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A rational system of the own resources for the European Community

Abstract: A system of EC own resources needs a comprehensive reform because it does not correspond with the new reality of enlarged European Union (EU). The system analysis according to the own resources criteria in federal country proves that the present system of EC resources neither guarantees EC financial autonomy nor equity in taxation between Member States in aid of the general budget.

Two main directions of reform are presently considered. First one concerns an extention of EC tax base by creation one or more new EC taxes while second one – a simplification of the system by replacing traditional and VAT resources with so called the fourth resource. The author tries to assess presented lines of reform according to postulated criteria.

Keywords: European Union, EC general budget, EC public finance, EC taxes.

Jel codes: H 2, H 6, H 77, H 87.

1. Introduction

One of the most important and current problems in the European Community (EC) public finance concerns its system of own resources. Almost all economists involved in the subject are unanimous that the present system needs a comprehensive reform because it does not correspond with the new reality of enlarged European Union (EU). However, the problem lies in a range and directions of the reform. In general, some economists postulate to extend the EC tax base by creating one or more new EC taxes whereas others opt for simplifying the system by replacing traditional and VAT resources with the so called fourth resource. These differences result from dissimilar aproaches of economists to the criteria the own resources system is supposed to meet.

The aim of the paper is to assess the present system of EC own resuces and the proposals of its reform according to the most important criteria pointed in the relevant literature.

2. Criteria for the own resources

Since the European Communities were established, a lengthy discussion has been held about the suitable system of financing their activities and the criteria it has been supposed to meet. Both the history and the relevant literature prove that the shape of the EC's revenue system is strictly connected with a political model of the European Community. At present it is often stressed that the European Community is an organization much more developed than a mere confederation but they do not constitute a federation either (Symonides, 2002, p. 45). Nevertheless, with regard to their supranational character, the federal system of the own resources seems to be the most suitable model for the European Community. Theories of fiscal federalism introduce many criteria for the own resources to be met at different levels of public authorities (Norregaard, 1997, p. 49-53; Walsh, 1993, p.36). Eight rules seem to be the pillars of the supranational own resources' system, namely:

- subsidiarity,
- counteracting the external effects of taxes,
- counteracting a regional arbitrariness of the tax base or tax revenue,
- financial autonomy,
- equity,
- fiscal efficiency,
- cost effectiveness,
- transparency and simplicity.

Generally, the rule of subsidiarity in fiscal federalism means that a higher-level government knowingly affects only these fields of a lower-level government' activities in which this intervention brings more advantages than the intervention of a lower-level government. With regard to the own resources this rule means that a federal government should have competence to define all the taxes and customs which when established by a lower-level government cause negative results. Two rules resulting from the criterion of subsidiarity are: counteracting the external effects of taxes and counteracting a regional arbitrariness in tax areas.

External effects of taxes appear when taxes levied in one country can affect an economic situation in another country. Two cases can be considered here. The first one is when taxes influence the prices of internationally traded goods or production factors on imperfectly competitive markets. Such taxes lead to distortion between national fiscal systems which may cause further distortion of international prices. The second case refers to services and occurs when the tax benefit from a particular service transcends national borders. It is believed that in both cases just mentioned, taxes levied on these bases should be assigned to a higher- level government. As a result all such taxes ought to be harmonized.

Regional arbitrariness occurs when it is impossible to define a reasonable tax base or tax revenue because the tax is levied by a lower-level government. This situation

takes place in the case of taxes or customs levied on imported goods by a country in which there is a border checkpoint with the federation, whereas imported goods are finally consumed in other countries. Then these taxes or customs ought to be assigned to a higher-level government.

The system of own resources ought to guarantee a federation a financial autonomy. Financial independence is necessary for the long standing and secure functioning of any federation. This rule is met when a federation is equipped with "real" own resources. These are the resources which reinforce a federal budget entirely and are not transferred from national budgets.

The principle of "fairness" applied to the fiscal treatment of the Member States is very important. This criterion guarantees the EC financial stability and neutralizes conflicts between the Member States in the area of federal budget financing. As a result the Member States can focus on federal goals instead of clawing back unfairly paid money. In economics the rule of equity is understood as both: horizontal equity and vertical equity. According to the present assumptions of the EC, the horizontal equity means that fiscal burden for each Member State should be proportional to its share in the EC's GDP.

However this interpretation of the equity principle is questioned by some economists (Buchholz-Will, Dahlström, Huffschmid and others, 2002, p. 26 and 27). These economists consider it unfair because it does not refer to the real ability-to-pay principle of each country, which, in other words, means that it does not refer to the vertical equity. According to them, the system of own resources should be interregionally progressive by means of respecting a national per capita income of each Member State in comparison to the total income of the EC.

The own resources must be fiscally efficient. It means that they ought to reinforce the general budget with sufficient financial means to cover the European Union's expenditure in the long term. It is also very important when defining resources to establish those which involve the smallest possible costs of collecting.

