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EU Budget: what options for the revenue to support EU's ambitions?

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Abstract

In the current global context (war in Ukraine, climate change, digital transition, energy crisis and political turning point in the US, among others) it is more important than ever for the EU to target ambitious policy goals, especially regarding energy autonomy, security and defence, green and digital transition, economic competitiveness, and migration.

This paper explores several options to supplement and diversify EU own resources in order to meet those ambitious goals. I start by reviewing the current structure of EU own resources, within 2021-2027 MFF and NGEU, outline the main reasons around the need for an urgent restructure of EU Own resources and review the key proposals made by the EC. I then analyse those proposals and potential alternatives as well as their feasibility from an economic, political and legal standpoint. To support this analysis, I mainly used literature from official EU websites, papers from analysts and newspapers articles. I also gathered statistics from official sources and attended the Annual EU Budget Conference 2024. For the legal part of the analysis, I mainly used the EU Treaties.

My preliminary conclusion is that the current structure of EU own resources, even supplemented by the EC proposals will not be sufficient, especially with the repayments of NGEU debt kicking off in 2028. The 2028-2034 MFF will thus need to include a wider mix of own resources, the best option being additional policy related income (similar to ETS). On the other hand, given the many parameters which can influence the choice on own resources and the difficulties in reaching consensus, it seems unlikely that the 2028-2034 MFF resources will be significantly increased. I therefore underline as well, the key necessity of making own resources more impactful by leveraging the EIB and NPBIs more systematically and mobilising private capital.

1. Introduction

The EU is at a critical stage, where aligning its financial resources with its ambitious policy goals has become essential. The 2021-2027 Multiannual Financial Framework (MFF) and the Next Generation EU (NGEU) initiative stand out as unprecedented financial commitments aimed at promoting recovery, resilience, and transformation across Member States. However, the current revenue system faces significant challenges in providing the necessary financial support for these programmes. The challenges which the EU has

committed to handling over the next decades are indeed multiple and will roll into the next 2028-2034 MFF: green and digital transition, energy independence, common security and defence, migration management, increase EU competitiveness, boosting research and development and keeping a strong cohesion among Member States. The implementation of those ambitious policy goals must be supported by a sustainable and robust source of funding and, in order to be applicable to the 2028-2034 MFF, the negotiations will have to start in a few months, as soon as the new European Parliament (EP) is elected, and the European Commission (EC) is set up.

For those reasons, I chose to look deeper into the EU Budget and more specifically its revenue sources. My main objective was to review the current plans for the restructuring of EU own resources, the potential alternatives and assess the best options. To support this assessment, I have been looking at the economic viability, the potential political support, and legal constraints of each option. To do so, I mainly used literature from official EU websites, papers from analysts and newspapers articles. I also gathered statistics from official sources and attended the Annual EU Budget Conference 2024. For the legal part of the analysis, I mainly used the EU Treaties.

In this paper, I start by reviewing the current structure of EU own resources, within 2021-2027 MFF and NGEU, outline the main reasons for an urgent need to restructure EU Own resources and review the key proposals made by the EC. I then analyse those proposals and potential alternatives as well as their feasibility from an economic, political and legal standpoint. This includes making common debt sustainable, introducing a corporate income tax, implementing new EU-level tax items, generating policy-related income, and enhancing measures to prevent tax evasion and enforce compliance. Additionally, I consider increasing custom duties or the share of Value Added Tax (VAT) returned to the EU, the feasibility of a specific budget for the Eurozone with a common fiscal policy and leveraging the European Investment Bank (EIB) and National Promotional Banks and Institutions (NPBIs) to maximize impact and mobilize private investments.

My initial conclusion is that although policy related revenue (such as EU Emissions Trading System (ETS)) seems to be the best option to increase and diversify EU own resources, the level of income which this would provide is not guaranteed and would not be sufficient to repay NGEU debt in addition to financing policy goals. It also seems unlikely that the 2028-2034 MFF will be significantly increased, and it is therefore key to ensure that the available resources are efficiently used and that they are made as impactful

as possible by leveraging the EIB and NPBIs more systematically and mobilising private capital.

2. 2021-2027 MFF, NGEU and current revenue sources

2.1 2021-2027 MFF and NGEU

The annual budget of the EU is driven by the Multi annual financial framework (MFF), which is defined for a period of 7 years and sets the maximum amounts of revenues to be allocated for each policy areas. The current Multi annual financial framework has been established for the period 2021-2027.

Overall, the 2021-2027 MFF is a continuity of the 2014-2020 MFF, with no drastic change in the key policies being funded: Common Agricultural Policy and Cohesion Policy still representing the biggest spendings but with an increased focus on Digital transformation and Security and Defence and Neighbourhood. What is however notable is the introduction of new own resources, and the significant increase of the use of common debt (outside of MFF) to fund specific initiatives. The EU already started borrowing in large volumes for the first time in 2020, to finance its Instrument for Temporary Support to Mitigate Unemployment Risks in an Emergency (SURE) but with NGEU and its main instrument, the Resilience and Recovery fund (RRF), the scale is significantly larger. The creation of NGEU has appeared as a necessity to help the EU economy recover from the pandemic and supplement the MFF to minimise the impact on national budgets and still covering need for critical EU policy areas: Green transition, digitalisation. For that purpose, the RRF was created to provide loans (EUR 385,8 billion) and grants (EUR 338 billion) to Member States. The remaining of NGEU was meant to reinforce existing programmes, part of MFF. It is important to note that the leverage of debt to also finance grants, as opposed to loans only, is also a new feature of RRF.

The current EU budget amounts to[1] EUR 1,211 billion part of MFF and an additional EUR 806.9 billion coming from NGEU to finance 7 'headings': Single Market, Cohesion, Resilience and Values, Natural Resources and Environment, Migration and Border Management, Security and Defence, Neighbourhood and the World and European Public Administration (breakdown per year[2]).

[1] In 2021 prices

[2] European Parliament (2023), Factsheet on the European Union, Multiannual Financial Framework, online available: Multiannual financial framework | Fact Sheets on the European Union | European Parliament (europa.eu) , last accessed 26 May 2024

As part of 2021-2027 MFF, the EC has also reinforced 2 safety tools:

- The use of EU budget headroom as guarantee for EU bonds issued to support NGEU, meaning that in addition to the standard buffer of 1.4% GNI which the EC traditionally holds in Treasury, an extra 0.60% of GNI are required to support NGEU, until 2058.
- Additional funds allocated to the flexibility mechanism, meant to be buffers specifically for unforeseen situations and crisis management.

2.2 Current revenue source

On the revenue side, the main resources are:

Traditional own resources:

- Custom duties (around 13%)
- Portion of VAT collected by Member States and redirected to the EU – (around 12%)
- Gross National Income (GNI) direct contributions from Member States – (around 70% - including a system of rebates / correction mechanisms[3])

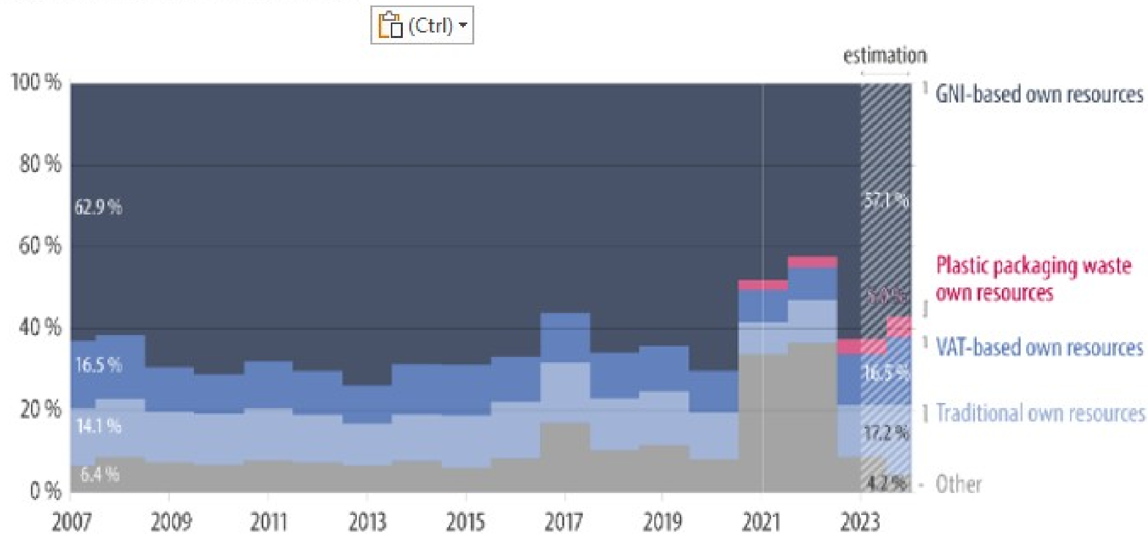
New own resources:

- National contribution based on non-recycled plastic packaging waste – expected to bring EUR 6 billion per year[4]

[3] European Commission, Rebates : correction mechanisms, online available : Rebates - European Commission (europa.eu) , last accessed 26 May 2024

[4] forecast was based on Eurostat figures

Evolution of EU Own resources



Source: EPRS based on European Commission data.

NGEU funding:

In parallel, NGEU is expected to be funded by the issuance of EU Bonds by the EC on the capital markets (for up to EUR 806.9 billion in 2021 prices), to be repaid between 2028 and 2058. Member States can request funding from NGEU for eligible projects up to end of 2026. So far, out of the EUR 723.8 billion total available funds in the RRF, EUR 224.35 billion have been disbursed (144.17 in grants / 80.15in loans)[5]. NGEU bonds are to be issued by the EC yearly for an amount between 100 and EUR 150 billion, between 2021 and 2026[6].

