometimes presented as a radical idea in EU debates. Yet, there are strong legal and practical arguments in favour of it. Besides, it has been defended in various occasions by both the EC Commission and the European Parliament. Recently, a report of the European Parliament –the Lamassoure Report[9]- has put forward a detailed proposal for moving in stages to an EU own resources based system. The Report suggests establishing a system fully financed by GNI-based contributions in the coming years and moving towards a new system based on own-resources from 2014 onwards.

8 In fact, the European Commission plans to submit a proposal by the end of 2008 on harmonising the corporate income tax base (the so-called Common Consolidated Corporate Tax Base, or CCCB). It is not clear, however, what the specific proposal will actually look like. For the moment, it is conceived as an optional tax base scheme for large enterprises.

9 European Parliament, Committee on Budgets, "Report on the future of the European Union's own resources" ("Lamassoure Report") , final A6-0066/2007, 13th March 2007.

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