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The Pros and Cons of Value Added Tax as a New Own Resource to Finance the Budget of the European Union: A Qualitative Assessment

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As announced in the budget for the European Union that was accepted on 8 February 2013 by the European Council, and today still featuring on the wish list (European Commission, 2016), the Union wants to introduce new own resources to finance the Union's budget. The proposed European taxes are a Financial Transaction Tax (FTT) and an EU Value Added Tax (VAT). With the latter, the consumer would see on every sales slip that part of the VAT that he or she pays goes directly to Brussels. The FTT is now approved by 10 of the 28 Member States; the VAT is still the subject of debate (European Council, 2012). Since it is still open for discussion, this paper looks at the latter new own resource: it highlights the potential and limitations of reforming the financing of the EU budget by means of an EU VAT based on the actual VAT collected in the Member States (MS). The question is asked why the existing VAT based contribution of the MS is unsatisfactory and why a direct contribution of the citizens to the Union would be an improvement. The paper also adds to the present discussion with regard to the introduction of an EU VAT. After looking at the pros and cons of an EU VAT, a qualitative assessment reveals that the regressivity of the VAT (consumption, and hence the VAT, tends to constitute a higher proportion of the GNP of the poorer MS), the different levels of tax fraud amongst the MS, and the EU decision-making process itself

seem to be the most fundamental obstacles to the introduction of this type of tax. The paper concludes by outlining a so-called declaratory EU VAT as an alternative to the European Commission's present proposal. With a declaratory tax, a country still pays its national, GNI based contribution, but it shows the contribution to its citizens as a percentage of the total VAT on every receipt.

Keywords: *European Union, EU budget, own resources, EU VAT.*

Introduction

Within the Multiannual Financial Framework (MFF) for the European Union (EU or Union) for the present seven year period, 2014-2020, the European Commission (Commission), the Union's executive arm, wants to introduce two new own resources to finance the general EU budget (European Commission, 2011a, 2016a; HLG 2014). The budget for this period is about 960 billion euro or one percent of the GNI of the EU Member States. The proposed budget for 2017 is about 156 billion euro. The two proposed European taxes are a Financial Transaction Tax and an EU Value Added Tax. The Value Added Tax (VAT) is a general, broadly based consumption tax assessed on the value added to goods and services. It applies more or less to all goods and services that are bought and sold for use or consumption. The first tax, the FTT, involves a tax rate of 0.1% on trades in shares, bonds and other securities and 0.01% on derivatives transactions. The FTT now has been approved by 11 of the 27 Member States.¹ With the second tax proposed, the consumer can see on every sales slip that part of the VAT paid goes directly to Brussels. This latter tax is still a work in progress and the subject of debate (European Council, 2013), which explains the topic and relevance of this paper.

In this paper we look at the policy and decision-making process with regard to the introduction of an EU VAT as a new own resource. The central questions of the paper are: Why is the existing VAT based contribution of the Member States to finance the EU

¹ For a qualitative assessment of the FTT, see Leen 2012 and 2013.

budget unsatisfactory? and Why is a direct contribution of the citizens to the Union, an EU VAT, an improvement?

Following the introduction the paper discusses the role of the existing VAT based contribution, in the past and present, as an own resource for the Union. Next, the Commission's proposal for a new VAT based contribution is introduced. In the fourth part, we list the proposal's pros and cons. We use the penultimate section to answer our two main questions: (1) Is the new VAT better than the old one? and (2) Is the proposal viable in view of the Union's decision-making process? The paper concludes by discussing the option of a declaratory VAT in the last section. A declaratory EU VAT combines the strong points of the present GNI based own resource with an EU VAT based resource.

The History of an EU VAT

During its initial period, from 1957 onwards, the Union was financed through direct contributions by the Member States.² However, Article 201 of the Treaty of Rome (Treaty), signed in 1957, stipulated already that a system of own resources, or self-financing, was to be introduced at the end of a transition period. In 1970 the EU made the milestone decision to replace national contributions by the Communities' own resources. At present 75% of the EU budget is financed once more by direct contributions, though, which also runs counter to the philosophy behind the Treaty. One of the new resources, introduced in the 1970s, in addition to levies on agricultural and sugar trade with the rest of the world and custom duties on trade with third countries, were resources accruing from a proportion of the national VAT revenues. They derive from the application of a call rate to the Member States' VAT bases set according to harmonized rules. Originally, the tax was to be no more than 1 percent (European Communities, 1970).

