Structure and Evolution of EU Budget Revenue

Nicoleta Mihaela Florea[1], Mirela Ganea[2], Stelian Selişteanu[3]
[1,2,3]University of Craiova, Faculty of Economics and Business Administration
niko.2903@yahoo.com, mirelaganea04@yahoo.com, stelian.selisteanu@rcc.ro

Abstract: *Although small size, representing only 1% of EU wealth, its budget is an important tool for achieving the objectives of integration. Basically, in one form or another, every EU citizen benefits from the EU budget at the local, national and European level: food and safer toys, new roads and better quality of security at EU borders. These are just a few examples of areas where the EU budget plays a decisive role. To fulfil its objectives, the European Union has traditional own resources, the VAT - based own resources and the GNI- based resources.*

Keywords: traditional own resources, the VAT-based own resources and the GNI-based resources

JEL Classification: H0, H2, H6

1. Introduction

General budget of the European Union is the instrument that establishes and authorizes, for each financial year, the total revenue and expenditure considered necessary for the European Union and the European Atomic Energy Community.

The budget is prepared and executed in accordance with the principles of unity, budgetary accuracy, annual balance, unit of account, universality, specification, sound financial management and transparency.

Revenues of the European Union can be divided into two main categories: own resources and other revenue. This is specified in Article 269 of the Treaty on European Union, which states that: "Without prejudice to other revenue, the budget shall be financed wholly from own resources". Most of the spending is financed by own resources system, introduced in 1970 by Council Decision 70/243/ECSC, EEC, Euratom of 21 April 1970 (ORD 1970). Other revenue represents only a very small part of total financing (mean, other income amounted to approximately 3% of total revenue in 2000-2006, excluding surpluses carried over from the previous year, which themselves are mainly a consequence of difference between payments from its own resources and expenditures of the previous year).

There are now three main categories of own resources: traditional own resources, the resource based on VAT and GNI-based resource. They are complemented by various correction mechanisms.

Revenues from traditional own resources are not sufficient to cover the costs of the EU budget. On average, the share of traditional own resources (net of 75 % , ie after deduction of 25 % of collection costs), on total own resources reached about 15% in 2000-2006 . This is why it was set a second set of own resources based on value added tax (VAT), for the financing of the Community budget . Revenues from this resource, which acquired in 1979 have gradually become the main source of funding, proved also to be insufficient to cover the mid-1980s community. Thus by Decision 88/376/EEC was introduced a new resource based on Member States' wealth (resource based on GNP by ESA 79, GNI later replaced in 2002 by ESA 95). GNI-based resource ("residual" resource) is determined so that the total revenue to balance

the total expenditure. GNI-based resource has gradually become the most important source of financing of the EU budget, representing on average 60% of total own resources payments in 2000-2006.

2. Traditional own resources

Traditional own resources (including customs duties, agricultural levies and taxes on sugar and isoglucose) were introduced in 1970 and are levied on businesses and collected by Member States on behalf of the EU. The assignment of customs duties as own resources to the financing of common expenditure is the logical consequence of the free movement of goods within the Union.

Common Market Organisation for sugar required the sugar, isoglucose and inulin syrup producers to pay fees on based production. These fees were intended to cover expenditure on market support measures. Currently, the amounts entered in this article are a consequence of the review of fees established in the past. Contributions marketing campaign 2007/2008 and following campaigns are listed in Article 117 of this chapter as "taxes on production".

The article *Sugar storage levies* is intended for the recording of income charged by new Member States in the event of non-elimination of sugar stocks considered surplus within the meaning of Commission Regulation (EC) No 60/2004 of 14 January 2004 laying down transitional measures in the sugar sector by reason of the accession of the Czech Republic, Estonia, Cyprus, Latvia, Lithuania, Hungary, Malta, Poland, Slovenia and Slovakia (OJ L 9, 15.1.2004, p. 8). It is also intended to record revenue from the outstanding sugar storage levies as Council Regulation (EC) No 1260/2001 of19 June 2001 on the common organisation of the markets in the sugar sector (OJ L 178, 30.6.2001, p. 1) abolished the storage levy.