At last, the own resources must be transparent and visible for the European citizens and companies. It seems obvious that these principles are met when constructions of the own resources are not complicated and are stable in the long term.

Apart from the above-mentioned rules, there are also many other supplementary criteria for a federal system of the own resources. In fact, all other well-known criteria for national tax systems introduced in the public finance literature through centuries may be included in this group (Begg, Griwade, 1998, p. 95-105). All these rules may be classified into three groups, i.e.: economic principles (e.g. neutrality, social fairness), administrative principles (e.g. low susceptibility to fraud), and political principles (political compromise, links to common policies etc.). The present system of the EC's own resources will be discussed with regard to the main principles in the third part of this article.

3. Present system of the own resources

The present system of the EC's own resources consists mainly of the two so-called traditional resources (i.e. agricultural customs and sugar fees, customs duties), the VAT resource and the fourth resource (European Council, 2000).

Agricultural customs are levied on agricultural products imported to the EC whose prices are lower than the EC ones. The common prices are set by the Council Decisions in consultation with the Commission and the Parliament and, as rule, they are higher than the world prices. In the EC's opinion, the world prices on agricultural products are generally lower because of subsidies most countries apply. Thus, agricultural customs are supposed to -at least- equal the prices of imported goods with the EC ones and thereby protect the EC agricultural market.

Sugar levies are imposed on producers of sugar and derivative products like isoglucose and insulin. Generally, there are three kinds of such levies: a production levy, a storing levy and others. All these levies are purposeful, which means that the money collected is spent back on the sugar market.

Customs duties are established in respect of trade with non-member countries under the so called Common Customs Tariff and the Treaty establishing the European Coal and Steel Community. The main purpose of these duties is similar to the aim of agricultural duties as it aims at the equalization of the EC prices with the world prices and the protection of the EC market. Customs duties may be divided into: contracted duties, autonomous duties, antidumping duties and antisubventional duties.

Contracted duties result from the agreement between the EC and the World Trade Organization (WTO) whereas autonomous ones do not result from this agreement and are established through independent decisions of the EC. Antisubventional duties are levied on imported products whose prices are lower than the EC ones as a result of national subsidiaries. Antidumping duties are imposed on imported goods whose lower prices result from selling them below the production cost.

The Member States are obliged to collect and transfer revenue from traditional resources to the general budget. Simultaneously, they can keep 25% of the revenue in order to cover the collecting costs.

Each Member State is obliged to transfer a part of its revenue from VAT to the general budget. This tax currently exists in each Member State's tax system and is harmonized, which means that the construction of VAT in each Member State is almost the same. Only tax rates still remain an exception.

It must be stressed that the rules defining tax burden in aid of the general budget are completely different from the ones defining tax burden of the Member States' budgets. With regard to the first rules, each Member State is obliged to define a separate tax base and employ a uniform tax rate. The tax base is established by means of the so-called "revenue method". The VAT base equals a quotient of national VAT

revenue by the national average VAT rate. An additional assumption is made that the tax base for each Member State cannot exceed 50% of its GDP.

A uniform tax rate equals the remainder of the maximum rate and the so-called "frozen" rate. The maximum rate at present amounts to 0,50%, however "the frozen" one equals a quotient of the so-called "compensation" (correction) for Great Britain by the sum of all Member States' VAT bases.

Great Britain receives compensation from other Member States in order to cover budgetary imbalances resulting from a huge payment predomination over the money it receives.The compensation for Great Britain is paid in the form of its VAT due reduction. Additionally, Great Britain is excluded from paying the correction. Other Member States finance compensation in proportion to their shares in the EC's GDP. However the exceptional rules were set for Austria, Germany, Holland and Sweden which pay only 0,25 of the original amount.

The fourth resource constitutes direct payments made by the Member States from their national budgets. It is supposed to balance the general budget ex ante so it is introduced when the revenue from the first three resources is insufficient to cover expenditure. The base for defining the amount of the fourth resource is the remainder of the approved expenditure and the predicted revenue from the three resources. That remainder is covered by the Member States' direct payments according to the uniform rate in proportion to their shares in the EC's GDP.

The European Communities derive additional revenue from other resources, such as: taxes and premiums levied on salaries of the EC's employees, interests from outstanding amount dues, budgetary surpluses, income from the activity of some EC's institution etc. However, revenue from these resources is irregular and less efficient in fiscal terms.

4. Advantages and disadvantages of the present own resources

An assessment of the present own resources system according to the mentioned criteria is based on a quantitative method proposed by I. Begg and N. Grimwade (Begg, Grimwade, 1998, p. 144). The system of scoring works in the following way: first, a special wage (50, 70 or 100 points) was defined for each criterion reflecting its importance for the European Communities, and next by means of rates the possibility of meeting each criterion was defined: strongly favourable 2, favourable 1, neutral 0, adverse –1 and strongly adverse –2.

