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REFORM OF THE EU'S OWN REVENUES AND COVERING THE EXPENDITURES INCURRED BY THE CORONA CRISIS

Abstract

This contribution focus on the revenue side of the EU budget, which consists of own resources, divided into traditional resources, income in the form of a share of value-added tax, and gross national income. On 21 July 2020, the European Council agreed on a multiannual financial framework for the period 2021-2027, and in response to the pandemic situation associated with Covid-19, a temporary recovery instrument for the next generation of the EU was agreed. At the same time, from which it was apparent that it is necessary to find new own resources for the EU, and how the European Stability Mechanism (ESM) could be used to the consequences of the corona crisis. The author will focus mainly on issues on the revenue side of the Union budget and the role of the ESM.

Within the ongoing debates when the result was the coronavirus response the question arises of whether it would be appropriate and effective to introduce a common tax for the EU. The main aim of the contribution is to use the descriptive method, the method of analysis and synthesis the revenue side system of the EU budget, and the reform efforts that culminated in the reform of own resources. In the last part of the article, the author using a descriptive method on how the ESM was activated as one of the walls to maintain the stability of the euro area. Including the view of

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introducing a common European tax as a fiscal instrument to cover the expenditures (debt) incurred related to coronavirus response i.e. recovery instrument Next Generation.

Key words: European tax, law, next-generation, European stability mechanism, budget.

JEL Classification: K34

1. Introduction

The Union's budget consists, as well as the national budgets from two sides - revenue and expenditure side, whereas the EU budget should always be balanced, and this follows from the Treaty on the Functioning of the European Union (TFEU) [Consolidated version of the TFEU, Article 310]. As regards the expenditure side of the budget, it is to be strictly observed and implemented based on the agreed Multiannual Financial Framework[1], which is governed by the principles of financial management [TFEU, Article 310 and Regulation 2018/1046, article 33, 56].

In this article, I will not deal with the establishment of the general budget of the EU, but I will focus on the revenue side, which consists made up of the three sources, namely are i) traditional own resources consisting of agricultural levies and customs duties, where a Member State is entitled to a share of the amount to cover the costs involved with the levy of income, (ii) the share of the value-added tax, the Member State is required to calculate the base rate and share and this is a source of the EU budget [Proposal for a council regulation CO/2011/0737], and (iii) the source of the Member States' gross national income, paid from each Member state in the same percentage, iv) other sources include fines[2], fees, budget surplus from the previous year, etc. [Council decision 2007/436/EC].

It should be added that the revenue side of the Union budget is on a declining trend, considerable harmonization in the area of revenue side especially in the area of value-add tax may also be the cause, the uniform rate is 0.3% [Council decision on the system of own resources, Article 2 paragraph 1 c)] and is set for all Member States. A significant own resource is the share of gross national income (GNI[3]), which was created by Council Decision 88/376 / EEC and consists in the collection of a percentage of Member States' GNI, which is reduced for some countries. Part of the annual budgeting process is the determination of the percentage of GNI which is paid by the Member States [2014/335/EU, Euratom: Council Decision]. Today, GNI revenue is a balancing component

[1] There are more documents with leverage on budgeting for example agreements on budgetary discipline, cooperation in budgetary matters, and others.
[2] From the violation of competition law.
[3] Macroeconomic indicator.

of the EU budget and accounts for about 72% of own resource revenue [European Commission, The EU budget for the future – modernizing the revenue side of the EU budget with European Parliament. Fact Sheets on the European Union – implementation of the budget].

Within this work, the following chapters are focus on the revenue side of the EU budget. At the same time, I will specify what fundamental revolutionary steps were taken by the EU in the cause of the own resources. In connection with these changes, I mention other measures, which were accepted by the EU in recent months as coronavirus response. [European Commission, coronavirus response]. Part of the contribution is also a reflection on the appropriateness of introducing a European tax, all in the light of the corona crisis.