Under the actual common organisation of the markets in the sugar sector, a production charge is levied on undertakings producing sugar, isoglucose or inulin syrup, according to Council Regulation (EC) No 318/2006 of 20 February 2006 on the common organisation of the markets in the sugar sector (OJ L 58, 28.2.2006, p. 1), and in particular Article 16 thereof, Commission Regulation (EC) No 952/2006 of 29 June 2006 laying down detailed rules for the application of Council Regulation (EC) No 318/2006 as regards the management of the Community market in sugar and the quota system (OJ L 178, 1.7.2006, p. 39), Council Decision 2007/436/EC, Euratom of 7 June 2007 on the system of the European Communities' own resources (OJ L 163, 23.6.2007, p. 17), and in particular Article 2(1)(a) thereof, Council Regulation (EC) No 1234/2007 of 22 October 2007 establishing a common organisation of agricultural markets and on specific provisions for certain agricultural products (Single CMO Regulation) (OJ L 299, 16.11.2007, p. 1), and in particular Article 51 thereof.

A one-off amount is levied on additional sugar quota or supplementary isoglucose quota, which have been allocated to undertakings in accordance with Article 58 of Regulation (EC) No 1234/2007.

This article also covers the outstanding amounts due pursuant to Article 5 of Commission Regulation (EEC) No 65/82 of13 January 1982 laying down detailed rules for carrying forward sugar to the following marketing year (OJ L 9, 14.1.1982, p. 14) when the obligation to store sugar carried forward is not complied with, and the amounts due according to Council Regulation (EEC) No 1789/81 of 30 June 1981 laying down general rules concerning the system of minimum stocks in the sugar sector (OJ L 177, 1.7.1981, p. 39) when the general rules concerning the system of minimum stocks in the sugar sector are not complied with.

This article may comprise levies , premiums, additional or compensatory amounts , additional amounts or factors , Common Customs Tariff duties and other duties established or to be established by the institutions of the European Union regarding trade with third countries and customs duties for products covered by the Treaty establishing the European Coal and Steel Community , now expired. The legal basis of this revenue is to Decision 2007/436/EC, Euratom of 7 June 2007 on the system of own resources of the European Communities (OJ L 163, 23.6.2007, p.17), in particular Article 2 (1) (a). By 2001, Member States retain 10 % of the amounts collected to cover collection costs. Since 2001, however, Member States have retained as collection costs 25 % of the amounts established as traditional own resources in accordance with Decision 2000/597/EC, Euratom and the Council of 29 September 2000.

During the period 2007-2013, the evolution of these income has been a relatively steady, the lowest value of TOR was recorded in 2009 (14.580.500.000) and highest in 2013, namely 18.777.600.000, as seen in the chart below.

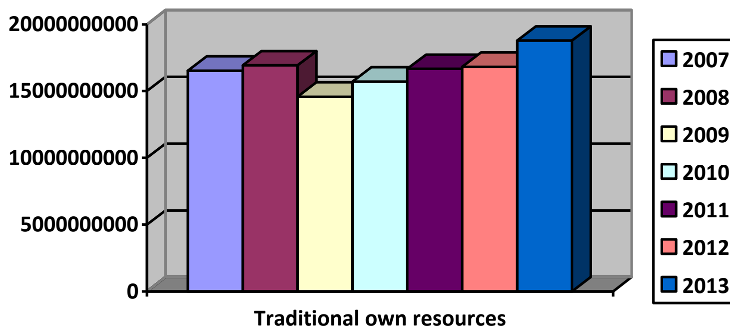

Chart 1. Evolution of TOR in 2007-2013

3. VAT-based own resources

VAT-based payments arise from the application of a uniform rate to Member States' VAT bases established in accordance with harmonized rules. However, the basis of VAT is limited to 50 % of GNI. This rate was initially 55 % during 1988-1994, but was then gradually reduced to reach 50 % of GDP in 1999 in accordance with Decision 94/728/EC, Euratom of 31 October 1994 (ORD 1994) . The capping of the VAT base reflects the intention to fix regressive aspects of the VAT-based resource, which is seen as a burden for the less wealthy Member States.