The sum of products of wage and rate gives the general result reflecting the possibility of introducing each potential resource. The maximum amount of points cannot exceed 1300. The evaluation of the present own resources with regard to the previously mentioned criteria is shown in Table 1.

Table 1. Evaluation of the present own resources with regard to postulated criteria

Resource	Criterion	Weight	Rating	Score
Traditional resources	Subsidiarity	100	2	200
	Counteracting the external effects	100	2	200
	Counteracting the regional arbitrariness	100	2	200
	Financial autonomy	100	1	100
	Equity	75	0	0
	Fiscal efficiency	75	1	75
	Cost effectiveness	50	–1	–50
	Transparency and visibility	50	1	50
	Total			975
The VAT resource	Subsidiarity	100	2	200
	Counteracting the external effects	100	2	200
	Counteracting the regional arbitrariness	100	2	200
	Financial autonomy	100	–2	–200
	Equity	75	0	0
	Fiscal efficiency	75	2	150
	Cost effectiveness	50	2	100
	Transparency and visibility	50	–2	–100
	Total			550
The fourth resource	Subsidiarity	100	–2	–200
	Counteracting the external effects	100	–2	–200
	Counteracting the regional arbitrariness	100	–2	–200
	Financial autonomy	100	–2	–200
	Equity	75	0	0
	Fiscal efficiency	75	2	150
	Cost effectiveness	50	2	100
	Transparency and visibility	50	–1	–50
	Total			–600

Source: Own evaluation based on: Commission Report, 1998, p. 5-8; Cieślukowski, 2004, p. 38-43.

Traditional own resources meet the first three criteria to the highest degree, as well as the criterion of transparency and visibility. Customs duties are mainly collected in a few border checkpoints to the European Communities, whereas imported goods' addressees are in other Member States. As a result, a target Member State does not receive revenue from customs duties. Thus, assigning customs duties to the Member State which has border checkpoints would cause regional arbitrariness. That is why the revenue from customs duties and the entitlement to define their constructions are attributed to the European Communities.

Traditional resources also guarantee the European Communities financial autonomy because they are almost entirely assigned to the general budget and when transferred they omit the Member States' national budgets. The only disadvantage in the case of this rule is the raising cost of their collection (from 10 to 25% of the collected amount) which causes that not the entire amount reinforces the budget.

Traditional resources may also be recognized as quite transparent for the European citizens and companies. The rules of paying and collecting customs are understandable and not so complicated. Instead, the weakest points of discussing resources are that the mentioned costs of collection are rising and the fact that they became less fiscally efficient. In the years 1971-2003 the share of traditional resources in the general budget decreased from over 55% to less than 17% (see Table 2).

Traditional own resources seem to be neutral to the equity rule. On the one hand, they generally do not correspond to the criterion of the horizontal equity (see Table 3). For example, in 2003 that criterion was met only by Denmark, Greece, Ireland, Luxembourg and Sweden. In the case of the remaining Member States the differences between the shares of traditional resources in the general budget and the shares of the Member States' GDP in the general budget were very large. Accordingly, such countries as France, Germany, Italy had much higher shares in traditional resources than in the EC's GDP whereas in the case of Holland, Great Britain, Belgium the situation was completely different. However, in the case of the last three Member States it was the result of their specific economic and geographic positions. On the other hand, it is fair that these resources were assigned to the supranational level. From the rules of counteracting the regional arbitrariness and external effects it results that assigning them to Member States in the conditions of open market would be unfair in the case of countries which do not posses border checkpoints.

The VAT resource, like traditional resources, also meets the first three criteria. Before introducing VAT there were different turnover taxes in each Member State (the VAT was only in France) which caused big differences in international prices. The abolition of the customs borders between the Member States together with the upkeep of different turnover taxes would cause serious disturbances in the free movement of goods and services. With regard to the goal of the European Communities which was the creation of a common market, introducing the harmonized VAT in each Member State was necessary (European Council, 1967).

Another important advantage of the VAT resource is its fiscal efficiency and cost effectiveness. The revenue from this resource reinforces the general budget in about 40% and financial means come directly from the national budgets of the Member States. Additionally, the VAT resource meets the criterion of the horizontal equity (see Table 3).