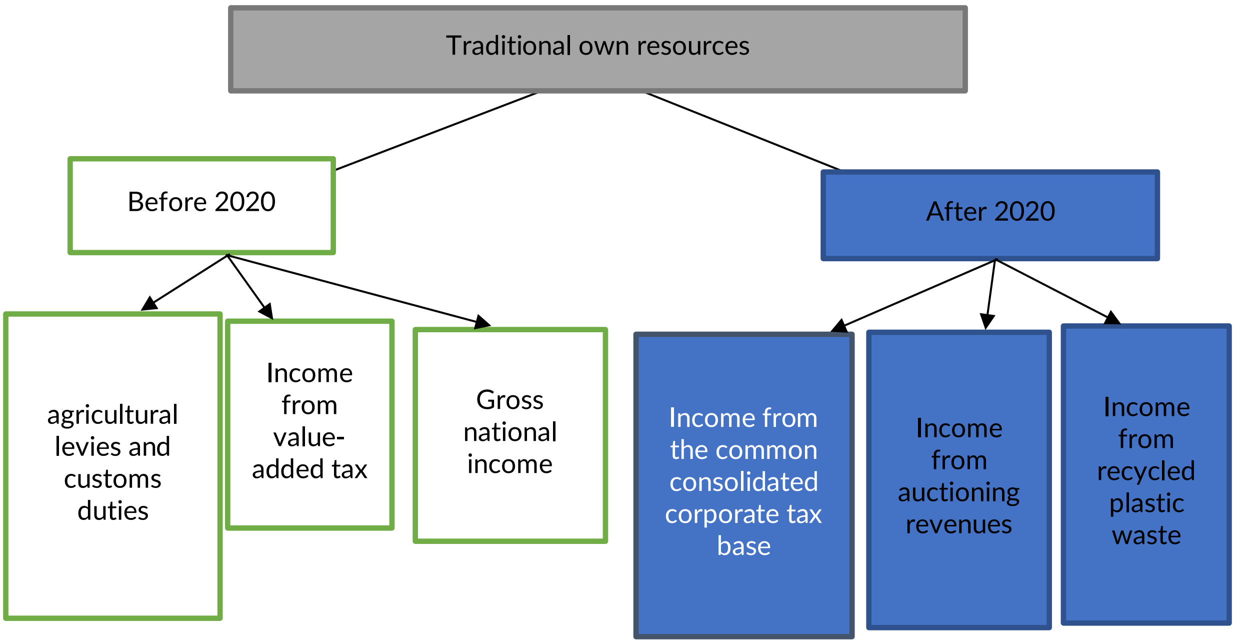
2. Reforms of the revenue side of EU budget

Discussion about the reform of the system of own resources took place in the field of political and professional debates [Final report and recommendations of the High-level Group on Own resources]. The result of the debates was a Monti's group consist of the members represent Parliament, the Council, and the Commission. Already before 2014, the so-called Monti group was established, consisting of experts looking for adequate solutions, ie. how to reform and modernize the system of own resources. The result of their work was a Final report and recommendations of the High-Level Group on Own Resources [European Commission. Future financing of the EU. Final report and recommendations of the High-Level Group on Own Resources]. In the light of the idea of linking the single market and European economic growth, the Final report, inter alia, point to the appropriate of finding new sources of revenues for the EU budget.

Adoption of the Treaty of Lisbon amended Article 311 TFEU, which introduced the possibility of setting up new categories of own resources, where the Council, after obtaining the consent of the EU Parliament, has the power to adopt implementing measures concerning these new resources [Treaty of Lisbon amending the Treaty on European Union and the Treaty establishing the European Community]. The interim efforts of the reform of the own resources resulted in the Council Decision on the system of the European Union's own resources of 2 May 2018 COM / 2018/325 [Proposal for a Council Decision on the system of Own Resources of the European Union COM/2018/325 final - 2018/0135 (CNS)], were added to the reformed three traditional own resources three new own resources from: (i) non-recycled plastic packaging waste; ii) the corporate tax base; and (iii) auctioning revenues under the EU Emissions Trading Scheme.