A last point to make on the current revenue structure is that there is a difference in the revenue between commitments and payments: commitments are the maximum amount which the EU is legally committed to spend across the various policies if required; the Payments are the estimated amounts expected to be paid to cover expenditures of projects concluded under the commitments of current to previous years. Meaning that although a commitment was budgeted and planned, it could end up not being fully used, I which case budget capacity might be relieved, however where this is still tied to a specific policy or project, it cannot be transferred for a different purpose.

[5] European Commission, Recovery and Resilience Scoreboard, online available: https://ec.europa.eu/economy_finance/recovery-and-resilience-scoreboard/index.html, last accessed 26 May 2024

[6] European Parliament (2021), Workshop on The EU borrowing strategy for Next Generation EU: design, challenges and opportunities, online available: https://www.europarl.europa.eu/cmsdata/241434/Brochure%20WS%20BORROWING%20STRATEGY%20FINAL.pdf , last accessed 26 May 2024

3. Why do EU revenue sources need restructuring?

First, we shall state that although the MFF sets the budget for a period of 7 years, budget planning is also reviewed on a yearly basis (within the setting of MFF) based on agreement between Council and EP, to potentially adjust spendings for the remaining years. Overall, the approved budget for 2024 is sensibly allocating the same level of commitments across the 7 headings and the special instruments[7], with an increase for the Cohesion Policy (EUR 4.5 billion / +7% from 2023) and a slight decrease for the Neighbourhood and the world (-EUR 1 billion / -6% from 2023) ; As for the Payments, they have reduced significantly for Cohesion compared to the 2023 budget while they increased for Neighbourhood and the world[8]. The main thing to note is that the cost of NGEU has significantly increased due to high interest rates, which weighs heavily on the budget and biases the amount of revenue initially anticipated. This together with other unexpected challenges such as the war in Ukraine and subsequent Energy crisis has triggered an urgent need for a revision of the 2021-2027 MFF, which was on the verge of running out of money towards its pre-agreed priorities. Although this is the first time ever that a revision is considered in the middle of a budgetary cycle, this highlights that a framework of 7 years might be too long, especially to cope with unexpected challenges.

It should also be highlighted that the specific legislative procedure for approval of the EU budget makes the process quite complex: on one side, the MFF regulation[9] requires unanimity in the Council and Consent[10] of European Parliament (EP), on the other side, the decision on own resources[11] requires unanimity in the Council, Opinion from the EP and a ratification by each Member State (Member States). Whilst options for new own resources are being discussed, this is an additional burden preventing fast agreement and action. A structural change would also therefore be required in the decision-making process to allow for a more reactive and efficient process.

4. Commission proposal June 2023

[7] European Commission (7 June 2023), Press release, EU budget 2024: Enabling Euope to address its priorities, online available: https://ec.europa.eu/commission/presscorner/detail/en/IP_23_3062, last accessed 26 May 2024

[8] European Council (2023), 2024 EU Budget: Main areas, online available: https://www.consilium.europa.eu/en/infographics/2024-eu-budget/, last accessed 26 May 2024

[9] outlines expected spendings to support EU policies objectives

[10] i.e. can accept or reject by absolute majority but not amend

[11] i.e. how those spendings will be funded

4.1 Mid-Term revision and request for top-up

In June 2023, the EC has therefore issued a proposal for budget revision[12][13] with the key objectives to cover the increased cost of common debt (+EUR 19 billion) but also to further support urgent priorities: Ukraine (+EUR 17 billion for new Ukraine facility), Migration and external challenges (+EUR 15.5 billion), EU sovereignty and competitiveness (STEP[14] + EUR 10 billion), European Defence Fund, Crisis Management (+ EUR 3.5 billion across the Flexibility and Emergency instruments).

The EC proposed to finance the revision by shifting existing resources from previously agreed MFF (cutting resources from Cohesion policy funds, InvestEU, Horizon Europe, European Defence Fund[15] and Innovation Fund[16]) but also with an expected increase of the initially agreed budget by EUR 66 billion. The European Parliament has besides been a strong advocate of this increase in own resources, claiming that the EU Budget was running out of money to support the initially agreed objectives[17]. Many Member States on the other hand are against the increase and some argue on those enhanced priorities (e.g. Hungary against allocating additional funds to the Ukraine Facility).

4.2 Longer term requirement for additional own resources

At the same time, the EC made another proposal on additional own resources[18][19], as it had committed to do when MFF and NGEU where initially agreed at the end of 2020. In its proposal, the EC opened three main possible additional own resources for debate:

The first is based on company profits. Short term this will be in the shape of an additional national contribution rather than a corporate tax as the EC is suggesting a temporary contribution worth 0.5% of the notional EU company profit base[20], pro-rated based on the

[12] European Commission (1 Feb 2024), Press release, First time ever revision of the EU long-term budget will help address the EU's main challenges, online available: https://ec.europa.eu/commission/presscorner/detail/en/ip_24_602 , last accessed 26 May 2024

[13] European Commission (20 Jun 2023), Press release, EU budget: Commission proposes to reinforce long-term EU budget to face most urgent challenges, online available: https://ec.europa.eu/commission/presscorner/detail/en/ip_23_3345 , last accessed 26 May 2024

[14] Strategic Technologies for Europe Platform

[15] will instead be further supported through STEP

[16] European Council, Timeline – Mid-term revision of the EU long-term budget 2021-2027, online available: https://www.consilium.europa.eu/en/policies/eu-long-term-budget/timeline-mid-term-revision-of-the-long-term-budget-2021-2027/ , last accessed 26 May 2024

[17] EPP group (10 May 2023), EU Budget is running out of money, online available: https://www.eppgroup.eu/newsroom/eu-budget-is-running-out-of-money, last accessed 26 May 2024

[18] European Commission (20 Jun 2023), Press release, EU budget: Commission put forward an adjusted package for the next generation of own resources, online available: https://ec.europa.eu/commission/presscorner/detail/en/ip_23_3328 , last accessed 26 May 2024

[19] Eur-Lex, Commission Staff Working Document Accompanying the document Amended Proposal for a Council Decision amending Decision (EU, Euratom) 2020/2053 on the system of own resources of the European Union, online available: https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=SWD%3A2023%3A331%3AFIN, last accessed 26 May 2024

[20] indicator calculated by Eurostat

Gross Operating Surplus[21] (GOS) of each Member States, meant to be permanently replaced, longer term, by the Framework for Income Taxation (BEFIT). It will be up to each Member States to decide on the national fiscal action required to fund this temporary contribution. The expectation, based on 2024 profits, is an additional revenue of EUR 16 billion each year.

The second is based on the already existing EU Emissions Trading System (ETS), with an adjustment to 30% of revenue from auctions of ETS allowances allocated to EU budget[22]. This is expected to bring an additional EUR 7 billion per year from 2024 and EUR 19 billion per year from 2028.

The third is relevant to the Carbon border adjustment mechanism (CBAM), the EC is proposing a change to the calculation of the CBAM meant to bring EUR 1.5 billion per year from 2028.

The fourth is based on Organisation for Economic Co-operation and Development (OECD) Pillar 1[23], the reallocation of taxing rights requested by this measure is expected to bring between EUR 2.5 and 4 billion per year to the EU budget.

Among the four potential additional own resources, the temporary additional contribution based on statistical company profits is the most contested by politicians and the economic world[24][25], arguing that this contribution based on GOS is a duplication of the GNI based contribution as highlighted by an article of the Tax Foundation[26] and requiring more time to review the fairness and applicability of such measure. The fact that the EC issued all those proposals (MFF revision, request for additional GNI based contribution and proposal for new own resources) simultaneously reflects the criticality of the situation and the deadlock created by the increase cost of NGEU. The EP and civil society organisations also blamed the EC for not considering other options which they proposed[27] (such as tax on wealth, tax on financial transactions, tax on crypto assets, tax on food waste)

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[21] Eurostat, Glossary : Gross Operating Surplus (GOS) – NA, online available: https://ec.europa.eu/eurostat/statistics-explained/index.php?title=Glossary:Gross_operating_surplus_(GOS)_-_NA , last accessed 26 May 2024

[22] vs 25% in proposal from 2021

[23] Tax Foundation, OECD Pillar One, online available: https://taxfoundation.org/taxedu/glossary/oecd-pillar-1/#:~:text=In%20the%20last%20few%20years,establish%20a%20global%20minimum%20tax.) , last accessed 26 May 2024

[24] Silvia Ellena (17 Jul 2023), EU budget: Member States pull the break on the new revenue sources, Euractiv.com, online available: EU budget: Member states pull the break on new revenue sources – Euractiv, last accessed 26 May 2024

[25] Silvia Ellena (22 Jun 2023), Commission porposes new EU sources of income based on company profits, Euractiv.com, online available: https://www.euractiv.com/section/economy-jobs/news/commission-proposes-new-eu-source-of-income-based-on-company-profits/, last accessed 26 May 2024

[26] Cecilia Perez Weigel, Alex Mengden (7 Jul 2023), Examining the EU Corporate Own Resources Proposal: Implications and Challenges, taxfoundation.org, online available: https://taxfoundation.org/blog/eu-own-resources-proposal/, last accessed 26 May 2024

[27] Silvia Ellena (22 Jun 2023), Commission porposes new EU sources of income based on company profits, Euractiv.com, online available: https://www.euractiv.com/section/economy-jobs/news/commission-proposes-new-eu-source-of-income-based-on-company-profits/, last accessed 26 May 2024

Given the crucial need for change and the controversiality of what is being proposed, it is legitimate to wonder first, whether additional own resources are only desirable to fund NGEU or also longer term as a structural change to the EU revenue and second, what could be alternatives to the EC proposal.
On the first question, additional own resources do not only imply increase but also diversification of EU revenue sources, allowing to reduce the dependence on GNI based contribution, which is tied to the good will of each Member States and opens up lengthy negotiations given the unanimity decision making. Additional own resources can also allow to match revenue sources to EU policy goals and multiply their effect (by introducing taxes related to the Policy Goals, e.g. ETS, Carbon Tax,…) Lastly, in the context of NGEU, the diversification of revenue within the EU budget also provides more credibility to investors on the Euro Bonds issued, with higher probability of meeting the commitments, and a stronger position for the credit rating.