However, on the other hand, the VAT resource does not meet the financial autonomy, vertical equity and transparency criteria. The VAT resource is not an autonomous resource of the EC. As mentioned above, it comes from national budgets

Table 2. Own resources revenue in the years 1971-2003

Own resources	Years									
	1971		1979		1988		1998		2003	
	mln euro	%	mln euro	%	mln euro	%	mln euro	%	mln euro	%
Traditional own resources	713,8	30,6%	2 143,5	14,4%	2 605,8	6,2%	1 955,1	2,3%	1 462,4	1,6%
Customs duties	582,3	25,0%	5 189,1	34,8%	9 310,2	22,3%	12 155,6	14,4%	9 479,8	10,1%
VAT			4 737,7	31,8%	23 927,6	57,2%	33 118,0	39,2%	21 540,2	23,0%
Fourth resource					4 445,8	10,6%	35 020,5	41,4%	51 235,2	54,8%
Miscellaneous	1 033,2	44,4%	2 821,2	18,9%	1 554,0	3,7%	2 280,5	2,7%	9 836,1	10,5%
Total revenue	2 329,3	100,0%	14 891,5	100,0%	41 843,4	100,0%	84 529,7	100,0%	93 553,7	100,0%

Source: Own calculation based on: European Commission, 1999, p. 42 and 43; European Commission, 2002, p. 23; General budget of the European Union for the financial year 2004, European Commission, Brussels- Luxembourg 2004, p. 24.

Table 3. Financing the general budget by the Member States in 2003 (in %)

Member state	A share in the EC's GDP	A share in financing the general budget	A share of traditional own resources in total revenue	A share of the VAT resource in total revenue	A share of the fourth resource in total revenue
Austria	2,4	2,6	1,7	2,5	2,5
Belgium	2,8	4,4	8,5	2,8	3,2
Denmark	2,1	2,2	2,0	1,8	2,1
Finland	1,5	1,5	0,8	1,4	1,5
France	16,6	17,9	10,3	17,9	16,3
Greece	1,5	1,7	1,2	1,6	1,5
Spain	7,4	8,2	6,2	7,7	7,4
Netherlands	4,9	6,8	12,0	5,1	4,8
Ireland	1,3	1,5	1,1	1,4	1,4
Luxembourg	0,2	0,3	0,1	0,3	0,3
Germany	23,5	24,4	21,6	22,6	23,0
Portugal	1,4	1,6	1,1	1,5	1,4
Sweden	2,7	2,9	2,5	2,5	2,7
Great Britain	18,0	9,6	21,3	18,4	17,8
Italy	13,7	14,4	9,6	12,5	14,1
Total	100,0	100,0	100,0	100,0	100,0

Source: European Commission, 2004a, p. 121.

of the Member States and does not supply the general budget entirely. Only a small part of the national VAT revenue goes to the general budget.

A serious disadvantage of the VAT resource is vertical unfairness. The VAT resource does not meet this criterion because -in principle- it does not respect the rule of ability-to-pay. Before 1988, the construction of the VAT resource was even more unfair than at present because the VAT burden for the less prosperous Member States like Portugal, Spain, Greece was relatively higher in relation to their national revenue than the one for the more prosperous Member States. That is why in the years 1988 – 2004 the VAT base was finally reduced for all Member States from 55% to 50% of their GDP with the maximum rate reduced from 1,4% to 0,50%.

Another disadvantage of the VAT resource lies in the fact that it is very complicated to count and –consequently- it is completely invisible for the European citizens and companies. There are at least three factors accounting for the VAT complexity: a reduced tax base, reduced tax rates for some Member States and the most invisible part of its construction – the correction for Great Britain.

However, in my opinion, the most controversial resource is the fourth resource. At present this resource is the most efficient one because it supplies the general budget

with about 45% of its revenue. Table 3 also shows that it meets the criterion of the horizontal equity in general. However, the poorer EC countries criticize it because it does not refer to the ability-to-pay principle.

In the case of other criteria, the fourth resource reveals a few shortcomings. In my opinion, the most important one is that this resource is not conducive to the security of the EC financial autonomy. Since the creation of the EEC and the Euratom, their activities were financed with direct payments made by the Member States. Their structure depended upon economic and political criteria. The main economic criterion was the share in the EC's GNP; and the higher the share was, the higher the payments were. However, the political criterion was connected with the rule of majority in decision taking. This system had many disadvantages. First of all, it did not guarantee the EC its revenue in the long term and -secondly – it favored the biggest payees enabling them to influence the directions of expenditure. Thereby, it was not conducive to the European integration and to the maintenance of the financial and political independence.

In 1970 in Luxembourg, the European Communities took a decision about introducing the system of own resources which was supposed to replace the system of direct payments from national budgets of the Member States (European Council, 1970). The process of introducing own resources was finished in 1980. Till then, the general budget had also been reinforced by direct payments which were placed in other resources.

Unfortunately, in a short period of time revenue from the own resources turned out to be insufficient to cover the constantly raising cost of the Common Agriculture Policy and commitments to the new Member States. However, in order to maintain the financial stability the EC did not define any new own resources but in 1988 they decided to introduce the so-called fourth resource and thereby returned to the method of financing the general budget that existed in the 60s with all its disadvantages. Soon the fourth resource became the most efficient one, yet in the new economic conditions it revealed another shortcoming as it caused a wider disproportion between net payees and net beneficiaries (see Table 4). As a result, it seems that the Member States who are the biggest net payees are currently focused rather on clawing their money back than on realizing the European Union's goals.