Harmonized VAT base is calculated by the Member State using what is known as the "income method". It consists of dividing the total net annual income from VAT collected by Member State to the weighted average rate of VAT to obtain the intermediate VAT. Intermediate is subsequently corrected based compensation negatively or positively, in order to obtain a harmonized VAT base under the Sixth Council Directive 77/388 / EEC of 17 May 1977, as amended.

According to Decision 2007/436/EC, Euratom of 7 June 2007 on the system of own resources of the European Communities (OJ L 163, 23.6.2007, p.17), in particular Article 2 (1) (b) and (4) uniform rate valid for all Member States bases applied to harmonized VAT assessment determined according to EU rules, is fixed at 0.30%. The assessment base to be taken into account for this purpose shall not exceed 50% of

GNI for each Member State. For the period 2007-2013, the rate of the VAT-based own resource is fixed at 0.225% for Austria, for Germany at 0,15% and 0,10% for the Netherlands and Sweden.

During the period 2007-2013, the development of resource based on VAT revenue was variable, the lowest value of this revenue was recorded in 2010 (13.277.325.100), and the highest in 2007, namely 18.517.228.951, as shown in Chart 2. In 2013, the VAT-based resource revenues are estimated at EUR 15.063.857.425. From the graph one can observe a decrease in revenues of VAT-based resource.

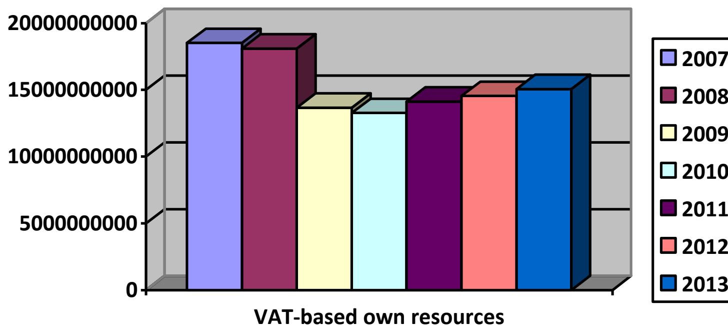

Chart 2. Evolution of VAT-based own resources in 2007-2013

4. GNI-based own resources

Since 1988, GNP/GNI-based payments also constitute own resources.The GNI-based resource is an 'additional' resource, providing the revenue required to cover expenditure in excess of the amount yielded by traditional own resources, VAT-based payments and other revenue in any particular year. By implication, the GNI-based resource ensures that the general budget of the European Union is always balanced *ex ante*.

The GNI call rate is determined by the additional revenue needed to finance the budgeted expenditure not covered by the other resources (VAT-based payments, traditional own resources and other revenue). Thus a call rate is applied to the GNI of each of the Member States. Since 1988, this resource has been the cornerstone of the own resources system for financing the EU budget, notably for the following reasons:

- The GNI-based resource is a 'residual' resource, providing the revenue required to cover expenditure in excess of the amount yielded by traditional own resources and VAT-based payments in any particular year. By implication, the GNI-based resource ensures that the EU budget is always balanced *ex ante*.

- The GNI-based resource guarantees stability in budget revenues in the medium term, within the overall ceiling for the total amount of own resources that may be assigned to the EU budget (1.24 % of EU GNI). ORD 1988 initially created this ceiling, fixed it at 1.15 % of GNP in 1988 and raised it to 1.20 % in 1992, a level which was further raised by ORD 1994 from 1.21 % in 1995 to 1.27 % in 1999, later recalculated as 1.24 % of GNI in 2001 – see COM(2001) 801 final of 28 December 2001.

- The GNI-based resource contributes to improving the equity of gross contributions across the Member States by making contributions more proportional to each Member State's ability to pay. The Berlin European Council of 24 and 25 March

1999, and resulting ORD 2000, took a step further in this direction by establishing the GNI-based resource as the dominant resource, thus improving the fairness of the EU budget financing system.