5. Other options

The initial propositions made by the EC are a step forward and the best compromise in the mid-term but it still seems quite light to offset the need to significantly increase and diversify EU own resources. Given the urgency, it appears that the EC has selected the options which were less controversial and most likely acceptable by the Member States in the current context. On the longer term though, we should try and assess what other alternatives or additions to those initial proposals there could be, to strengthen the EU own sources with new viable revenues. While looking further into this question, it is important to define what is meant by viable. As part of this analysis, I considered as a viable own resource one which is sustainable economically, meaning which generates a reliable long-term income, does not directly rely on the economic situation of the Member States, and which could be legally feasible and politically acceptable. Based on those criteria, I tried to assess the best candidates to supplement the future mix of own resources.

a. Make Common Debt sustainable

Over the last few years, EU Common Debt has come across as the magical tool to get out of major economic crisis (Covid-19 Pandemic, war in Ukraine, Energy crisis…) and make

significant amount of money available in record time, while the EU budget was falling short. Given the flexibility and rather fast process to collect revenue when required, which this tool offers, it is legitimate to wonder why it could not be a sustainable part of the EU budget.

First, the debt is issued through bonds on the Capital market, meaning that in order to benefit from a low financing cost, it needs to be backed by a robust source of revenue. When debts are issued by States, the credibility of that State's fiscal policy and budget is thoroughly reviewed and is key for rating agencies to grant a good rating and for investors to be ready to buy those bonds at a cheap rate. The same is applicable at EU level with the difference that the EU budget is less flexible and highly dependent on Member States' contributions, the EU being unable to levy and collect taxes by itself.

Another risk with debt financing is that many parameters can influence interest rates. As we observe today, the cost of the NGEU debt has massively increased, mainly due to an unforeseen increase of the interest rates. This goes along with another key requirement of debt financing: repayments must be budgeted at some point. As we see with NGEU, the repayments, which are due to start in 2028, are already a burden on the next MFF, meaning that even though this was a good instrument to get out of an unprecedented situation, it might not be desirable to use it as a sustainable extension of the EU budget.

In addition, at national level, public debt can be managed through a sovereign fiscal system for which the State is empowered to levy taxes, if necessary, which is not the case of the EU and restricts the option of common debt as a sustainable option for supplementing the EU own resources. Indeed, public debt must go along with a robust fiscal capability, to be credible on the capital market, which the EU does not have. The debt will also weight for several decades on national budgets since the reimbursement is likely going to mean an increase in GNI based EU resources for the future budgets, and therefore additional contributions are to be planned accordingly by the Member States in their national budgets. Another point which could be controversial is around the fiscal rules imposed to Member States (3% deficit / 60% public debt) while they wouldn't seem to be applicable to the EU itself, which could trigger contentious discussions.

Furthermore, the type of instruments which is being financed through common debt should be carefully selected. Indeed, as stated in the first chapter, a new feature was introduced through RRF: the leverage of EU debt to finance grants and no longer loans only. Although

grants can sometimes be preferable to loans for certain types of funding, it can be debateable in this case since the portion allocated through grants will not be repaid at all by the beneficiaries but eventually by all EU taxpayers. As Wim Mijs[28] mentioned during the Annual EU Budget Conference 2024[29], "*it is preferable to provide nets than provide fish*". It is indeed key to ensure that for any Euro invested by the EU, there is return on investment, meaning that the target policy goal is met and that the implementation of projects through EU funds is followed by autonomous national funding which make the achievement sustainable. This besides reflects the wider political challenge around such an option. We notice here that it is difficult to reach consensus. The main cleavage seems to be a recurring one between Member States which are traditionally net contributors vs others. The key question is how far would the solidarity be accepted for the common debt?

The use of common debt also lacks transparency, since it is almost impossible to track what cost each Member States is actually bearing vs the benefits it brings. Also, the decision-making process regarding common debt can be perceived as non-democratic, since this is done outside of the budget and the agreed legislative procedure for deciding on own resources is not followed.

Relying on common debt and external investors coming from all over the world also brings vulnerability and lack of autonomy to the EU since it relies partially on non-EU actors to fund critical policy goals and resilience tools.

Lastly, on the legal side, the Treaty as it stands would only allow such mechanism as last resort. Indeed, as per Art 311 TFEU, the EU Budget currently not meant to be funded through debt, the EU has invoked an exceptional procedure, leveraging Art 310 TFEU but this is unlikely going to become a sustainable tool without a formal change in the Treaties.

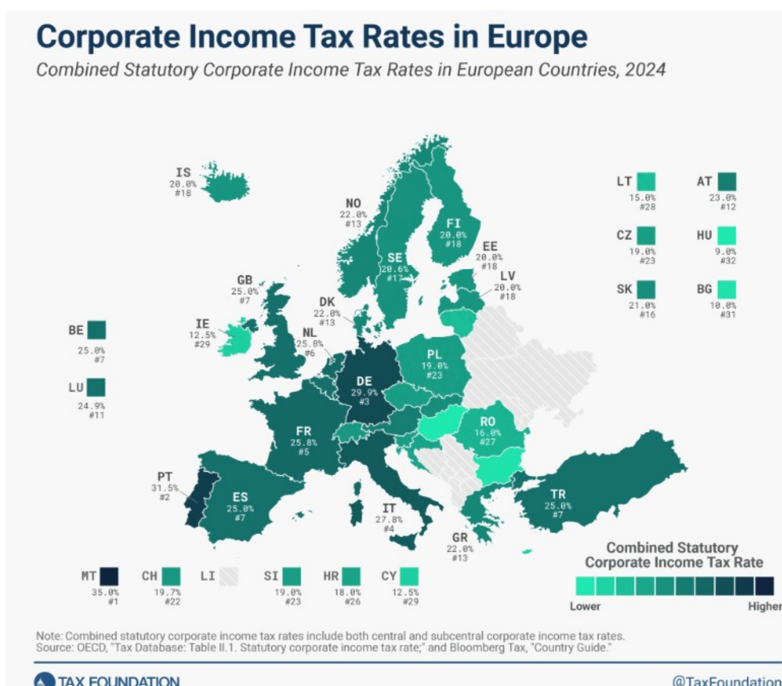
The use of common debt therefore seems to be a good option to supplement the EU budget in a specific context and for a specific purpose but to use it as a permanent tool to raise additional own resources and fund any kind of EU policies doesn't seem a viable option.

[28] Chief Executive of the European Banking Federation

[29] European Commission (29 Apr 2024), Streaming of Annual EU Budget Conference 2024), online available: https://webcast.ec.europa.eu/annual-eu-budget-conference-2024-04-29 , last accessed 26 May 2024

b. Corporate Income Tax

The discussions around corporate income tax harmonisation among Member States have been ongoing for decades. The proposal made by the EC over 10 years ago and still under discussion, now called BEFIT[30], was meant to introduce EU level corporate tax rates, to allow companies to only file one tax record based on their EU level consolidated profit, which would then be reallocated to the relevant Member States based on the specific calculation determining the tax due to each. This would not remove the Member State's autonomy to determine their own Corporate Income Tax rates. The end goal being to make EU cross border investments and foreign investments more attractive by removing double taxation, barriers to the internal market and applying a clearer and fairer taxation among Member States. It is also expected to increase corporate tax revenues within the EU. The below map indeed highlights significant disparities of corporate income tax in the EU, going from under 15% in Hungary, Ireland, Bulgaria and Cyprus to close to 30% or beyond for Ital, Germany and Portugal, which brings additional and dissuasive administrative burden to external investments but also with the EU, between Member States. The EC also considers, once the EU level tax rate is introduced, to collect a percentage of the EU consolidate tax as own resource. Economically this would be one of the most sustainable Own Resources, generating significant revenues for the EU.



[30] European Commission, Business in Europe: Framework for Income Taxation (BEFIT), online available: https://taxation-customs.ec.europa.eu/taxation-1/corporate-taxation/business-europe-framework-income-taxation-befit_en , last accessed 26 May 2024

It would therefore seem sensible to try and harmonise Corporate Taxes at EU level to attract further external investment and make intra EU investment more dynamic, but the downside economic effects of such policy should not be undermined either. Specifically due to the current heterogeneity and the need for some Member States to increase their Corporate Income Tax. If an EU benchmark was introduced, a study has evidenced that although some Member States will indeed benefit from it and generate more revenues, others will experience the opposite result[31].