In the case of the fourth resource, it is also very difficult to find any connections with the principles of subsidiarity, counteracting externalities and regional arbitrariness. Because of the fact that the fourth resource -like the VAT one- directly comes from the national budgets of the Member Sates, it is completely invisible for the European citizens and companies.

5. Main directions of the reform

The results of the foregoing analysis demonstrate that the present system of own resources needs a reform if the European Communities want to accomplish the Lisbon's goals. The relevant literature provides two main lines of such a reform (European Commission, 1998, p. 11 and 12). The first one consists in simplifying the present system of own resources and the second one – in widening fiscal bases of new resources.

There are three possibilities of simplifying the present system of new resources. The first one consists in replacing traditional own resources with the fourth resource. Traditional own resources are constantly becoming less efficient thus losing their fiscal significance. That is why the project aims to return them to the Member States where a final consumption of goods and services takes place. The second direction is to simplify the method of calculation of the VAT resource. Such simplifying consists in departing from the British correction and introducing the uniform VAT rate for all Member States. At last, a final line of simplifying refers to a complete replacement of both - traditional resource and VAT resource with the fourth resource.

With regard to the latter, the less developed EC countries introduced a model of the interregional progressiveness in the GDP resource concerning the ability-to-pay principle. They propose to define the so-called "national modulation coefficient" reflecting the relative position of each Member State's per capita income in comparison to the average income of the EC (Buchholz-Will,. Dahlström, Huffschmid and others, 2002, p. 27 and 28). This coefficient rate would be applied to the GDP resource base calculated in a current way. The Member States whose per capita income is higher than the EC average would pay more, whereas the countries with per capita income below the EC average would pay less than under the current system. An example of the potential calculation of the GDP tax burden for a 1 % tax rate in comparison with the current GDP system in 2003 is shown in table 5.

The second direction of the reform postulates to introduce new own resources. Depending on their fiscal efficiency some of the resources could replace the whole present system of the own resources and some of them could only reinforce the general budget with additional revenue. In the years 1998 - 2004, the Commission was discussing several proposals for a special European tax, e.g. (European Commission, 1998, 2004):

- CO_2/Energy tax (environmental tax),
- a modulated VAT tax,
- excise taxes on tobacco, alcohol and mineral oil,
- corporate income tax,
- communication taxes,
- personal income tax,

Table 4. The Member States' participation in the general budget creation and distribution in the years 1993-2003 (in %)

Member state	Years									
	1993		1996		1999		2001		2003	
	A share in revenue	A share in expendi-ture	A share in revenue	A share in expendi-ture	A share in revenue	A share in expendi-ture	A share in revenue	A share in expendi-ture	A share in revenue	A share in expendi-ture
Austria			2,7	2,2	2,7	1,5	2,6	1,8	2,3	1,7
Belgium	3,7	5,8	3,9	5,4	3,9	5,2	4,4	5,1	4,2	4,7
Denmark	1,9	2,4	1,9	2,1	2,0	1,9	2,2	1,7	2,1	1,7
Finland			1,0	1,4	1,4	1,2	1,5	1,3	1,6	1,5
France	18,0	16,4	17,5	16,0	17,2	16,3	17,9	14,7	18,1	14,8
Greece	1,6	8,0	1,6	6,7	1,5	6,3	1,7	7,2	1,8	5,4
Spain	8,1	12,8	6,4	13,9	6,9	16,1	8,2	17,1	8,9	17,5
Netherlands	6,4	4,3	6,3	2,7	6,1	2,2	6,8	2,1	5,9	2,2
Ireland	0,9	4,6	1,0	3,9	1,0	3,6	1,5	2,9	1,3	3,0
Luxembourg	0,3	1,4	0,2	1,2	0,2	1,0	0,3	1,1	0,2	1,2
Germany	29,8	8,0	29,2	13,3	26,4	12,4	24,4	12,9	23,0	11,8
Portugal	1,4	5,2	1,2	4,8	1,4	4,3	1,6	3,7	1,5	5,3
Sweden			2,8	1,7	2,9	1,5	2,9	1,4	3,0	1,6
GreatBritain	11,9	7,3	11,6	8,0	13,4	7,4	9,6	7,4	11,9	6,9
Italy	16,0	14,2	12,7	10,2	13,0	11,3	14,4	10,9	14,2	11,8
Total	100,0	90,4	100,0	93,5	100,0	92,2	100,0	91,3	100,0	90,9

Source: European Commission, 2002a, p. 114-124; European Commission, 1998a, p. 80-92; European Commission, 2004, p. 95.