Although all three resources are called own resources, the first two resources mentioned are regarded as real or true own resources.

² For an extensive history of the development of the Union's financial system, see European Commission (2014).

They are called traditional own resources. They arise from Community policy instruments: the Common Agricultural Policy and the common commercial tariff. In general, these resources are not seen as a national contribution towards the Community budget. Also from the beginning there was a distinct difference, albeit not in Community law, in the political perception at the national level between traditional own resources and the VAT based contribution. The VAT is generally perceived by governments and national parliaments as a mere budgetary contribution (European Commission, 1998). The first two resources are, as just mentioned, linked to EU policies whereas the VAT based resource and the fourth resource, a GNI based own resource introduced in 1988, are based on statistical aggregates.

In 1970, the levies on agricultural and sugar trade were transferred immediately to the EU. The same was done progressively between 1970 and 1975 with the customs duties on trade. It took, however, until 1979 to reach agreement on a harmonized VAT base.

Since successive trade negotiations reduced world tariffs, the traditional own resources as a proportion of total resources declined. The share of traditional own resources went from almost 50 percent of the budget in 1979 to just 20 percent in 1993, whereas it currently is about 15 percent. During its heyday in 1990 the VAT furnished 70 percent of the EU budget, by 2005 this had dropped to 16 percent and now it is good for about 10 percent of the total EU budget (Lehner 2015).

Until the introduction of the fourth resource in 1988, the GNI based own resource, the VAT resource was the predominant resource. Due to growing expenses at the end of the seventies, the Commission identified a serious revenue problem. In addition to some other taxes, e.g., part of the taxes on cigarettes and part of the taxes on petrol, a simple increase in the VAT rate was suggested as a solution. This resulted in the decision to increase the VAT rate to 1.4 percent at the Fontainebleau Conference in 1984. Later, the maximum VAT rate was maintained at 1.4 percent but capped at 55 percent of the GNP for all Member States. During the first term of Jacques Delors as President of the Commission, from 1988-1992, a revenue limit was agreed upon for the whole EU budget for the first

time: a ceiling of 1.2 percent of the EU GNP.³ In 1996 the maximum VAT rate was reduced to 1 percent and capped at 50 percent of the GNP for the cohesion states, which at that time were Greece, Portugal, Spain and Ireland (Laffan, 1997). In the MFF, the VAT call rate for the period 2007-13 was 0.3%. A reduced rate of 0.225% for Austria, 0.15% for Germany and 0.10% for the Netherlands and Sweden applied, and VAT bases were capped for all Member States at 50% of the GNI. In 2011 this resulted for, e.g., Greece in a payment of 278 million euro, for France in about 3 billion euro, and for the Netherlands in 290 million euro. Under the present MFF a reduced VAT call rate of 0.15% (rather than 0.30%) applies to Germany, the Netherlands and Sweden.

The reason to no longer rely on a higher VAT rate was an attempt to deal with the regressive nature of the VAT resource: consumption, and hence the VAT, tends to form a greater proportion of the GNP of the Community's poorer members. Moreover, Member States with a higher share of tourism also show a higher consumption rate, the so-called Marbella effect. VAT contributions, as an indication of wealth, also inevitably overstate the ability of the poorer MS to pay. Capping the proportion of the VAT for calculations on the uniform base represented a search for more equitable burden-sharing in the budget and hence more social justice. In general it was agreed by the European Council (1987), consisting of the heads of state or government and the President of the European Commission, that the financial system should take greater account of the proportionality of contributions with the relative prosperity of MS. The Commission concluded that less prosperous states, the cohesion states mentioned above, all had relatively high VAT bases and thus were disadvantaged under the 1988 system, even with capping. This was true especially since, because of the economic growth at that time, the newly introduced fourth resource, a topping up of the budget based on the GNI of the MS, was not very effective.

In sum, the problem remained how to tackle the regressive nature and hence perceived social injustice of the existing VAT contribution. As previously stated, the system was advantageous to

³ The GNI based resource (the 'residual' resource) is determined so that total revenue balances total expenditure.

MS with a low VAT base and penalized those, generally poorer, states with a high VAT base. In general the Commission (1998) and the MS declared their willingness to take greater account of the contributive capacity of individual MS in the system of own resources (European Commission, 1998).