In addition to the BEFIT proposal, since January 1st 2024, EU directive 2022/2523 has introduced the requirement for a global minimum tax of 15% on profits for multinationals (annual revenue above EUR 750 million). Meaning that for all multinationals located in the EU and with subsidiaries in other countries with a corporate tax rate below 15%, the host EU Member State could request additional taxes on the profits made by this group in those other countries, worth the difference between their tax rate and 15%. This should prevent tax avoidance, increase the amount of tax collected by EU Member States and ensure a fairer taxation across the EU and

In the EC proposal, Member States are free to choose to participate in this common tax policy or not and the scope of impacted companies is also to be defined. The challenge in allowing this flexibility and making this tax policy differentiated is that we would easily see Member States with a Corporate Income Tax (CIT) above the threshold willing to take part while others wouldn't want to lose the benefit of a lower tax rate. Depending on the tax base criteria - i.e. what would define the companies in scope for the harmonised tax rate, we could also argue that multinational companies would become less attractive than those established only in one Member State and which are likely to get a different CIT, defined at national level. The EC indeed does not refer to the tax base and heterogeneity across countries. Even with an EU level tax rate, a common global tax rate and facilitated administration, if Member States continue to apply significantly different tax rates and tax base, this is unlikely going to smoothen inequalities and tax competition within the EU.

On the political side, the harmonisation of corporate tax within the EU remains controversial. Although the benefits outlined can be easily understood, e.g. better environment to attract investments, reduction of tax competition, reduction of administrative burden, as outlined above, Member States with an already competitive tax

[31] Andreas Oestreicher,and Reinald Koch (2011), The Revenue Consequences of Using a Common Consolidated Corporate Tax Base to Determine Taxable Income in the EU Member States., FinanzArchiv / Public Finance Analysis, vol. 67, no. 1, 2011, pp. 64–102. JSTOR, online available: http://www.jstor.org/stable/41303579 , Last accessed 26 May 2024.

rate are likely to be willing to keep it and put pressure on their own government. In addition, harmonisation of corporate income tax at EU level also means a step further towards more integration and a loss of national sovereignty since fiscal policy is a core element of a State's autonomy. The impact on national budgets and the low support from Member States in general make it difficult to imagine that this option could gain unanimity and be rolled out across all EU Member States in the next few years.

Given the Treaties currently do not allow the EU to apply direct tax, this raises the question of how this works in practice and whether additional taxes can actually be introduced from a legal standpoint. Art 113 TFEU stipulates that the Council can indeed adopt measures with the purpose of harmonising taxation to ensure the good functioning of the internal market, which would be the case here. The diverse tax regimes applied by EU Member States can also be considered as hindering the free circulation of capital, goods, and services. As outlined by Sijbren Cnossen[32], tax neutrality would appear as a fundamental criterion to fulfil the requirements to ensure full efficiency of the internal market and fair allocation of resources across the EU, laid out in the Treaty (with significantly diverging tax rates, investments would indeed virtually be directed towards Member States with lower taxation). On the other hand, the Treaties also support the principle of subsidiarity especially in the field of taxation, to guarantee tax sovereignty for the Member States. Both principles aren't necessarily antagonist, this means that Member States are free to apply their own tax rates but have to consider the harmonisation and consistency with other EU Member States, not to hinder the internal market.

Before we close the topic of EU Corporate Income Tax, it is also worth raising the contentious question of individual income tax and specifically why this has never really been considered. First, taxing EU citizens has been ruled out mainly for political reasons as this would be very unpopular and could also be perceived as a double taxation since eventually EU citizens are already contributing largely through the GNI contributions of their Member States, which is basically a transfer of EU taxpayer money from the Member States to the EU. Second, as for the CIT, this is a core element of a State's sovereignty and the idea of an EU level individual income tax would face even bigger resistance than CIT. Third, the complexity of introducing such measure, especially given the great disparity in income, tax regimes, social security regimes, … of each Member States makes it very

[32] Sijbren Cnossen (2018), Corporation taxes in the European Union: Slowly moving toward comprehensive business income taxation?, Int Tax Public Finance 25, 808–840, online available: https://link.springer.com/article/10.1007/s10797-017-9471-2 , last accessed 26 May 2024

difficult to draw a model which could work for all and finally, on the legal side, this would require a Treaty change.

c. New EU level tax items

The introduction of new EU level taxes such as tax on digital services, tax on financial transactions, tax on crypto assets or even tax on wealth could also be an interesting new source of revenue.

Digital Services Tax (DST[33]) is meant to tax on revenues generated by Multinationals from a certain scope of the digital services they provide (advertising, collection and sharing of user data, communication platforms…) regardless of where they reside but depending on where the end users and customers reside. A tax on digital services allows to ensure fair contribution of companies which are not necessarily physically established in a country but still have many users and customers in that country. Some Member States currently already apply DST unilaterally, like France which was the first one to introduce the so called "GAFA" tax by applying 3% tax to a defined scope of revenues. Italy and Spain have introduced a similar mechanism a few years later and Austria 5% tax on advertising services. Hungary also introduced a 7.5% tax to online advertising in 2021. It could potentially be an option for the EU to leverage on that and ask for harmonisation across EU Member States and a share of that DST to be retributed to the EU Budget.

An EU Financial Transaction Tax (FTT) could also be an option and bring substantial revenue, but it has been under discussion for over 10 years and seems to be too politically controversial to reach consensus in the Council[34]. This alternative therefore seems highly unlikely at least in the medium term.

Tax on Crypto Assets: the current context does not allow sufficient tax transparency and information exchange to ensure taxes on Crypto Assets are actually declared and paid, this would first need to be tackled whilst a tax is considered.

[33] Kane Borders, Sofía Balladares, Mona Barake, Enea Baselgia (June 2023), Digital Services Tax, taxobservatory.eu, online available: https://www.taxobservatory.eu/www-site/uploads/2023/06/EUTO_Digital-Service-Taxes_June2023.pdf , last accessed 26 May 2024

[34] European Parliament (20 Apr 2024), Legislative Train Schedule, Financial transaction tax, online available: https://www.europarl.europa.eu/legislative-train/theme-an-economy-that-works-for-people/file-financial-transaction-tax , last accessed 26 May 2024

Solidarity and Wealth tax could be leveraged to manage unforeseen challenges and difficult economic conditions. This could be, for example, levied by the EU in specific circumstances as is already the case at national level in some Member States (e.g. France, Italy, Belgium[35]). Those could target specific goals and be temporary. The downside of wealth tax is that it might redirect investments and Capital to other countries and also has proven not to be a source of very high revenue. This might however be perceived as a fair measure among the wider population.[36] [37]

For any new EU level tax which is being introduced, it is important to also review whether a similar tax is also applied by Member States. Indeed, the introduction of an EU level tax which a Member State might already tax for at national level, automatically has an impact on the national budget of that Member States, i.e. a reduction of its revenue source. Therefore, that Member State is less inclined to accept that new EU level revenue source. Hence, looking for specific EU level taxes which do not exist at national level and have a specific EU purpose seems a lot more acceptable and legitimate for Member States.

The benefit of such taxes is that they could bring reliable sources of revenue however if we look at the forecast and anticipated level of income that those could bring, it seems to still be low compared to the EU revenue needs.

DST for example is not expected to bring significant revenues, France and Spain have respectively collected around EUR 500 million and EUR 300 million each in 2021[38]

For FTT, although this is unlikely to happen in the near future, the expected revenue is bigger than for DST, with an expectation of EUR 30-35billion or 0.4/0.5% GDP of participating Member States[39]) based on a 0.01 tax on each transaction.

Regarding Tax on Crypto Assets transactions: the EC is expecting that this could bring an additional tax revenue of 1 to 2.4 billion per year[40]

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[35] Cristina Enache (27 Feb 2024), Wealth Taxes in Europe, 2024, taxfoundation.org, online available: https://taxfoundation.org/data/all/eu/wealth-taxes-europe-2024/ , last accessed 26 May 2024

[36] Jakob Kapeller, Stuart Leitch, Rafael Wildauer (March 2021), A European Wealth Tax for a fair and green recovery, Foundation for European Progressive Studies, feps-europe.eu, online available: https://feps-europe.eu/wp-content/uploads/2021/03/A-European-wealth-tax-for-a-fair-and-green-recovery.pdf , last accessed 26 May 2024

[37] Emmanuel Saez Gabriel Zucman Camille Landais (3 Apr 2020), A progressive European wealth tax to fund the European COVID response, cepr.org, online available: https://cepr.org/voxeu/columns/progressive-european-wealth-tax-fund-european-covid-response , last accessed 26 May 2024

[38] Kane Borders, Sofía Balladares, Mona Barake, Enea Baselgia (June 2023), Digital Services Tax, taxobservatory.eu, online available: https://www.taxobservatory.eu/www-site/uploads/2023/06/EUTO_Digital-Service-Taxes_June2023.pdf , last accessed 26 May 2024

[39] European Commission, Taxation of the financial sector, online available: https://taxation-customs.ec.europa.eu/financial-transaction-tax_en , last accessed 26 May 2024

[40] European Parliament, Tax transparency rules for crypto-asset transactions (DAC8), online available: https://www.europarl.europa.eu/RegData/etudes/BRIE/2023/739310/EPRS_BRI(2023)739310_EN.pdf , last accessed 26 May 2024

Tax on Wealth (on the 0.5% richest of each European Sate) is expected to bring over EUR 213billion in additional tax revenue)[41]

On the political side, this also seems quite challenging to implement, with support from some stakeholders but also strong opposition from others.