The first mentioned new own resource reflects the EU's attitude towards the plastics economy, this attitude was also expressed in the Commission Communication of 16 January 2018 COM (2018) 28 [European Commission, European Strategy for Plastics in a Circular Economy]. There should be a circular economy so that plastics are recycled at the highest possible level, on that should be of interest to the Member States, because the Member State will contribute to this own resource according to the amount of non-recycled waste. In my opinion, the introduction of a circular economy has potential not only in the protection and maintenance of the environment but also in the field of searching for an innovative way to use them. The aim is, next to create new revenue, therefore to create some pressure on the Member States to support recycling and avoid creating further plastic waste.

Graph 1. Tradicional own resources of EU Budget

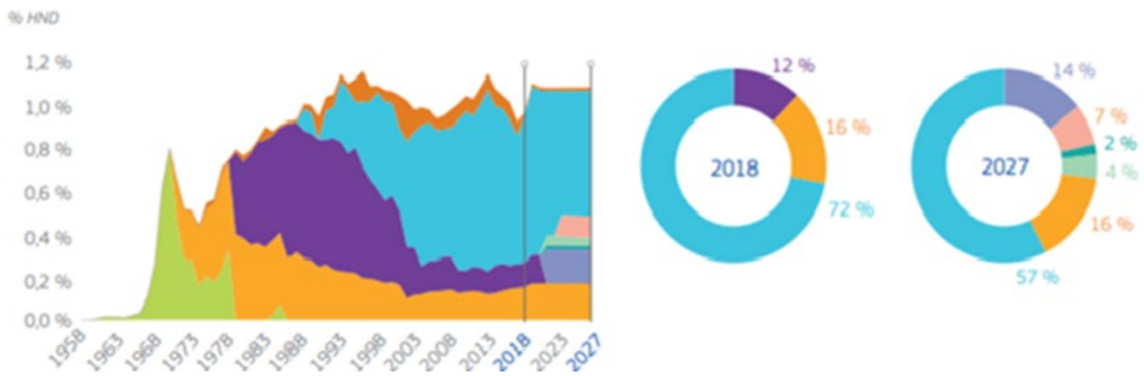


Source: author's own elaboration.

In my opinion, this type of source can be seen as a potential „instrument" to make pressure on the industrial system, especially it should be lead to the development of innovation way how to use and recycled plastics and new investment initiatives and opportunities with the potential for economic growth will come hand in hand [European Commission. Explanatory Memorandum, the rationale for the reform COM (2018) 325 final].

The effectiveness of this decision is from 1. January 2021, and is required ratification of the new own resources decision by the Member States per their constitutional requirements. At this point, it is difficult to predict whether, in the context of the unexpected coronavirus response expenditures, the reform of traditional own resources will generate the expected revenues and will be able to keep the EU budget in balance. Figure 1 shows the European Commission's estimates and the percentage of the budget revenue made up of its own resources.

Figure 1. Development of sources of the revenue side of the EU budget in the years 2018-2020



financial contributions

tradicional own resources

others (fine etc.)

own resources from GNI

own resources from the statistical base of value added tax

own resources from common consolidated corporate tax base

own sources from auctioning revenues under the EU emissions Trading Scheme

own source from recycled plastic waste

Source: European Commission. The EU budget for the future - modernizing the revenue side of the EU budget

This reform of traditional own resources is not the only one step based on which should the income flow to the EU budget. Due to the EU's response in the form of a „coronavirus response”, there were several negotiations that also resulted in the establish a new instrument "Next Generation EU" which will work the support, revitalize and rehabilitate the consequences of the pandemic crisis, inter alia, the single market. This instrument has an amount of EUR 750 million[4] and will distribute the funds into three areas: i) to support, revitalize and resilience the Member States' system, ii) to support investment plans iii) and to strengthen research and innovation [European Commission, The EU budget as the engine of a European recovery plan]. In my opinion, the current situation has made it very clear that even though the Union has already faced the euro crisis [Bydžovska] it has responded by creating a financial wall (European Financial Stabilization Mechanism, EFSM and European Stability Mechanism, ESM), with the main objective of ensuring euro area stability [Nevečeřalová, Schweigl 2020: 41-47, 69]. The EU was not prepared to face another crisis, the current one caused by Covid-19. This crisis has also affected the single market and the entire globalized world (not just the eurozone countries), and it can be said that this crisis has launched an effort to further deepen cooperation in the field of crisis management.