Table 5. Progressive and current GDP resource - calculation for a 1% tax rate in 2003 for 25 countries

Member Sate	GDP (bln euro)	Income per capita (EU=1)	Potential system		Current system	
			Modulated tax rate	Tax revenue (bln euro) (1*3/100)	Tax rate	Tax revenue (bln euro) (1*5/100)
	1	2	3	4	5	6
Belgium	265,80	1,06	1,06	2,82	1,00	2,66
Denmark	189,20	1,45	1,45	2,74	1,00	1,89
Germany	2136,00	1,07	1,07	22,86	1,00	21,36
Greece	153,00	0,58	0,58	0,89	1,00	1,53
Spain	741,20	0,75	0,75	5,56	1,00	7,41
France	1548,00	1,04	1,04	16,10	1,00	15,48
Ireland	133,40	1,39	1,39	1,85	1,00	1,33
Italy	1301,00	0,92	0,92	11,97	1,00	13,01
Luxembourg	23,10	2,11	2,11	0,49	1,00	0,23
Netherlands	452,90	1,15	1,15	5,21	1,00	4,53
Austria	223,20	1,14	1,14	2,54	1,00	2,23
Portugal	132,60	0,52	0,52	0,69	1,00	1,33
Finland	143,20	1,13	1,13	1,62	1,00	1,43
Sweden	265,50	1,22	1,22	3,24	1,00	2,66
UK	1573,00	1,08	1,08	16,99	1,00	15,73
Cyprus	12,03	0,69	0,69	0,08	1,00	0,12
Czech Republic	74,62	0,30	0,30	0,22	1,00	0,75
Estonia	7,40	0,23	0,23	0,02	1,00	0,07
Hungary	73,44	0,30	0,30	0,22	1,00	0,73
Latvia	8,77	0,16	0,16	0,01	1,00	0,09
Lithuania	15,52	0,19	0,19	0,03	1,00	0,16
Malta	4,19	0,44	0,44	0,02	1,00	0,04
Poland	183,50	0,20	0,20	0,37	1,00	1,84
Slovakia	28,68	0,22	0,22	0,06	1,00	0,29
Slovenia	24,51	0,51	0,51	0,13	1,00	0,25
EU 25	9 715,00	1,00	1,00	97,15	1,00	97,14

Source: Own calculation based on European Economy, 2003.

Table 6. Evaluation of the potential own resources with the Begg and Grimwade method

	Criterion	Weight	Rating	Score
Modulated VAT	Subsidiarity	100	2	200
	Counteracting the external effects	100	2	200
	Counteracting the regional arbitrariness	100	2	200
	Financial autonomy	100	–2	–200
	Equity	75	1	75
	Fiscal efficiency	75	2	150
	Cost effectiveness	50	2	100
	Transparency and visibility	50	1	50
	Political compromise	100	2	200
	Total			925
Energy (environmental) tax	Subsidiarity	100	1	100
	Counteracting the external effects	100	1	100
	Counteracting the regional arbitrariness	100	1	100
	Financial autonomy	100	2	200
	Equity	75	0	0
	Fiscal efficiency	75	2	150
	Cost effectiveness	50	2	100
	Transparency and visibility	50	2	100
	Political compromise	100	0	0
	Total			850
Withholding on interest income	Subsidiarity	100	1	100
	Counteracting the external effects	100	1	100
	Counteracting the regional arbitrariness	100	1	100
	Financial autonomy	100	2	200
	Equity	75	0	0
	Fiscal efficiency	75	1	75
	Cost effectiveness	50	2	100
	Transparency and visibility	50	2	100
	Political compromise	100	–1	–100
	Total			675
Communication taxes	Subsidiarity	100	1	100
	Counteracting the external effects	100	1	100
	Counteracting the regional arbitrariness	100	1	100
	Financial autonomy	100	1	100
	Equity	75	0	0
	Fiscal efficiency	75	1	75
	Cost effectiveness	50	2	100
	Transparency and visibility	50	2	100
	Political compromise	100	–1	–100
	Total			575

Personal income tax	Subsidiarity	100	1	100
	Counteracting the external effects	100	1	100
	Counteracting the regional arbitrariness	100	1	100
	Financial autonomy	100	–2	–200
	Equity	75	2	150
	Fiscal efficiency	75	2	150
	Cost effectiveness	50	2	100
	Transparency and visibility	50	2	100
	Political compromise	100	–2	–200
	Total			500
Corporate tax	Subsidiarity	100	2	200
	Counteracting the external effects	100	2	200
	Counteracting the regional arbitrariness	100	2	200
	Financial autonomy	100	–2	–200
	Equity	75	–2	–150
	Fiscal efficiency	75	1	75
	Cost effectiveness	50	2	100
	Transparency and visibility	50	2	100
	Political compromise	100	–1	–100
	Total			425
Excise duties on tobacco and alcohol	Subsidiarity	100	1	100
	Counteracting the external effects	100	1	100
	Counteracting the regional arbitrariness	100	1	100
	Financial autonomy	100	–2	–200
	Equity	75	–2	–150
	Fiscal efficiency	75	1	75
	Cost effectiveness	50	2	100
	Transparency and visibility	50	1	50
	Political compromise	100	0	0
	Total			175
Seigniorage revenue	Subsidiarity	100	–2	–200
	Counteracting the external effects	100	–2	–200
	Counteracting the regional arbitrariness	100	–2	–200
	Financial autonomy	100	–2	–200
	Equity	75	–2	–150
	Fiscal efficiency	75	1	75
	Cost effectiveness	50	2	100
	Transparency and visibility	50	–2	–100
	Political compromise	100	–2	–200
	Total			–1075

Source: Own study based on Begg, Grimwade 1998, p. 95-105.