FTT doesn't make unanimity among politicians, only 10 Member States[42] which are supportive of the measure. The enhanced cooperation procedure has been triggered to progress further among those Member States

EU Tax on wealth[43] would be supported by EU citizens. A European citizen's initiative "Taxing great wealth to finance the ecological and social transition" was launched by the EC in July 2023[44], signature collection ending in Oct 2024[45]

Additionally, those revenue sources are meant to be supplementary revenues for the EU to allocate freely within its budget, which is adding to the controversial aspect of those measures as this is perceived as granting additional sovereignty to the EU, without even a strict control on how this additional revenue would be spent.

Finally, the legal basis for introducing such taxes would be similar to the one we described under the CIT chapter and would therefore require either a Council decision or a change to the Treaties as currently the EU itself isn't allowed to introduce new own resources nor to levy taxes.

d. Policy related income

Another option would be to redirect revenues towards a specific policy. This is already the case with ETS & CBAM and Non recycled Plastic Levy and could be extended to other areas such as tax on gender pay gap or on food waste for example. In this case, specific EU

[41] Anne Michel (20 Sept 2023), A European tax on the super-rich could bring in over EUR 200 billion a year, lemonade.fr, online available: https://www.lemonde.fr/en/economy/article/2023/09/20/a-european-tax-on-the-super-rich-could-bring-in-over-200-billion-a-year_6137895_19.html , last accessed 26 May 2024

[42] European Parliament (Mar 2024), Legislative Train: Financial Transaction Tax, online available: https://www.europarl.europa.eu/legislative-train/carriage/financial-transaction-tax/report?sid=7901 , last accessed 26 May 2024

[43] European Parliament, Solidarity and wealth tax, online available: https://www.europarl.europa.eu/RegData/etudes/BRIE/2022/732005/IPOL_BRI(2022)732005_EN.pdf , last accessed 26 May 2024

[44] European Commission (11 Jul 2023), Press release, European Citizens' Initiative: Commission decides to register initiative on taxing great wealth in the EU, online available: https://ec.europa.eu/commission/presscorner/detail/en/ip_23_3741 , last accessed 26 May 2024

[45] European Citizen's Initiative, Taxing great wealth to finance the ecological and social transition, online available: https://eci.ec.europa.eu/038/public/#/screen/home , last accessed 26 May 2024

levies are agreed by all Member States with a specific purpose, i.e. to fund very specific policies. Whilst traditional own resources are not bound to specific expenditures and can be allocated to any part of the Budget, this option seems to be the preferred one for new own resources as more acceptable and legitimate for Member States and the public opinion. The impact of such type of own resources is also multiplied by the incentive it creates to achieve the policy goals tied to it.

Fuest and Pisani-Ferry have highlighted[46] that this type of own resources is "*genuine*" EU own resources. The few years of experience with ETS, CBAM and Non recycled plastic levy have indeed evidenced that this is generally a more accepted source of revenue as targeting a special purpose and EU wide public goals. That type of revenue also has the benefit of a low financing cost. The downside though is that the level of income generated through those levies can be quite low compared to others. That said, their multiplying effect should not be underestimated since the taxes are an incentive for the companies to become more sustainable, have less impact on environment and climate and increase their social standards, while at the same time the revenues generated are also directed towards this goal.

ETS revenues: in 2022, EU Members States managed to collect a revenue of almost EUR 30billion from ETS auctioning, with an average price level of 55 EUR / tCO2. Independent analysts[47] project that this price will grow exponentially in the next decade to reach a level of 150-200 EUR / tCO2, which would bring a substantial source of revenue for the Member States and the EU. Fuest and Pisani-Ferry even recommend a transfer of this revenue from Member States to EU and argued in their policy paper from 2020 that this would be enough to cover the repayment of NGEU debt[48]. The EU has besides specifically created the Innovation and modernisation fund which are meant to be funded through ETS and targeted to fund low and zero-carbon innovative solutions and modernisation of existing energy systems to increase their efficiency.

CBAM revenues: To avoid unfair competition, CBAM will ensure that non-EU producers are subject to the same rules and costs as EU producers. On the same model as EU-ETS, EU importers will have to buy CBAM certificates based on the estimated carbon emission

[46] Clemens Fuest and Jean Pisani-Ferry (Sept 2020), Financing the European Union: new context, new responses, Bruegel.org, online available: https://www.bruegel.org/sites/default/files/wp_attachments/PC-16-2020-110920.pdf , last accessed 26 May 2024

[47] Statista (May 2024), Forecast European Union Emissions Trading System (EU-ETS) average carbon allowance prices from 2024 to 2035, Statista.com, online available: https://www.statista.com/statistics/1401657/forecast-average-carbon-price-eu-emissions-trading-system/ , last accessed 26 May 2024

[48] Clemens Fuest and Jean Pisani-Ferry (Sept 2020), Financing the European Union: new context, new responses, Bruegel.org, online available: https://www.bruegel.org/sites/default/files/wp_attachments/PC-16-2020-110920.pdf , last accessed 26 May 2024

of their imported goods. This is also meant to bring additional revenue for the Member States and the EU. The price of CBAM certificates will be similar to EU ETS allowances price. The EC plans for the EU to retain 75% of the CBAM revenue and estimates that CBAM would bring EUR 1.5billion yearly revenue to the EU from 2028[49].

Non recycled Plastic levy revenues: each Member State pays a price per kilogram of plastic waste which is not recycled (currently set to 0.80EUR / kg) – this resource now represents 3% of the total EU revenue sources. This is small but again an incentive for Member States to meet the EU targets.

The anticipated revenues from Tax on gender pay gap and food waste – other statistical based own resources – is relatively low and this type of tax would also be challenging to apply in practice. The determination of the statistical parameters based on which the tax would be calculated is indeed very challenging. The EC has still issued estimates for food waste, based on current statistics and call rate between 0.05-0.2 / kg, the expectation is that 3-12 EUR billion could be generated every year[50].

Those new revenues would be more politically acceptable as the positive impact is easier to understand given the resources are dedicated to a specific purpose. They are also tied to EU level policy goals which makes them less likely to conflict with national level taxes. A consensus is indeed easier to find for revenues which are leveraged to fund common goals, where a common action is acknowledged as much more efficient than a national action. The downside however is that (at least we hope) those resources are meant to phase out as and when the EU gets closer to achieving its objectives. They would therefore need to be replaced at some point by others. On the other hand, we could also argue that the expenditures linked with those new resources would also be removed at the same time.

The legal basis would be also similar to the one we mentioned for CIT and other type of new taxes.

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49 European Commission (20 Jun 2023), Questions and Answers: An adjusted package for the next generation of own resources, online available: https://ec.europa.eu/commission/presscorner/detail/en/qanda_23_3329 , last accessed 26 May 2024

50 Eur-Lex, Commission Staff Working Document Accompanying the document Amended Proposal for a Council Decision amending Decision (EU, Euratom) 2020/2053 on the system of own resources of the European Union, online available: https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=SWD%3A2023%3A331%3AFIN, last accessed 26 May 2024

e. Preventing Tax evasion and enforcing compliance

As listed above, there are several new tax options which could be considered to increase and diversify EU own resources. That said, this would be pointless without proper tools and mechanisms to enforce compliance with the tax policy. Tax evasion and fraud automatically reduce the national and EU budgets. The EU has already implemented several measures to tackle this issue. First, the anti-tax avoidance directive (ATAD I 2016/1164 and ATAD II 2017/952[51]) defines a set of measures which EU Member States were due to implemented by 2020. The aim of this directive is to prevent companies from shifting profits towards lower tax countries or from building specific structures which would allow tax evasion / avoidance.

The directive on administrative cooperation 2011/16/EU[52] has been amended several times and also aims at a more transparent and efficient exchange of information among competent authorities of EU Member States. The reporting requirements have also been increased through several directives to align and level up the standards among EU Member States and increase transparency.

The harmonisation of corporate income tax and the BEFIT proposal from the EC would also help reduce the complexity and the administrative burden of reporting which right now has to be done within each Member States as opposed to a single EU reporting. The EC has also been working on upgrading the tax reporting process specifically for VAT[53]. As outlined by the EC, Member States have lost EUR 93 billion of VAT revenue in 2020 due to an old system which needs reformed.

A study by the Polish Economic institute[54] reported that tax evasion and avoidance incur a yearly loss of EUR 170 billion among all EU Member States and recommends several actions such as granting more power to the EC and allow it to sanction EU Member States identified as "*non-cooperative tax jurisdictions*".

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[51] European Commission, Anti Tax Avoidance Directive, online available: https://taxation-customs.ec.europa.eu/taxation-1/company-taxation/anti-tax-avoidance-directive_en#:~:text=The%20anti%2Davoidance%20measures%20in,non%2Dtaxation%20of%20certain%20income. , last accessed 26 May 2024

[52] European Commission, Administrative cooperation in (direct) taxation in the EU, online available: **https://taxation-customs.ec.europa.eu/taxation-1/tax-co-operation-and-control/administrative-co-operation-and-mutual-assistance/enhanced-administrative-cooperation-field-direct-taxation_en** , last accessed 26 May 2024

[53] European Council, Digital Taxation, online available: https://www.consilium.europa.eu/en/policies/digital-taxation/ , last accessed 26 May 2024

[54] Jakub Sawulski (Jan 2020), Tax unfairness in the European Union, Polish Economic Institute, online available: https://pie.net.pl/wp-content/uploads/2018/07/PIE_Report_Tax_Havens_EU.pdf , last accessed 26 May 2024

f. Increased custom duties or share of VAT retributed to EU

While looking at introducing new taxes, the question comes up of potentially increasing EU's oldest sustainable true own resources – i.e. custom duties and VAT. Custom duties[55] are direct resources, meaning that they are directly attributed to the EU and unlike VAT and GNI based contributions, are not retributed by the Member States. Why not also either consider increasing custom duties to bring additional revenues and protect the EU market, like is often done in the US, China or Canada or even consider increasing the percentage of VAT retributed by the Member States to the EU. The controversiality around such measures is quite easy to understand but it is still worth assessing whether those could at least be an option.