The United Kingdom VAT Rebate and Brexit

However, the VAT rate also played another role with respect to the ability to pay: the UK problem. Already before the accession it was known that the UK would pay a disproportionate amount into the Community budget. The reason for this was its trade structure and the high level of imports from non-Community states in particular. On the expenditure side the UK was, at least that was how it was perceived by the MS at the time, unlikely to benefit greatly from the Common Agricultural Policy. Also, just like the cohesion countries, the UK paid a disproportionate contribution based on relative wealth to the budget. It was agreed that an equitable solution was needed. The resulting structural UK budgetary rebate, after some earlier *ad hoc* solutions, materialised in the form of a reduction of the VAT contribution. The refund to the UK is 66 percent of the difference between the receipts from the Union and the VAT contribution (European Council, 2007). Here too we see the special position of the traditional own resources, though, which should not be calculated as part of a net contribution. *Mutatis mutandis*, other Member States saw their *juste-retour* problems repaired by a correction of their VAT contributions.

Another important reason for the Union to introduce an EU tax is to counter the above-mentioned *juste-retour* behaviour of the Member States, as was brought to the fore in the discussion about the UK VAT contribution. States favour expenditures that improve their net national benefits and contributions to the Union rather than those with the greatest added value for the EU as a whole. Such purely self-interested behaviour has been shown to be the result of the dominant way of financing the EU – with national, GNI based contributions. This method of financing “places disproportionate emphasis on net balances between Member States [,] thus contradicting the principle of EU solidarity, diluting the European

common interest and largely ignoring European added value” (European Commission, 2011c).⁴

The recent Brexit, the UK’s decision to leave the EU after a referendum was held on 23 June 2016, can, however, be an opportunity to break with the past with its emphasis on *juste retour*. The reason for this is that the UK VAT rebate is the only rebate that was meant to be “forever” and all other rebates have to be re-established time and again (European Commission, 2014). It could also mean a switch in the discussions, from an emphasis on net contributions towards a budget that reinforces real EU added value (Ferrer *et.al.*, 2016).

In sum, the problem of regressiveness and the way that it is solved, by capping the VAT base, has made the distributional effects of the VAT resource similar to that of the GNI resource (Heinemann, 2008). There are major disadvantages, however, compared to a purely GNI based resource. First, the present VAT own resource creates high administrative costs as a harmonized base must be calculated for this purpose (European Commission, 2008). Second, because of all of the exceptions granted to individual Member States, it is unnecessarily complex and difficult to understand for the citizens. The VAT contribution has become a contribution based on GNP. As the Court of Auditors has stated, “the VAT resource is levied on a ‘virtual’ basis (harmonized VAT base which may be subsequently capped and takes into account compensation arrangements for UK) which is complex to the point of incomprehensibility” (European Commission 2011b).⁵ All in all, the result is that it is the Commission’s priority to abolish the existing VAT own resource.

An EU VAT

Thus, the existing VAT resource based on a share of national VAT receipts, is complex, requires a lot of administrative work to

⁴ For reasons why the net balance approach is (even more) illogical today and in conflict with the solidarity principle, see Ferrer *et al.* (2016).

⁵ For the incomprehensible correction of budgetary imbalances, see Art.1 European Commission, 2004/017 (CNS), Brussels 3.8.2004, p. 25. Cp. European Commission (2008), p. 234-244.

arrive at a harmonized base, and offers little or no added value compared to the GNI based own resource (European Commission, 2011b). In search of new own resources the introduction of a new EU VAT is an option favoured by the Commission and the European Parliament. The Commission's objective is to make the VAT based contribution as simple and transparent as possible, to strengthen the link with EU VAT policy and the actual VAT receipts, and to ensure equal treatment of taxpayers in all Member States. So what does the new VAT look like?

The Commission proposes to apply a single EU VAT rate. National authorities would still raise the money and then transfer it to the EU budget. The option of a new VAT resource alongside Member States' VAT poses serious technical implementation problems and has therefore been discarded (European Commission, 2011b). A genuine EU wide tax base would replace the complex formula currently required to generate a theoretical EU VAT tax base. The Commission estimates that a 1% EU rate applied to the standard rate of VAT in every Member State would result in revenues of between 20.9 and 50.4 billion euro. The exact amount would depend on how narrow or wide the chosen tax base would be (European Commission, 2011b). At the moment, however, the main stumbling block for the realization of an EU VAT is the incomplete harmonization of Member States' VAT systems. Hence, the policy could be part of the wider EU policy on overhauling the existing VAT legislation. The aim of that policy is to come to a greater standardization of rates and fewer reduced rates across EU Member States in order to increase the strength of the internal market (European Commission, 2010).

