Adjusted package for the next generation of own resources

Own resources – New temporary statistical based own resource on company profits – Carbon Border Adjustment Mechanism – Emissions Trading System

On June 20, 2023, the European Commission (the Commission or the EC) published a proposal for a next generation of own resources. The initiative adjusts and supplements the first basket of proposed own resources put forward in December 2021.

The proposal includes a temporary new own resource based on company profits. If approved, each Member State would be required to contribute a new levy equivalent to 0.5 percent of surplus corporate profits.

Background

In 2020, as part of agreement on the long-term EU budget and NextGenerationEU, the European Parliament, the Council, and the Commission agreed to introduce new own resources[1] to the EU budget. Such resources were needed to support the reimbursement of NextGenerationEU borrowing. In light of this agreement, the Commission committed to issue two sets of proposals of new own resources of revenue to the EU budget.

On December 22, 2021, the Commission published a proposal for a first basket of own resources. The initiative included proposals for national contributions to the EU budget based on the Carbon Border Adjustment Mechanism (CBAM), Emissions Trading System (ETS) and the OECD Pillar One agreement. The Council had

1 Currently the EU budget includes four main own resources: i) custom duties –75 percent of the import duties collected by Member States; ii) VAT – a uniform call rate of 0.3 percent applied to the VAT bases of all Member States; iii) a statistical-based own resource on non-recycled plastic packaging waste and iv) a share of each Member State's Gross National Income – which represents the main financing source. According to the Commission, these four resources generate over 90 percent of the EU budget revenue.

committed to deliberate on the first basket of new own resources by July 1, 2022, with a view to introducing the measures by January 1, 2023. For previous coverage, please refer to Euro Tax Flash Issue 463.

The Commission was expected to present a proposal for a second basket of new own resources by June 2024. It was anticipated that these additional new own resources would include a financial transaction tax (FTT) and an own resource linked to the corporate sector. This second package was also expected to build on the upcoming Business in Europe: Framework for Income Taxation (BEFIT) proposal.

EC proposal

Own resources to fund the EU budget provided under the new proposal include:

New temporary statistical based own resource on company profits

The proposal provides for a new statistical own resource based on national accounts statistics, prepared under the European system of accounts (ESA).

This contribution would not constitute a new tax on companies. Instead, Member States would be required to transfer to the EU budget, on a monthly basis, an amount of 0.5 percent of the gross operating surplus statistics recorded for the sector of financial and non-financial corporations. The gross operating surplus differs from the profits shown in the company accounts and is computed as gross output less the cost of intermediate goods and services, and less compensation of employees and taxes and subsidies on production and imports.

The Commission estimates that the statistical own resource on company profits would provide revenues as of 2024 of approximately EUR 16 billion (based on 2018 data) per year.

The measures would apply on a temporary basis, until a contribution relating to the Commission's BEFIT initiative has been proposed and unanimously agreed by all Member States. The BEFIT proposal is expected to be issued on September 12, 2023.

Adjustment of the ETS own resource

The European Commission acknowledges the increase in the carbon prices since the 2021 own resources proposal was published (EUR 80 per tonne in 2022 as compared to EUR 55 in 2021). Given the price increase and based on the assumption that the prices would remain high in the next years, the Commission proposes to increase the call rate for the ETS-based own resource to 30 percent – up from the original 25 percent contribution proposed in 2021.

The Commission estimates that the new contribution would generate EU budget revenue of approximately EUR 7 billion (in 2018 prices) annually from 2024 onwards. The amounts would be further increased starting 2028, when the new ETS rules enter into force.

Adjustment of the CBAM own resource

The December 2021 proposal remains largely unchanged. Minimal amendments were made manly to align the text with the recent CBAM Regulation.

In line with the initial proposal, the current initiative prescribes that 75 percent of the revenues from the mechanism will be allocated to the EU budget. This revenue source is projected to generate approximately EUR 1.5 billion annually, starting with 2028, for the EU budget.

Pillar One based resource

The initiative maintains the Pillar One based own resource, that was included in the December 2021 proposal. Under this proposal, Member States would provide a national contribution to the EU budget based on the share of 15 percent of the taxable profits of multinational enterprises re-allocated to each Member State under Pillar One.

The Commission's budget estimates that this could generate revenues of up to EUR 2.5 and 4 billion annually.

In the working document accompanying the proposal, the Commission expresses its support for this own resource. However, it also notes that, due to delays in international discussions, it is uncertain when the negotiations for a related EU Directive and Pillar One own resource would commence.

Next steps

The Commission proposes that the contribution from the statistical based own resource on company profits and the existing ETS – covering stationary installations, maritime and aviation, applies as of 2024. The contribution from CBAM and the new ETS on building, road transport and other sectors is proposed to apply as of January 1, 2028.

The own resource decision has to be unanimously agreed by Member States in the Council. The European Parliament would also need to provide their non-binding opinion. The decision will enter into force once it is ratified by the Member States in accordance with their constitutional requirements.

ETC comment

The European Commission issued the proposal for a second basket of own resources earlier than their initial commitment. A FTT [2] based own resource is notably missing in the package, despite being mentioned in previous communications as a potential new own resource.

The European Parliament has been pushing for the second basket of own resources and outlined their position on the revenue side of the EU budget in a resolution adopted on May 10, 2023. In their resolution, the Parliament called for a variety of new sources of income, including: a BEFIT based own resource, a FTT and related measures, a tax on cryptocurrencies, an EU digital levy and an EU 'fair border mechanism'[3]. For previous coverage, please refer to E-news Issue 177.

In the working document accompanying the proposal, the Commission took the opportunity to explain their tax policy choice. In the EC's view, statistical based own resources are generally considered more feasible to implement. With respect to the FTT, the EC acknowledges that no substantial discussions have been held since February 2021 – when the Portuguese Presidency of the Council proposed an inclusive discussion among all Member States on tax design issues of the FTT at EU level. As such, in the EC's view, the FTT is unlikely to materialize in short term.

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[2] Under a 2011 proposal, an FTT would have been introduced by all EU Member States and would have been levied at fixed low rates on certain transactions involving financial instruments. The proposal has been in deadlock since 2011. For previous coverage on the FTT proposal and state of play, please referred to the dedicated KPMG webpage.

[3] Such mechanism would require companies importing goods into the EU to pay workers employed in non-EU countries in their global supply chain a daily wage that is above the relevant poverty line. Where wages in non-EU countries are below a fixed threshold, companies would have to pay a charge amounting to the difference between this threshold and the actual remuneration of their workers. The proceeds of those charges would accrue to the EU budget.

Regarding an EU-wide tax on cryptoassets, the EC acknowledges the diverse approach Member States currently take with respect to taxing cryptoassets and highlights the significant challenges in implementing a harmonized taxation system. Therefore, in the Commissions' view, an EU-wide tax on cryptoassets should only be considered in the medium term, following further analysis and collaboration. The EU "fair border mechanism" would also raise significant challenges, both in terms of design and implementation, as well as related to ensuring compliance with the World Trade Organization (WTO) rules.

Should you have any queries, please do not hesitate to contact KPMG's EU Tax Centre or, as appropriate, your local KPMG tax advisor.

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