On the one hand, the EU could increase the share of custom duties allocated at EU level. Currently, 25% of Custom duties is retained by EU Member States to cover collection costs and as an incentive to thoroughly manage the collection. Reducing this share to grant more to the EU might mean that the collection costs are no longer covered, and Member States would put less effort and resources, which could have a counter-effect and reduce the collected amounts. On the other hand, the EU could also increase the customs for external trading partners. It is however important to highlight that the EU and the EU Member States are part of World Trade Organisation (WTO) and have to comply with WTO rules. Another downside of such option is that it is likely going to impact prices for end consumers as the tax could be passed on to the consumer. This would also create tensions with trading partners and potentially have an indirect effect of increasing export costs for the EU as countries impacted by increase of EU customs are likely to also increase customs on products that the EU exports there. The EU would also become less competitive and lastly, the impact of such measure is difficult to predict.

On the political side, retributing a higher share of VAT to the EU would also mean accepting to grant the EU an increased power and might be perceived as a loss of sovereignty, which also makes this measure challenging to be unanimously accepted.

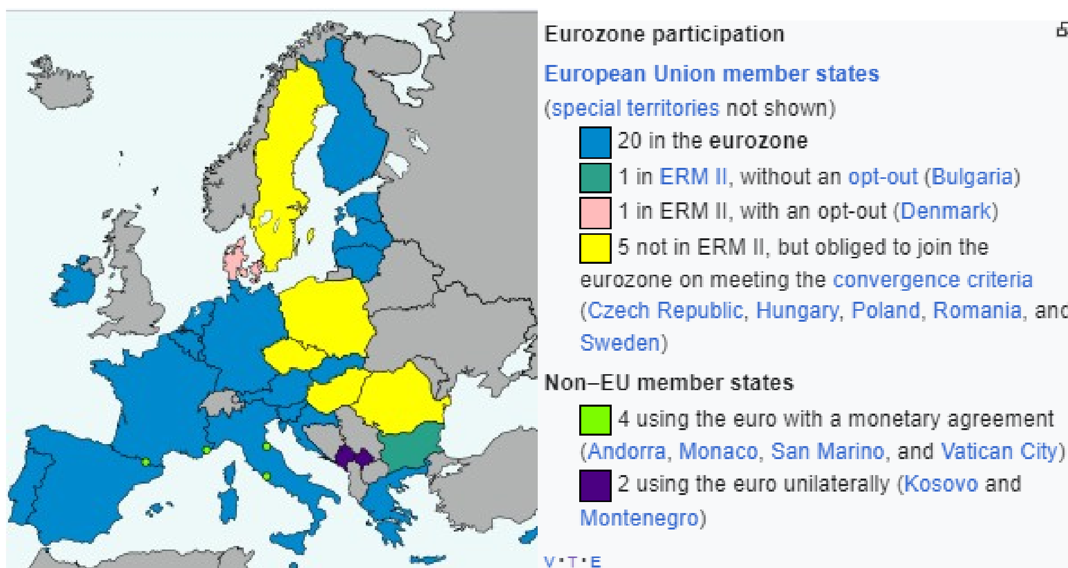
Legally, the measure would seem feasible. Art 3 TFEU stipulates that the EU has exclusive competence in the area of customs union and Art. 207 grants the EU Competence to conduct its commercial policy, meaning that it is also free to set its own customs tariffs. In

55 eClear (1 Jun 2023), Customs tariffing in the European Union, online available: **https://eclear.com/article/customs-tariffing-in-the-european-union/** , last accessed 26 May 2024

addition, it is stated that the EU is allowed to use defence instruments[56] under specific circumstances, to protect it internal market: anti-dumping duties anti-subsidy duties (to counter unfair competition), or other safeguard measures in case imports harm EU producers.

I would conclude by stating that the option of increasing custom duties can be considered to respond to some behaviours of more protectionists partners but would need to be reviewed carefully, sector by sector and country by country. This is more deemed a tool to protect EU's internal market than a sustainable way of increasing its revenues.

g. Specific budget with common fiscal policy specifically for the Eurozone?



Source: Wikipedia https://en.wikipedia.org/wiki/Eurozone

When discussing the need for adjusting the EU's own resources, it is important to differentiate the budget requirements of the Eurozone versus the rest of the EU. Indeed, fiscal policy and monetary policy are closely intertwined and the budget requirements of the part of the EU sharing a common monetary policy is fundamentally different.[57]

The topic of a Eurozone budget has been under discussion for several years, specifically as economists and politicians recon that it would be required as a stabilisation mechanism

[56] European Commission, Trade defence, online available: https://policy.trade.ec.europa.eu/enforcement-and-protection/trade-defence_en , last accessed 26 May 2024

[57] Grégory Claeys (2020), Building a Euro-area Budget Inside the EU Budget: Squaring the Circle?, bruegel.org, online available: https://www.bruegel.org/sites/default/files/wp-content/uploads/2020/12/CLAEYS-Building-a-euro-area-budget-2020-EUI.pdf , last accessed 26 May 2024

especially in terms of asymmetric crisis[58]. This is currently the role played by the European Stability Mechanism (ESM) which was created after the 2008 financial crisis, but its purpose is rather to support Eurozone Member States and help them recover in times of crisis than to prevent and anticipate crisis. It is also worth noting that 7 Member States are still not part of the Eurozone, and some may never be. It would therefore be easier to reach unanimity on fiscal and budget topics if it is contained within Member States who share the same monetary policy. A Eurozone budget would also allow to provide additional fiscal leeway to Eurozone countries and allow for the EU to borrow specifically on behalf of those countries. Non-Eurozone countries can easily play between fiscal and monetary policy to cope with economic shocks but those of the Eurozone are highly constrained.

As outlined by Grégory Claeys[59], there has been a first attempt by the EC to initiate a shape of a Eurozone Budget with the Budgetary Instrument for Competitiveness and Convergence (BICC) but was not flexible and scalable enough for what a real Eurozone budget would require. In order not to distort the EU budget for the whole EU but rather to supplement it specifically for the Eurozone, an option could be to dedicate a portion of the EU Budget specifically for policies targeting the stability of the Eurozone. Another option could be to dedicate the debt instrument such as NGEU only for Eurozone countries. In this case, increased fiscal authority could be granted to the EU specifically for those countries.

The question around resources is then coming up as the non-Eurozone Member States are unlikely to be willing to see their contributions allocated to that part of the Budget. Member States from the Eurozone are still unlikely to accept to lose sovereignty in the field of fiscal policy, consensus among Eurozone country would be very difficult to reach. The financial crisis has proven that solidarity is fruitful in challenging times but the bailout which took place is still perceived badly for Member States with a higher budgetary discipline and there is clearly a lack of political will from all Member States to pursue with this option.[60] Lastly, this might also represent a risk for the EU as would increase the differentiation and gap between the Eurozone countries and the rest of the EU and might dismantle cohesion.

[58] Berthold Busch, Jürgen Matthes (2019) : A Eurozone Budget – For Which Purposes Exactly?, ifo DICE Report, ISSN 2511-7823, ifo Institut – Leibniz-Institut für Wirtschaftsforschung an der Universität München, München, Vol. 17, Iss. 02, pp. 23-27, online available: A Eurozone Budget – For Which Purposes Exactly? (econstor.eu) , last accessed 26 May 2024

[59] Grégory Claeys (2020), Building a Euro-area Budget Inside the EU Budget: Squaring the Circle?, bruegel.org, online available: https://www.bruegel.org/sites/default/files/wp-content/uploads/2020/12/CLAEYS-Building-a-euro-area-budget-2020-EUI.pdf , last accessed 26 May 2024

[60] Magnus G Schoeller (2021), Preventing the eurozone budget: issue replacement and small state influence in EMU, Journal of European Public Policy, 28(11), online available: https://www.tandfonline.com/doi/full/10.1080/13501763.2020.1795226 , last accessed 26 May 2024

Legally, the enhanced cooperation mechanisms could be leveraged to allow the Eurozone Member States to pursue a deeper budget and fiscal integration. Art. 20 TEU and Art. 326-334 TFEU indeed stipulate that enhanced cooperation can be used to establish a fiscal capacity or a budget for the Eurozone as long as it is non-discriminatory and remains open to any future Member State willing to join.

h. Leveraging the EIB and NPBIs to maximise impact and mobilise private investment

Whilst potential options are being reviewed and the ones more likely to be accepted and implemented are expected to bring insufficient level of revenues to cover EU's resource requirements, we should outline that there is also a possibility to fund more with the same level of own resources. Indeed, financial institutions and NPBIs are able to considerably multiply the impact of funding. Similarly, the combination of public and private investment is a very efficient way of maximising the impact of public funding with the same level of resources.

In addition, by co-financing EU projects, those institutions help mobilise private investments, which adds to the multiplying effect. This is specifically what the EU budget can assist with: attracting private investments to relief national budgets but at the same time meet EU objectives. Where markets and private capitals wouldn't be ready to invest in riskier areas because too innovative or too small to provide sufficient collateral, whilst fundamental for EU objectives, those institutions can help reach a certain maturity.