In sum, the introduction of an EU VAT means that the combined VAT rate in the Member States consists of a national rate and an EU rate. Member States still determine their own national rate and the EU rate is defined separately within the framework of the own resource decision. In addition to the national VAT payment, the EU VAT payments are clearly indicated on each individual invoice. The Member States collect the EU VAT and then transfer the proceeds to the EU budget; it is a revenue transfer mechanism and not a parallel system to that of the MS. The tax base corresponds to the smallest common denominator of the national VAT systems. This means that a good that is subject to the national VAT at the standard rate in a Member State is subject to the new

VAT resource rate unless the same good is subject to a reduced rate or an exemption in another Member State (European Commission, 2011b).

It must be noted, however, that the overall contribution of the MS stays the same at about 1% of their GNI. It is only the composition of the contribution to the Union's budget that changes. Some countries will pay a greater percentage of their total contribution through their VAT contribution and others will pay more by way of the other own resources, i.e. the levies on agricultural and sugar trade, the customs duties and the GNI based contribution.

The Pros and Cons of a New EU VAT

The Pros

On the positive side, there are some clear benefits. A first benefit of the Commission's proposal is its visibility and simplicity for EU citizens. On every sale's slip the consumer can see how much of the money paid goes to the Union and hence how much he or she pays to the Union's budget. This could also fulfil the wish of the European Parliament and Commission to create a better bond between the EU citizens/corporations and the Union. The reason for this is that the Union has evolved from a bond between Member States to a bond between MS and its citizens. If, as is proposed, the total tax burden for the citizens of the Union will indeed stay the same after the introduction of the EU VAT, it can easily be introduced for the goods concerned. All that needs to be done is deducting the EU rate of 1% from the current national VAT rate.

Second, it is said that with a new true own resource the Union's financial autonomy would grow. *Juste-retour* behaviour of the MS would be less pronounced and hence the EU economic resources would be allocated more efficiently. At the same time, because of its higher visibility for EU citizens, we could see an increased political accountability for expenditure decisions.

Third, and related to the previous point, it brings the size of the EU budget into perspective for the citizens. At present the budget is about 130 billion euro. A 1% sales tax, as the Commission expects,

could furnish about a third of the EU budget. The contribution of, e.g., Greece would be 1.1 billion euro, whereas France would contribute 8.2 billion euro and the Netherlands 2.2 billion euro.

In addition to the fact that the VAT is a stable source of revenue, a fourth benefit of the EU VAT is that tax receipts grow in line with increased spending without any change in the VAT rate. In this respect the benefits of the EU VAT resemble the strong points of the present GNI contribution.

Fifth, the development of a common VAT system has been a cornerstone of the Internal Market. The existing complexity is considered harmful to the single market and to the competitiveness of EU business. The introduction of a new own resource could be underpinned by this trend of broadening the tax base, reducing the scope for fraud, improving the administration of the tax and reducing compliance costs. At present, in particular for cross-border supplies, the VAT system remains complicated and burdensome. According to the Commission (2011b), a fraction of the gains derived from this reform could be attributed to the EU level.

Sixth, the system would closely link national policies for VAT with EU budget policies. This would mean a shift towards indirect rather than direct taxation.

Seventh, if individual citizens pay directly to the Union the often cited Marbella effect would no longer be relevant. As said, this effect places a relatively high burden on the Mediterranean countries with their higher share of tourism. The old VAT system that is to be abolished, involved national contributions. In the new VAT system, however, it are the individuals - tourists or locals - who pay.