- withholding tax on interest income,
- European Central Bank's seigniorage.

In the further part of the paper all these proposals will be assessed according to the seven previously mentioned criteria and one additional criterion reflecting the political possibilities of introducing the new resources. This criterion is called a political compromise which is necessary to create new resources. To evaluate the proposals, the Begg and Grimwade method of assessing was employed. Let us remind that first a special wage (50, 70 or 100 points) was defined for each criterion reflecting its importance for the European Communities, and next by means of rates (–2, -1, 0, 1, 2) the possibility of meeting each criterion was defined. The sum of products of wage and rate gave the general result reflecting the possibility of introducing each potential resource. This time a maximum amount of points equals 1500. The results of calculation are shown in Table 6.

According to this evaluation the modulated VAT has the biggest chance to become a new European Communities own resource. A modification of the VAT resource generally consists in improving it to be more visible and fairer for the European citizens and companies. It also aims to replace both - the present VAT resource and the fourth resource. The project is to introduce a combined rate consisting of the national rate and the EC rates. The EC VAT rates could be divided into two rates (for example 1,5 and 3%) in order to reflect the ability-to-pay principle in each Member State. Finally, the tax would be imposed on a harmonized base through declarations stating clearly on each invoice that it is the EC tax (Cattoir, 2004, p. 14).

Another interesting proposal is the energy tax which is supposed to reduce carbon dioxide emission. In 1992 the Commission proposed a rising rate of tax from $3 per barrel of oil in 1993 to $10 in 2000. However, these proposals have not been approved by the Council.

The next proposal was issued in 1997 (European Parliament, 2002, p. 45) and consisted in extending the existing excise on mineral oils to a number of other energy sources, e.g. coal, electricity and natural gas. This proposal was accepted by the Council in 2003. A new directive entails the harmonization of the tax base on most of the energy products and the approximation of tax rates (Council Directive, 2003).

As a new own resource an energy tax is considered in two ways: as a broad-based energy tax and an energy tax on motor fuel used for transport. In both options the European tax would need a definition of tax rates. Tax would be paid by the consumers via the energy suppliers. The amount of tax would be exposed on the bills.

Other proposals of the new resources, although they meet most of postulated criteria, have less chance to reinforce the general budget because there is no political agreement in their cases. Introducing the new resources results strictly in raising the tax burden in each country and that is why the Council is very safe about introducing them.

However, in my opinion, a potential resource worthy of discussion is a surcharge on personal income tax. In the relevant literature some interesting proposals have been put for this tax. Probably both the most convincing and similar models were proposed by D. Biehl (1990, p. 137-152) or A. M. El-Agraa and C. Majocci (El-Agraa, 1994). These models assume to introduce a uniform percentage surcharge on the national personal income tax payments which would be shown on each tax declaration, so that each taxpayer would know their contribution to finance the European Communities expenditure.

For example El-Agraa and Majocci presented a model of progressive personal income tax which covered one-half of all the EU expenditure with additional assumption that the general budget equalled 2,5% of the European Communities GNP. To illustrate this model, it has been rebuilt with regard to the present circumstances under the following assumptions: the year 2005, 25 Member States, budget size - 1,24% of the EU GDP, personal tax revenue should cover total EU expenditure in 2005. The calculation of personal income tax rates for each Member State in 2005 is shown in Table 7.

Rates of surcharge on national personal income tax for each Member State are presented in column 9 of the Table. The rates show how much more individuals would have to pay in their income tax in relation to their countries' GDP if the general budget was financed only by the personal income tax. It can be seen that the rates vary from 0,16% in the case of Latvia to 2,03% for Luxembourg. Discussing tax would also change the structure of net payees and beneficiaries significantly. They are shown in column 10. Countries with the rates above 1 would be net payees and vice versa.

Assessing the main directions of the reforms it must be stressed that the first direction, i.e. heading towards simplifying the own resources system, would secure the system more transparency as a whole. However, it is difficult to find any connections with the rule of subsidiarity on which the European Communities base their activities. Finally, replacing the VAT resource and traditional resources with the fourth resource does not guarantee the EC financial and political stability.