The EIB manages or co-manages EU budget instruments and through EU funds or guarantees achieves to have a significant additional and multiplying effect on the EU economy. By doing so, the EIB achieves two very important goals which are critical to make EU's own resources as efficient as possible: additionality, i.e. filling in funding gaps where the market isn't ready to invest in key EU activities and multiplying effect, i.e. mobilisation of private investments attracted by EIB's initial risk taking. In addition, EIB's high credit rating allows it to ensure low cost of funding for its borrowers. The EIB can change the risk profile of some entities to attract private investments. As outlined by the

European Association of Long-Term Investors, "*doing more with less will be the mantra over the years ahead*"[61] , hence it is key to "*activate public spending*". [62]

Whilst the EIB finances projects mainly through its own resources, it can also make use of blended funding, i.e. risk sharing mandates, whereby part of the EU budget is granted to the EIB to de-risk its activity and allow it to issue more loans / guarantees. Whereas market actors, investors are less inclined to take risk in certain activities either because of their nature or their relatively new development stage or even due to bad economic context and low forecasted profitability, if those investments are deemed key to meet EU policy goals, the EIB, backed by the EU budget, can take the risk and initiate those required investments. Once the activity is developed, more mature or the economic context is better, private investments would then start adding up and take over, combining additionality and multiplying effects of public spendings.

The European Fund for Strategic Investments (EFSI) has besides evidenced the significant catalyser power that the EIB can have. As outlined in the evaluation of this programme[63], it has been a "*game changer*" for the EU economy, especially post financial crisis and allowed to address funding gaps in the market. With a total of EUR 33.54 billion EU guarantee allowed to leverage a total investment of more than EUR 500 billion as of end of 2020[64]. Building on the success of EFSI, the EC has developed the InvestEU programme which replaced EFSI as part of the 2021-2027 MFF and with the ambition to leverage more than EUR 650 billion in additional investment across EU Member States, based on a EUR 38 billion guarantee from the EU budget[65]

In addition to the blended funding, the EIB also has a major role in complementing the EU budget through its own resources. Indeed, its shareholders, the Member States, drive the strategic orientation of its investments. For example, since June 2019, the EIB has been requested to support the climate action and help the EU meet the Paris Agreement objectives, following which the EIB updated its investment objectives in that regard. Similarly, during the Covid-19 crisis, in partnership with all Member States, the EIB

[61] European Association of Long-Term Investors (Feb 2024), Activating the EU budget for long-term needs, online available: https://www.eltia.eu/images/2024_02_29_Strategic_outlook.pdf , last accessed 26 May 2024

[62] European Association of Long-Term Investors (Feb 2024), Activating the EU budget for long-term needs, online available: https://www.eltia.eu/images/2024_02_29_Strategic_outlook.pdf , last accessed 26 May 2024

[63] European Investment Bank (Jun 2021), Evaluation of the European Fund for Strategic Investments, online available: https://www.eib.org/attachments/ev/ev_report_evaluation_of_efsi_2021_en.pdf , last accessed 26 May 2024

[64] European Investment Bank (Jun 2021), Evaluation of the European Fund for Strategic Investments, online available: https://www.eib.org/attachments/ev/ev_report_evaluation_of_efsi_2021_en.pdf , last accessed 26 May 2024

[65] European Council, European fund for strategic investments (EFSI), online available: https://www.consilium.europa.eu/en/policies/investment-plan/strategic-investments-fund/ , last accessed 26 May 2024

created a special pool of guarantees, the European Guarantee Fund (EGF) of EUR 25billion to back EU companies which mobilised an additional EUR 200 billion for SMEs[66]. Through the EGF programme, the EIB mainly provided guarantees to NPBIs and other financial intermediaries to allow them to free up capital and provide additional funding to targeted beneficiaries (i.e. SMEs meeting specific eligibility criteria defined by the EU EGF regulation 2021/691). EIB own resources not necessarily backed by EU guarantees also have a multiplying effect in the EU economy. Indeed, as we have mentioned, guarantees from EU funds to EIB allows EIB to take further risk; similarly, the guarantees offered by the EIB to financial institutions allows them to de-risk part of their activity and issue more loans in line with EU level policy goals.

Lastly, smaller scale projects are as important, if not more important, as large-scale projects for the development of the EU and its internal market. The collaboration of the EIB with NPBIs and local banks is key for those type of projects[67]. NPBIs are national and local actors who are best placed to understand the investment needs and advise the local actors. The collaboration is key. Those Banks have gained a lot of experience not only in the funding but also in advisory, i.e. identifying the best financial instruments fit for specific projects. They also closely monitor and evaluate projects. A solution could therefore be to increase the mandate of such institutions and have more projects financed and monitored through those institutions. EIB and NPBIs can also be leveraged in times of crisis when an urgent action is required, and liquidity requirement is high whilst banks and investors are less inclined to lend. In this situation, the role of NPBIs is key to keep the economy running until recovery.

The political support of this option is undeniable. The mandates granted by the EC to NPBIs has significantly grown over the last decade and the EIB has developed more and more sophisticated products to ensure multiplying and additionality effect. This is besides why the EIB has been granted mandates when a quick impact on the economy was expected (EFSI, InvestEU) and for specific goals (Climate Bank and now Security and Defence Office). Those institutions also perform an advisory mission to assist EU economic actors and make sure investments are managed in the most efficient way.

[66] European Investment Bank, European Guarantee Fund, online available: https://www.eib.org/en/products/egf/index?sortColumn=projectsSignedDate&sortDir=desc&pageNumber=0&itemPerPage=10&pageable=true&la=EN&deLa=EN&orCountries=true&orBeneficiaries=true&orWebsite=true , last accessed 26 May 2024

[67] European Investment Bank (2019), Investing together, online available: https://www.eib.org/attachments/thematic/investing_together_en.pdf , last accessed 26 May 2024

On the legal side, Art 308 and 309 TFEU define the main role of the EIB as being to ensure a "*balanced and steady development of the internal market*" and defines the type of projects that it is allowed to finance. Art 174/175/209 TFEU also stipulate that the EIB is meant to contribute to the cohesion and development cooperation policy. Protocol 5 TFEU defines the statue of the EIB and specifically its gearing ratio (Art 16 para 5).

6. Recommended approach

A balanced combination of existing and new own resources could diversify, enhance and make EU's own resources more impactful. Based on my initial criteria for a resource which is economically viable, politically acceptable and legally feasible, my recommendation would be for a mix of resources which would need to be carefully selected, also depending on the policies and projects which they are meant to finance (i.e Expenditures side of the EU budget). Indeed, medium-term, longer-term policies or short-term crisis and recovery instruments do not require the same type of revenue sources. Based on current state and foreseen expenditures, I would advise as follows:

a. Gradually reduce the GNI contribution dependency, which triggers the net beneficiaries / net contributors' approach of the EU budget and leads to inefficient or even unnecessary investment, only for the sake of spending rightful allocations.

b. Regarding the introduction of new taxes, the EC proposal on new own resources: CIT / ETS / CBAM should be pursued but with a higher ambition with regards to new taxes which could be leveraged for specific policy goals. Although some analysts predict sufficient revenue from ETS and CBAM to fund the repayment of NGEU debt, this also depends on many factors such as the market carbon price and projections of carbon emissions. In addition, new own resources are required to fund EU policies aside of the repayment of NGEU debt. As mentioned, the new taxes should also be carefully selected not to interfere with national revenues, meaning that taxes introduced at EU level should be taxes that are meant to be at EU level, ETS and CBAM for example could hardly work at national level. Similarly, a tax on financial transactions or wealth would be better coordinated and efficient at EU level to avoid tax evasion or reduced competitiveness for some Member States. That said, the selected tax should also not damage EU's competitiveness and be politically acceptable. Introduction of new taxes must also be accompanied by a robust discipline around tax reporting and collection.

The EU has already developed a strong legal framework around it but the lack of harmonisation and the administrative burden of having to report and collect in every of the 27 Member States increases the risk of tax evasion, avoidance and fraud. CIT proposed by the EC is key in that regard and would need to be adopted by all Member States to be efficient.

c. On Common Debt: it appears that making common debt a sustainable instrument as part of the EU budget would be challenging. It would indeed be politically difficult to accept for some Member States, legally misaligned with EU's treaties and difficult to make it economically viable without a proper common fiscal policy and still dependent on lessons learnt of NGEU, for which the reimbursement phase still hasn't started. In my opinion this is still a tool which could be leveraged in times of crisis or for specific emergency situations but must remain punctual, given the current political and legal framework.

d. On increasing the share of custom duties or VAT retributed by Member States to the EU: this option seems to be quite controversial politically and might be inefficient as the Member States would have less incentive to collect appropriately and might not even be able to cover the collection costs. However, increasing custom duties in certain cases seems to be a good option, for example when trading partners are applying themselves protectionist measures which harm EU's internal market. That said, this option would also not meet the criteria of economic viable resource as it would highly depend on the economic context and agreements with trading partners and could be changed overtime. This is also not something which the EU can fully freely apply as it is bound by the trading rules of WTO. I therefore don't think that this can be considered an option for new/increase of own resources. Instead, we should aim at making the EU more competitive.

e. The option of a specific budget for the Eurozone seems to be an interesting option economically but actually difficult to implement without further segregating Euro and non-Euro Member States. The current mechanisms in place such as ESM should rather be enhanced to ensure additional unity, budget discipline and resilience within the Eurozone.

f. Although several options for new own resources can be considered, it seems unlikely that the EU revenue will grow exponentially as a consequence, and we should rather

prepare and find more creative solutions to make the resources as impactful as possible. This is why private investment is key. MFF resources should be leveraged as much as possible to attract private capital through public initiatives (the same way as InvestEU significantly mobilised private capital). It is also important to thoroughly select the type of funding instrument used to finance projects. Wherever possible, financial instruments such as loans or guarantees should be preferred over grants as more likely to incentivise the end beneficiary to implement the project efficiently. Financing through development banks or financial institutions should also be expanded as much as possible in order to benefit from the multiplying and additionality effect of that type of funding. A better use of the commitments not spent in previous years or budgets should also be considered. I would also have two additional recommendations in that area: one would be to revisit EIB's gearing ratio to allow it to take additional risks and finance more projects and the second is to accelerate the development of capital markets union[68] (CMU), which would also help to keep savings within the EU in order to invest in the EU. Private Capital could also be highly unlocked and supplement much better the EU budget with the concretisation of the CMU.

g. Lastly, on the institutional and structural side of the EU budget, the decision-making process, the duration of the MFF and the flexibility of the budget (e.g. additional flexibility to transfer amounts from one policy to another when required) should be revisited.

