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AN INSIGHT INTO THE REVENUES AND HEADINGS OF THE BUDGET OF THE EUROPEAN UNION (2014-2020)

The EU is consisted of 28 member states (as of June 2015). It has its own institutions, legislation, strategies, and policies. The paper focuses on the way the EU collects its resources and how it distributes them in different areas of socio-economic life, in order to achieve its goals and objectives, and to best serve its citizens.

The EU budget is funded from different sources, and is spent on various purposes. However, there is a strict mechanism that regulates the overall budgetary process.

The first keystone is the European Semester [1]. All member states have committed to achieving the 'Europe 2020' targets and have translated them into national targets. But only if the individual efforts of all countries are coordinated and focused, they can result in the desired impact on growth. Therefore, the EU has set up a yearly cycle of economic policy coordination called the European Semester.

The second keystone is the Multiannual Financial Framework (MFF) [2] that lays down the maximum annual amounts ('ceilings') which the EU may spend in different political fields ('headings') over a 7-year period. The MFF 2014-2020 provides a framework for financial programming and budgetary discipline by ensuring that EU spending is predictable and stays within the agreed limits. It also allows the EU to carry out common policies over a period that is long enough to make them effective.

This long term vision is important for potential beneficiaries of the EU funds, co-financing authorities as well as national treasuries. By defining in which areas the EU should invest more or less over the seven years, the MFF is an expression of political priorities as much as a budgetary planning tool. The annual budget is adopted within this framework and usually remains below the MFF expenditure ceilings in order to retain some flexibility to cope with unforeseen needs. For the period 2014-2020, the MFF sets a maximum amount of EUR 960 billion for commitment appropriations and EUR 908 billion for payment appropriations. The MFF 2014-2020 is divided into six categories of expense ('headings') corresponding to different areas of EU activities: Smart and Inclusive Growth, incl. Competitiveness for growth and jobs, and Economic, social and territorial cohesion; Sustainable Growth: Natural Resources; Security and citizenship; Global Europe; Administration; Compensations.

These headings have to be covered with revenues. At the EU level, the annual expenditure must be completely covered by annual revenue. Own resources are the EU's revenue. The different types of own resources and the method for calculating them are set out in a Council Decision on own resources [3]. It also limits the maximum annual amounts of own resources that the EU may raise during a year to 1.23 % of the EU gross national income (GNI).

There are three types of own resources: [4]

- Traditional own resources: consist mainly of customs duties on imports from outside the EU and sugar levies. EU Member States keep 25 % of the amounts as collection costs.
- Own resources based on value added tax (VAT): a uniform rate of 0.3 % is levied on the harmonized VAT base of each Member State.
- Own resources based on GNI: each Member State transfers a standard percentage of its GNI to the EU (the largest source of revenue of the EU budget).

Other sources of revenue (around 1 %) include tax and other deductions from EU staff remunerations, bank interest, contributions from non-EU countries to certain programmes, interest on late payments and fines.

In addition to the system for collection of own resources there are some Correction mechanisms that are designed to correct excessive contribution by certain Member States. These are the UK rebate, lump-sum payments for the Netherlands and Sweden, and reduced VAT call rates for Austria, Germany, the Netherlands and Sweden.

Considering the future of the own resources system, on 26 May 2014, the Council adopted a legislative package, including a new own resources decision [5], introducing some changes to the own resources system for the period 2014-2020. However, the current system continues to apply until this new Council Decision is approved by every Member State (in most cases, ratified by their national parliaments). The new own resources rules will then apply retroactively as of 1 January 2014.

The following principles will apply to the 2014-2020 MFF:

- collection costs for traditional own resources will be lowered to 20 %;
- the UK rebate will continue to apply;
- gross reductions in the annual GNI contributions of Denmark, the Netherlands, Sweden, and Austria;
- reduced VAT call rates for Germany, the Netherlands and Sweden will be fixed at 0.15 %.

In addition, a high-level group [6] consisted from the Presidents of the European Commission, the European Parliament and the Council of the European Union was set up in 2014 to study the current system of income to the EU budget. It is expected to suggest possible improvements to that system. The main aim of the group is to explore ways to make the system simpler, fairer, more transparent and more democratically accountable. On the basis of the results of its work, the Commission will assess if a new reform of the own resources system is appropriate.

References

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