In this calculation the abbreviations mean as follows:

$Y = \Sigma Y_c$ – the EU GDP (mln euro),

Y_c – Member State's GDP (mln euro),

$T=\Sigma T_c$ – total tax yield which equals the total EU expenditure (mln euro),

T_c – a share of each Member State in total tax yield (mln euro),

k_c – a ratio between each Member State's per capita income (pci) and the EU average,

T_{nc} – a new share of each Member State in total tax yield (mln euro),

i_c – a new share of each Member State in total tax yield (%),

t_c – a rate of surcharge on national personal income tax (%),

r_c – a ratio between each country's tax rate and the EU average.

Table 7. A surcharge on personal income tax in 2005

Member State	y_c	$\frac{Y_c}{\sum Y_c} = y_c$	$y_c T = T_c$	k_c	$T_c k_c$	$\frac{T_c k}{\sum T_c k} = i_{nc}$	$i_c T = T_{nc}$	$\frac{T_{nc}}{Y_c} = t_c$	$\frac{T_{nc}}{T_c} = r_c$
	Mln euro	%	Mln euro		Mln euro	%	Mln euro	%	
Belgium	283 800,00	2,70	2 671,24	1,0470	2 796,79	2,84	2 814,16	0,99	1,0535
Denmark	204 300,00	1,94	1 922,96	1,4500	2 788,29	2,84	2 805,60	1,37	1,4590
Germany	2 261 000,00	21,51	21 281,46	1,0500	22 345,53	22,73	22 484,31	0,99	1,0565
Greece	178 000,00	1,69	1 675,41	0,6200	1 038,75	1,06	1 045,20	0,59	0,6239
Spain	840 600,00	8,00	7 912,07	0,7800	6 171,42	6,28	6 209,74	0,74	0,7848
France	1 662 000,00	15,81	15 643,42	1,0300	16 112,73	16,39	16 212,79	0,98	1,0364
Ireland	153 800,00	1,46	1 447,63	1,4600	2 113,54	2,15	2 126,66	1,38	1,4691
Italy	1 407 000,00	13,39	13 243,26	0,9300	12 316,23	12,53	12 392,72	0,88	0,9358
Luxembourg	25 500,00	0,24	240,02	2,1400	513,64	0,52	516,83	2,03	2,1533
Netherlands	476 100,00	4,53	4 481,25	1,1200	5 019,00	5,11	5 050,17	1,06	1,1270
Austria	238 200,00	2,27	2 242,04	1,1300	2 533,50	2,58	2 549,23	1,07	1,1370
Portugal	143 400,00	1,36	1 349,74	0,5200	701,86	0,71	706,22	0,49	0,5232
Finland	154 400,00	1,47	1 453,28	1,1400	1 656,73	1,69	1 667,02	1,08	1,1471
Sweden	293 100,00	2,79	2 758,78	1,2500	3 448,47	3,51	3 469,89	1,18	1,2578
UK	1 702 000,00	16,20	16 019,92	1,0900	17 461,71	17,76	17 570,16	1,03	1,0968
Cyprus	13 980,00	0,13	131,59	0,7400	97,37	0,10	97,98	0,70	0,7446
Czech Republic	82 100,00	0,78	772,76	0,3100	239,56	0,24	241,04	0,29	0,3119
Estonia	9 000,00	0,09	84,71	0,2600	22,03	0,02	22,16	0,25	0,2616
Hungary	88 790,00	0,84	835,73	0,3400	284,15	0,29	285,91	0,32	0,3421
Latvia	10 200,00	0,10	96,01	0,1700	16,32	0,02	16,42	0,16	0,1711
Lithuania	18 290,00	0,17	172,15	0,2000	34,43	0,04	34,64	0,19	0,2012
Malta	4 415,00	0,04	41,56	0,4200	17,45	0,02	17,56	0,40	0,4226
Poland	199 700,00	1,90	1 879,66	0,2000	375,93	0,38	378,27	0,19	0,2012
Slovakia	32 290,00	0,31	303,93	0,2300	69,90	0,07	70,34	0,22	0,2314
Slovenia	27 430,00	0,26	258,18	0,5300	136,84	0,14	137,69	0,50	0,5333
EU 25	10 509 395,00	100,00	98 922,73	1,0000	98 312,17	100,00	98 922,73		1,0000

Source: Own calculation based on: EL-Agraa and Majocci model; European Economy, 2003.

With regard to this point of view, the second direction of the reform seems to be most suitable for the future shape of the European Communities. New own resources should replace at least the fourth resource and thus secure the EC financial autonomy because financial independence is the basic condition of the proper existence of any supranational socio-economic organization, such as the European Communities in particular. Of course there are also some shortcomings of such a system and the biggest one is, probably, less visibility for the European citizens and companies. In order to improve the transparency of the system, first of all additional corrections in the VAT resource ought to be made. Apart from its modulation, the EC should resign from connections between the VAT resource and the correction for Great Britain in favor of direct payments from the general budget.

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