7. Additional parameters influencing choice of revenue sources

As we have listed many different options to enhance EU budget own resources, it is also important to state than many parameters can influence the choice to take one direction or another.

On the political side, the next European Parliament elections which will precede the change of EC will be key. The next MFF (2028-2034) negotiations will need to start in 2025, right after the elections and the new EC will have limited time to present its proposal, specifically including its decision for Own Resources. As stated in the first chapter of this

[68] Enrico Letta (April 2024), Much more than a market, European Council, online available: https://www.consilium.europa.eu/media/ny3j24sm/much-more-than-a-market-report-by-enrico-letta.pdf , last accessed 26 May 2024

paper, the decision for Own Resources requires unanimous agreement by the Council, an opinion from the parliament and ratification by all Member States which makes it challenging. Depending on the outcome of the elections, and the political orientation of the new EC, a completely different approach could be taken towards own resources. With the emergence of right-wing parties for example, we could wonder what the impact would be for EU own resources, those parties are more likely not to grant more revenue to the EU and keep the resources at national level, which could jeopardise the reimbursement of the debt or mean that the biggest part of the budget is allocated to the reimbursement and little is left to conduct the common policies. The political choice made by EU citizens at EU and national level is determinant for the future of the EU budget and will define whether or not more sovereignty is granted to the EU, through more own resources.

The reimbursement of the NGEU debt, due to start in 2028, is also a key consideration for the 2028-2034 MFF and whether or not own resources will be adjusted to meet the reimbursement commitments as well as keep funding the EU common policies to the expected level will have a major influence on the near future of the EU. NGEU has also broken the golden rule of the EU, i.e. requirement for a balanced budget. Intense political discussions can be expected on that topic especially while the future repayments of the debt still need to be funded with a robust plan. NGEU has come as a quick solution to get of out the crisis, but the test will really be in the coming years and how much the repayments will weigh on the overall budget and implementation of EU policies. NGEU funds might eventually not all be used, and we could also wonder whether the un-used funds could potentially be leveraged for other purpose.

Another key element is the absorption capacity of the Member States and the efficiency of the current spendings. It is indeed pointless to bring more resources if the Member States have not proven that they are able to use the funds efficiently, against sustainable projects with an added value for their future developments. The EU has already introduced new rules as part of NGEU, making the funding tied to actual results. The new budget and allocation of resources is likely to make those criteria a broader rule to boost the effectiveness of EU budget.

Enlargement will also have a major influence. As the EU has formally recommended to open the accession negotiations with Ukraine and Moldova at the end of last year and most Western Balkan countries have had a stabilisation and association agreement in place with the EU for over 10 years, it is key that the next MFF not only captures the need for

financial assistance to help those countries reform and catch up with EU standards but also prepares and adjusts towards future accessions. All those countries have a GDP per capita lower than the lowest of the EU Member States, which brings the question of Cohesion policy funding and how the budget would need to adjust to support it, without impacting the EU common policy goals and common public goods. Ukraine's economy is also supported largely by its agricultural sector, while the EU has a critical need to reform the CAP, this also raises the question of how this could be made compatible with the EU budget. Although a study from Jacques Delors Centre projects that net beneficiaries wouldn't necessarily become net contributors[69], and the next enlargement might only take place in a decade, the required expenditures will need to be budgeted already in the next MFF and over all future ones. Lastly, we could also wonder whether the UK might not also be potentially the next country to enter the EU and what the implications would be for the EU budget and own resources if this were the case.

The future size of migration is also a key element to consider. A study by the EC in 2020[70] has highlighted that non-EU migration could be a high generator of fiscal revenue for EU Member States. Indeed, given the social model of most member states, ageing population and low birth rate within the EU, the balance between net fiscal contributors and beneficiaries in EU Member States is likely to shift drastically in the coming years and non-EU immigration would allow to adjust this disparity. This has a significant impact on the EU own resources since the GNI contributions depend on the ability for Member States to contribute to the EU budget.

Lastly, we shall remember that the EU is also part of a wider group and needs to fulfil international agreements. EU taxes or new source of own revenues therefore also must consider the wider framework and respect the global rules.

8. Conclusion

The EU's ability to achieve its ambitious goals and overcome current and future challenges relies deeply on its capacity to secure sustainable and robust revenues. The call of the EC for an urgent top up in 2021-2027 MFF resources from the Member States has evidenced

[69] Johannes Lindner, Thu Nguyen, Romy Hansum (14 Dec 2023), What does it cost? Financial implications of the next enlargement , Jacques Delors Centre, online available: https://www.delorscentre.eu/en/publications/financial-implications-of-the-next-enlargement , last accessed 26 May 2024

[70] Alain Bélanger, Michael Christl, Alessandra Conte, Jacopo Mazza, Eldira Narazani,, Projecting the net fiscal impact of immigration in the EU, EUR 30407 EN, Publications Office of the European Union, Luxembourg, 2020, online available: https://migrant-integration.ec.europa.eu/sites/default/files/2020-11/fiscal_impact_report_final_online.pdf , last accessed 26 May 2024

that the current revenue structure is not flexible enough, not diversified enough, relies too much on Member States contributions, does not allow to retrieve sufficient level of resources and is not sustainable. Ahead on the 2028-2034 MFF and as the negotiations are due to start in the coming months, it is key that the appropriate combination of EU own resources is agreed. A combination which would allow the EU to meet its objectives but also be economically viable, align with the diverse political wills of all Member States and be compatible with the EU's legal framework. Whilst this thin balance is admittedly difficult to find and could take different shapes, this paper allowed me to identify essential avenues for transformation: new tax items, specifically generating policy related income, could be introduced as long as not interfering with national taxes; the unanimous decision-making process needs to change to majority, the 7 years framework would need to be reduced to allow more flexibility, the rules around funds allocation should be closely tied to expected results; resources should be made more impactful with an increased use of EIB, NPBIs and financial institutions to mobilise private capital and achieve more with the same level of public financing, on this point it besides key that EIB's gearing ratio is revisited and the creation of CMU is accelerated. Many external and internal factors will influence the way forward, but a more drastic change is likely to be accompanied with significant legal and institutional changes. This is possibly why the EC proposal focuses mainly on what is achievable in the near future, without major changes. Whether the EU should drastically transform the revenue side of its budget, i.e. be able to levy and collect taxes, Eurozone should be fiscally integrated further, common debt to be made sustainable with a proper EU fiscal capacity… eventually all comes down to political will and how far in EU's integration Member States are ready to go, how much unity and solidarity they wish for the future EU. This is why, among other reasons, the next EP elections are so critical for the future of the EU and will determine not only the level of sovereignty which will be granted to the EU, but also the next key policy goals and ultimately the direction for EU own resources.

List of abbreviations

ATAD: Anti-Tax Avoidance Directive
BEFIT: Framework for Income Taxation
BICC: Budgetary Instrument for Competitiveness and Convergence
CAP: Common Agricultural Policy
CBAM: Carbon Border Adjustment Mechanism
CIT: Corporate Income Tax
CMU: Capital Markets Union
DST: Digital Services Tax
EC: European Commission
EFSI: European Fund for Strategic Investments
EGF: European Guarantee Fund
EIB: European Investment Bank
EP: European Parliament
ESM: European Stability Mechanism
ETS: EU Emissions Trading System
EU: European Union
FTT: Financial Transaction Tax
GDP: Gross Domestic Product
GNI: Gross National Income
GOS: Gross Operating Surplus
MFF: Multiannual Financial Framework
NGEU: Next Generation EU
NPBI: National Promotional Banks and Institutions
OECD: Organisation for Economic Co-operation and Development
RRF: Recovery and Resilience Facility
SME: Small and Medium Enterprises
SURE: European instrument for temporary Support to mitigate Unemployment Risks in an Emergency
TEU: Treaty on the European Union
TFEU: Treaty on the Functioning of the European Union
VAT: Value Added Tax
WTO: World Trade Organisation

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Statement

I, Vanessa Brebion, hereby declare (1) that I have written this final paper without any help from others and without the use of documents and aids other than those stated above, (2) that I have mentioned all used sources and that I have cited them correctly according to established academic rules, as agreed with the experts.

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