This also requires financial resources, which the EU wants to obtain on the financial markets in the form of issuing bonds, however, it is necessary to add that bonds have a really interesting maturity range, it is between 3 and 30 years. The funds raised will be repaid after 2027 and by 2058 at the latest [Communication from the commission to the European Parliament, the European Council, the Council, the European Economic, and Social Committee and the Committee of the Regions the EU budget powering the Recovery plan for Europe, COM/2020/442 final].

I would like to note that the European Union is not a new entity operating on the capital markets, however, compared to the European Central Bank or the European Stability Mechanism, will become the largest issuer of bonds in Europe [Gerich 2020].

3. Resources for the euro area

In connection with the coronavirus response, there have been several discussions about the topic of how to deal with the consequences that this pandemic has caused and will cause, for example how to secure employment, or where to find financial resources to cover unexpected costs, etc. I have already stated that one possible solution is to reform the revenue side of the EU budget, but there are offers other solutions. The result of these debates has been, among other things, the adoption of some measures, and I am going to focus on two of them now because one has already been adopted and the other seemed rather a utopia.

[4] Bonds for the period will be issued 2021-2024.

The first is the activation of the European Stability Mechanism (ESM) financial assistance fund. Within this "wall", which was set up based on an intergovernmental agreement [Treaty establishing the European Stability Mechanism] to ensure and maintain the financial stability of the eurozone. The members of the eurozone are entitled to ask for financial assistance from this crisis mechanism in the case when they are in financial difficulties or there is an existing potential threat for the (financial) stability of the eurozone [Nevečeřalová, Schweigl 2020: 69-71]. In connection with a pandemic situation caused by the covid 19 Eu member states, including the euro area countries, face social but, of course, financial difficulties, which have not only a negative impact on national economies. EU, respectively Eurogroup decided on 8 May 2020 to activate ESM as one of the responses (safety net) on these problems in the eurozone with allocated € 240 billion [ESM's role in the European response] for the support and revitalize the economy. This financial support should be used as a loan for the ESM members. [European Stability Mechanism Guideline on Precautionary Financial Assistance, Article 4].

It should be added that this amount is about half of the amount set aside to overcome the corona crisis and the remaining amount of about € 300 billion will involve the European Investment Bank[5] and the safety net for workers called Sure. [ESM Pandemic Crisis Support]. This credit line will provide individual loans with a fixed interest rate of 0.1%[6]. This credit line will be obtained through the activation of a credit line, where the Extended Conditions Credit Line (ECCL) allows purchases to be made on the primary market and loans will be provided to euro area members after fulfilment certain conditions [European Stability Mechanism Guideline on Precautionary Financial Assistance]. This credit line supports domestic direct and indirect funding on health care costs, treatment and on prevention, that have arisen as a result of the pandemic [Mueller, Schulten 2020].

4. Common European tax

Based on the consensus, the ESM was activated and the EU also reformed the revenue side of the budget, but there is another possibility how the EU could increase the revenue side, for example to establish a common European tax.

There is no consensus among the professional public about the form would have this tax, whether or not to established at all. But there is an option, the subject would be the

[5] EIB is offering liquidity support to help hard-hit small and medium-sized enterprises.
[6] The interest rate will be calculated from the amount borrowed, which can not at the end of 2019, more than 2% of the GDP of the country, which has asked for a loan.

immovable property of the wealthiest entities[7]. Total revenues obtained from this tax will be used to finance joint "rescue fund" (Next Generation EU) or would be determined to repay Eurobonds, which were issued during the pandemic [Landais, C., Saez, E. and Zucman, G.]. I added that the Member States are already currently prepare with the consequences of this crisis[8], but how they will share the common debt that is a question. Can we expect that the member states will be solidarity with each other after the pandemic has subsided, especially in the searching for a solution how to deal with the common debt?