The Cons

On the negative side, some serious problems exist. First, probably only lip service will be paid to earlier statements that the tax burden for citizens will stay the same with the introduction of an EU tax (European Parliament, 2007). Most likely, the total tax rate for consumers will rise. Because of its high visibility it could also be a problem that citizens would perceive the EU VAT to be an additional burden rather than replacing a national contribution. After all, at least half of all revolutions in the world are said to be tax revolutions (Nef, 2002: 42). The Union's aim is to create a

direct bond with EU citizens, but this could have the opposite effect. The Commission does not mention public support for an EU VAT, but it does mention that 65% of European citizens support the FTT. The latter tax is designed to discourage what it considers socially useless trading activities and let the banks pay for the crisis. And although consumers can be fooled into thinking that someone else pays the bill with the FTT (Worstall, 2011), this will not be the case with an EU VAT. If the total VAT cannot be raised, the measure will probably not be attractive for national governments compared to the FTT. An FTT does not only leave the present tax receipt for Member States at the same level but it even adds revenue to the Member States.

Second, a genuine EU wide VAT tax base would remove the possibility of MS tailoring VAT rates to changing economic circumstances and redress the regressive nature, the perceived social injustice, of the tax (Open Europe, 2011). Throughout history, the regressive nature has always been taken seriously and can even be seen as the reason for the fact that the present EU VAT contribution is no more than a GNI based contribution.⁶ In the past, the European Parliament (1994) already wanted to impose different tax rates on different categories of goods to mitigate the regressive effect of the tax. For the same reason the European Commission, (2011b) also looked at the option of a modulated VAT that would allow for different EU VAT rates to be applied to different categories of goods.

Third, as far as the actual introduction of an EU VAT is concerned, since the Member States recently increased their existing VAT rates the room to increase them any further in the near future is small. Therefore, an EU VAT will not solve the problem that the EU heavily rests on GNI based resources.

Fourth, as for any change in the own resource system there will be distributive consequences. Based on calculations made by Heinemann (2008), the introduction of an EU VAT would have major distributive consequences. Cyprus, e.g., would have to pay almost 70% more than in the case of GNI proportionality, as with

⁶ Recently, however, the Commission (2011b, p. 107) did find a slightly negative---but not statistically significant---relationship between the potential revenues from the hypothetical new VAT resource and the GNI per capita of the Member States.

the present VAT contribution. Denmark, on the other hand, would have to pay almost 20% less. Again, the reason is the regressive character of the VAT that puts a relatively greater burden on the poorer Southern and Eastern Member States due to a higher consumption ratio. In short, in the decision-making process the old *juste-retour* hurdle has to be taken once more.

Fifth, the regressive character of VAT contributions is not tackled. As far as the regressive character goes the switch from a burden in terms of national GNI to per capita consumption is non-essential.

Sixth, the decision-making process for a Treaty change to the own resource system is one of the most difficult for the Union. The proposal of the European Commission, after having consulted the European Parliament, must be adopted unanimously by the Council and the national parliaments of the 27 MS. At the moment, for the European Parliament a reform of the own resources towards genuine own resources is a non-negotiable point for giving its consent to the MFF. The outcome of this process is still undecided at present.

Seventh, because of national differences regarding tax fraud and administrative efficiency the postulate of horizontal equity is violated. In the 1990s, the rate of VAT evasion and fraud ranged from 2.4 percent in the Netherlands to 34.5 percent in Italy (Heinemann, 2008).

A Qualitative Assessment of an EU VAT

Given and affirming the pros, what cons do stand out as outweighing the pros? Three problems seem to stand out most significantly in view of the introduction of a reformed EU VAT: the regressivity of the VAT, tax fraud, and the decision-making process. If indeed the total national VAT rate stays the same, regressivity cannot be a problem. There is a situation of *status quo*: nothing changes for the consumer. As indicated the overall contribution stays the same for the MS as well, only its composition changes. Probably, however, notwithstanding the intentions of the Commission and European Parliament, the total VAT rate will increase and regressivity and hence social justice will play a major role. The problem of tax fraud will not be that easy to overcome,

notwithstanding the Union's policy to achieve a better overall VAT. The policy will probably mostly reduce cross-border VAT fraud. In the short run, the official process of decision-making looks to be the most compelling obstacle. Since national contributions do change, the *juste-retour* behaviour of the MS will be pervasive.

Is there a compelling reason for introducing a new EU VAT? We ask this question because the present GNI based own resource has some strong points and receives support from the MS. Besides that, *juste-retour* behaviour is natural and hard to fight.⁷ National payments of the GNI resource are easy to calculate, understood by the citizens, and are seen as a good indicator for a nation's capability to pay. In short, the system is seen as a simple and fair way of financing. However, because of tax fraud, some countries will underestimate their GNI. In sum, the GNI contribution is not much different from what the European Parliament wants to achieve with an EU VAT. That is, apart from the fact that no direct relation with the EU citizens would exist and that the financial autonomy of the European Union would not be changed.