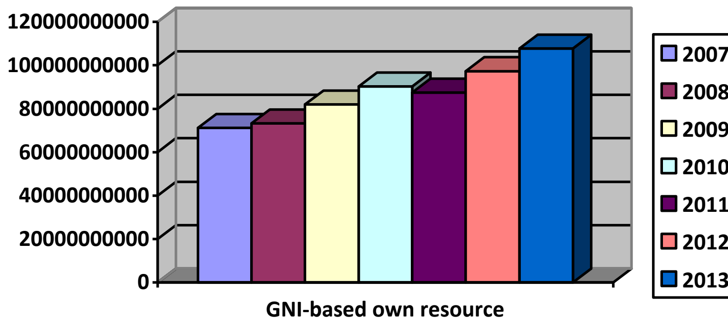

Chart 3. Evolution of GNI-based resource in 2007-2013

5. Other revenue

The fourth category of income, *Other revenue*, is covered by Titles 4 to 9 of the general statement of revenue of the EU budget, so:

- Title 4 covers revenue accruing from persons working with the institutions and other EU bodies (taxes on salaries and pensions, and staff contributions to the pension scheme).

- Title 5 covers revenue accruing from the administrative operation of the institutions, such as proceeds from the sale of property, from letting and hiring, from the supply of services and from bank interest.

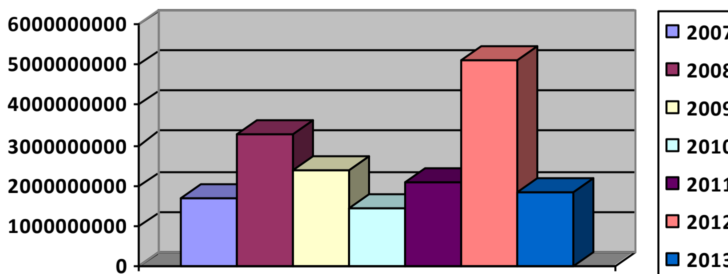

Chart 4. Evolution of *Other revenue* in 2007-2013

- Title 6 covers contributions and refunds in connection with EU agreements and programmes (repayment of miscellaneous expenditure, revenue from services rendered against payment, contributions under specific agreements, financial corrections, and revenue relating to the European Agricultural Guarantee Fund, the European Agricultural Fund for Rural Development, and temporary restructuring amounts in the EU sugar sector).

- Title 7 covers interest on late payments and fines (e.g. interest on late payment of own resources by Member States or fines on companies for infringing EU competition rules).
- Title 8 covers revenue from EU borrowing and lending operations.
- Title 9 covers miscellaneous revenue.

Other revenue is the result of the EU's normal activities; this revenue bears witness to the EU's status as a legal entity and its power of independent action.

As shown in Chart 4, the contribution of this category of revenue for the EU budget is less significant compared to the other three categories of income.

6. Conclusion

The EU budget is financed by own resources – custom duties, resources based on value added tax (VAT) and gross national income (GNI) - and other revenue.

When Parliament and the Council approves the annual budget, total revenue must equal total expenditure. The total amount needed to fund the budget follows automatically from the total expenditure.

However, it often happens that, in practice, real income and expenditure not meet estimates. Usually surplus is used to reduce Member States' contributions to the budget for next year.

Annual EU budget focuses on the needs of European citizens across them. We all benefit from the pooling of funds in areas where cooperation is justified. This is why the EU is funding projects in a wide range of fields, such as research and education, the environment, humanitarian aid, and more.

For the implementation of projects, financial support is granted, in the form of grants, to public and private organizations, and in exceptional cases even individuals. To ensure the financing of this type of actions aimed at improving the welfare all Member States contribute to the common EU budget. Due to improved coordination and cooperation between Member States and EU institutions, the funds allocated are used, then in areas of common interest.

The current financial framework covers the period of seven years from 2007 to 2013. The new financial framework enters into force in 2014, covering a period of seven years. It was also developed in order to meet long-term priorities of the EU, in particular the Europe 2020 strategy.

With a high European added value, next Multiannual Financial Framework will be an instrument ambitious, but grounded in reality, meant to stabilize the macroeconomics and solidarity within the European Union. This long-term financial plan, presented in a more simple, flexible and transparent, will respond to the new policy priorities and will provide results through a series of innovative financial instruments.

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