During the crisis, private entities did not have much opportunity to spend their resources to somehow significantly support the economies of their countries, and since there was nowhere to spend these resources, respectively only to a limited extent, they accumulated in "hands" private entities, while public debt increased. Therefore, I find it the interesting idea of participation of the "wealthiest" private entities to revive the economy, or to repay public debt just by paying this tax. In my opinion, this tax could have a preventive function before taxpayer migration to a country with a "more favorable" tax system [Bakija, Slemrod 2004; Kleven, Landais, Munoz, Stantcheva 2020]. This could have a positive effect in surveillance by financial administration according to the bilateral tax treaties cooperation about ownership of, and taxation of the real estate income [Administrative cooperation in (direct) taxation in the EU].

At the national level, as history shows, reforms the tax system or implementation of a new tax, usually accompany the displeasure of the citizens. We can imagine the difficulties that would probably accompany establish of a common tax at the European level.

The Council has to vote unanimously on several matters which the member states consider to be sensitive for example as harmonization of national legislation on indirect taxation as established a common European tax. The establishment of a common European tax would be subject to changes to the EU's primary treaties, especially TFEU. TFEU contains tax provisions and harmonization. The Union fully recognizes the fiscal sovereignty of the Member States and EU keep a harmonization position, ie. how provisions about indirect taxations are applied [Consolidated version of the TFEU, Article 110-113].

Regulation of direct taxation is sensitive and no common speech or effort has been found so far to establish a common tax framework, at least in matters of direct taxation. The Member State is thus "free" to choose a tax system and to enforce it on taxpayers.

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[7] I find inspiration in Germany, which, thanks to the establishment of a progressive property tax, dealt with post-war debt very quickly [Hicks et al. 1941, Eichengreen 1990, Hughes 1999].

[8] February 2020.

The question arises as to whether the measures taken by the EU will be sufficient and will lead to sufficient revenue. It should be noted that the EU budget is always balanced and does not allow another option [Consolidated version of the TFEU, Article 310]. In my opinion, establishing a common tax in the form of taxation immovable estate of the wealthiest entities has potential and can be seen as an equivalent tax, the proceeds of which should be used to cover the expenditures spent on the post-crisis recovery plan.

5. Conclusion

This contribution focus on the revenue side of the EU budget, which consists of own resources, divided into traditional resources, income in the form of a share of value-added tax, and gross national income. Traditional own resources were extended by the Council decision on the system of Own Resources of the EU own resources were added three new own resources from: (i) non-recycled plastic packaging waste; ii) the corporate tax base; and (iii) auctioning revenues under the EU Emissions Trading Scheme. In my opinion that reform, in connection with the pandemic caused by covid 19 and coronavirus response program, comes at the right time.

The current crisis has a negative impact on the national economy and the EU's single market. In legitimate concerns about the fiscal stability of the euro area and single market, the EU has taken several measures to mitigate the effects of the crisis. The extension of traditional own resources could also be an answer to the question of where to raise enough funds to cover new expenditures incurred in connection with the coronavirus response. I mentioned the one solution was to activate the European Stabilization Mechanism, which provided funding for euro area members (as during the previous crisis).

In this contribution, I also focused on established the common European tax as an appropriate solidarity response to the consequences of the crisis. The subject of tax would be an immovable property in possession of the wealthiest citizens of the Union. In conclusion that it would be very difficult to find a common solution and establish the common agreement of all member states, after all, fiscal and tax policies are areas where the Member States guard their competencies. Member States have disagreed to limit this power, respectively to transfer these competencies to the Eu level, yet.

However, I pointed out that the establishment of this tax could have a positive effect on surveillance by financial administration, and according to the bilateral tax treaties cooperation about ownership of, and taxation of the real estate income. This tax could have a preventive function before taxpayer migration to a country with a "more favorable" tax system.

The European Commission is therefore also responsible for the due diligence financial management of funds. EU is also responsible for the choice of options how to reimburse incurred debts [Consolidated version of the TFEU, Article 333]. The commission is also responsible for choosing how the expenditures will be covered.

The beginning of the repayment period was set for the Multiannual financial framework from 2028 because the funds raised will be repaid after 2027 and by 2058 at the latest [Communication from the commission to the European Parliament, the European Council, the Council, the European Economic, and Social Committee and the Committee of the Regions the EU budget powering the Recovery plan for Europe, COM/2020/442 final]. It will be interesting to see whether the reform of traditional own revenues will bring the expected result or whether the EU will have to find another way to cover the debt.

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