Probably, however, with the new EU VAT the MS will still show the *juste-retour* behaviour, i.e. do have the net balance approach to the EU budget. Moreover, it is no goal of the Union to achieve autonomy. Or at least it shouldn't be, even though financial autonomy is of course something that every bureaucracy wants (Alves & Afonso, 2008). Therefore, it can never be a goal *per se*. It can only be a goal because of some other goal that otherwise cannot be attained. For the Union this is clearly the goal of securing expenses with an added value for Europe as a whole. For the same reason and by contrast, however, an EU tax may lead to less budgetary discipline at the European level.

The problem of autonomy is closely related to the fact that Member States interpret an EU tax as a loss of their fiscal sovereignty. Hence, the European Parliament (2007) emphasizes that "fiscal sovereignty will be maintained, but only temporary the receipts of certain taxes will go directly to the EU". From an economic point of view, however, the eternal socialization of an asset's return is the same as the socialization of the asset itself (Sinn

⁷ See Leen (2011).

& Feist, 2000). *Mutatis mutandis*, this is also true for the temporary pooling of the revenue of taxation.

In sum, is it not possible to come to a more definite qualitative or quantitative answer (e.g., European Parliament, 1997) by stating the criteria for judging an EU VAT and attributing quantitative weights to them? All of this has been done and tried by the Union (Federal Ministry of Finance, 2014; Schratzenstaller & Berghuber, 2006). Both the Commission and the European Parliament have mentioned visibility, simplicity, financial autonomy, efficiency, sufficiency, cost-effectiveness, stability of revenue, equity, and added value for Europe as potential criteria (Begg, *et.al.* 2008). The problem is how to tackle this ‘shopping list’ of criteria that the VAT, or any other EU tax, would have to fulfil: what criteria need to be included in our measurement and what weights need to be attached to these criteria (Begg & Grimwade (1998); Cattoir (2004); European Parliament (1997))? Another problem with the proposed tax concerns the quality of the legislative process (European Commission 2016b; Radaelli, 2004). Furthermore, there is the matter of legality (Menéndez, 2003)⁸: did all parties participate in the process and can their respective expectations be met? The tax that is actually chosen will probably be an *ad hoc* political choice based, as is often the case, on odd compromises (Laffan 2000; Benedetto & Milio 2012). In order to facilitate a rational discussion that will fulfil the quality demands of both national and international law, the EU must hence first arrive at a manageable list of criteria (Heinemann, 2008; FiFo, 2016)⁹.

An Alternative Way to Introduce an EU VAT: A Declaratory EU VAT

Is there another way to introduce an EU VAT without the difficulties that we just mentioned? An EU VAT can also be introduced in the form of a so-called declaratory tax. With a declaratory tax a country still pays its national, GNI based contribution to the EU, but it shows its contribution to its citizens as

⁸ According to Menéndez, legal, normative and prudential criteria require a partial transfer of the taxation right to the EU.

⁹ Heinemann bases his assessment criteria on the theories of fiscal federalism, public choice, European integration, and traditional principles of public finance.

a percentage of, e.g., the VAT on every receipt (Caesar, 2001). The amount is *pro forma* linked to a certain tax; a country can choose its own 'EU tax'. Since the preferred method of taxation differs between Member States, this is an advantage. Harmonization of tax bases between countries is not necessary. Another advantage is that no additional collection costs have to be made. The quality of the national tax authorities does not matter either, as would be the case with a new true EU VAT because of tax fraud. At present, not every country collects the tax revenues that it should in view of the existing tax rate. With the new EU tax there would be no horizontal equity between the citizens of the Member States. Greece, where consumption amounts to two thirds of the GNI, collected about the same amount of VAT as the Netherlands, for example: about 8 percent of the GNI. In the Netherlands, however, consumption amounts to less than half of the GNI (Gros, 2008).

There are also some disadvantages, though. Because the VAT rates will differ between Member States, no horizontal equity will exist among the citizens of the Member States. The main argument against it, however, is that the public is misled in a sense. The Union still receives direct contributions from the Member States; the autonomy of the EU seems larger than it is.

In sum, a declaratory EU VAT tax combines the strong points of the GNI contribution with the visibility of an EU VAT.

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