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From: Presidency
To: Permanent Representatives Committee

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Subject: MFF 2021-2027: Own Resources legislative package
– *Progress report*

I. INTRODUCTION

1. On 14 December 2018, the European Council took note of the Austrian Presidency's progress report on the future multiannual financial framework (MFF) and called on the incoming Romanian Presidency to continue the work and develop an orientation for the next stage of the negotiations, with a view to achieving an agreement in the European Council in autumn 2019¹.

¹ Doc. EUCO 17/18.

2. Building on the work of the Bulgarian and Austrian Presidencies, the Romanian Presidency continued the work with delegations in the Working Party on Own Resources (WPOR), in order to achieve as much progress as possible in the discussions on the revenue side of the EU long-term budget.
3. Several key elements of the Proposal for a Council Decision on the system of Own Resources of the European Union (ORD)², an integral part of the Own Resources (OR) legislative package³, were discussed at four meetings of the WPOR⁴. Revenues/OR were also the topic of discussion at the meeting of the Ad-Hoc Working Party on the MFF (AHWP MFF) on 20 March 2019.
4. The Commission continued to facilitate work in the WPOR, providing additional clarifications and further technical input.

II. STATE OF PLAY IN THE COUNCIL

Simplification of the VAT-based OR

5. The Presidency placed the simplification of the VAT-based OR at the core of the discussions in the WPOR by including it on the agenda of all four WPOR meetings. In May 2019, the Presidency circulated a set of steering questions, including compromise proposals, with the aim to better structure the discussion.

² Doc. 8357/18.

³ The Own Resources legislative package was presented by the Commission on 2 May 2018 and consists of: Proposal for a Council Decision on the system of Own Resources of the European Union (doc. 8357/18 + ADD 1 + ADD 2); Proposal for a Council Regulation on the methods and procedure for making available the Own Resources based on the Common Consolidated Corporate Tax Base, on the European Union Emissions Trading System and on Plastic packaging waste that is not recycled, and on the measures to meet cash requirements (doc. 8358/18); Proposal for a Council Regulation laying down implementing measures for the system of Own Resources of the European Union (doc. 8359/18 + ADD 1); Proposal for a Council Regulation amending Regulation (EEC, Euratom) No 1553/89 on the definitive uniform arrangements for the collection of own resources accruing from value added tax (doc. 8360/18).

⁴ On 28 January, 11 March, 8 April and 10 May 2019.

6. The work on the VAT-based OR consisted both of addressing delegations' requests for additional information and outstanding questions, as well as of an in-depth technical analysis of different methodological options to address some concerns linked to issues of simplification and distributional consequences of re-defining the taxable base⁵.
7. In addition to the initial proposal, at the request of some Member States, the Commission also presented an alternative way for simplifying the calculation method of the VAT-based OR, based on receipts from all taxable goods and services, and reintroducing the use of a Weighted Average Rate, which is to be kept constant ("frozen") over the period of the MFF.
8. Three sub-options were discussed: (i) to "freeze" only the weights in the Weighted Average Rate calculations, reflecting consumption patterns in the economy, (ii) to recalculate the Weighted Average Rate less frequently (every 2-3 years), instead of annually, or (iii) to have the Weighted Average Rate still calculated annually, but rounded at one decimal place instead of four.

The refined options would retain the other important elements of simplification, defined in the Commission proposal of 2 May 2018, like eliminating most of the compensations and corrections, as well as capping.

9. Although delegations' views on the way forward for the VAT-based OR are evolving, the preferences expressed so far still remain divergent. A large majority of delegations prefer to abolish the VAT-based OR. Many agree that if it is retained, it should be simplified. There is, however, divergence of opinions on the best way to achieve this. Several delegations insist on keeping a capping mechanism in the VAT-based OR calculations.

⁵ The Commission proposal of 2 May 2018 to simplify the VAT-based OR concentrates on: i) redefinition of a narrower taxable base, focusing on "standard-rated supplies"; ii) abolition of weighted average rate, several corrections and most compensations; and iii) abolition of reduced call rates and capping.

New OR

10. The debate in the WPOR focused mainly on the one of the three new OR that showed greatest potential for in-depth exploring, proposed by the Commission in May 2018⁶, namely the plastic packaging waste-based OR. The entry into force of the amended Packaging and Packaging Waste Directive⁷ in July 2018, introducing more harmonised calculation rules for the new recycling targets and a higher level of comparability across Member States, has facilitated the discussions, which also tried to address the concerns raised by several Member States (for instance, on the quality of statistical data, administrative burden, data collection method, predictability etc.).
11. Several delegates proposed to explore different options for new OR, for instance financial transaction tax, digital tax, CO2, ETIAS, single use plastics or others linked to the environment and/or the internal market. Opinions still differ, however, on the actual need to introduce new OR, including possible other candidates for new OR, different from the ones proposed by the Commission.
12. A majority of delegations, having in mind the premature status of the discussions on CCCTB, expressed preference for discarding this proposed new OR.

Corrections

13. In the framework of the projected financing of the gross reductions in the GNI-based contributions of the Member States, delegations reiterated their already known positions in favour of or against the phasing-out of corrections, or even an immediate end to all correction mechanisms.

⁶ A Common Consolidated Corporate Tax Base (CCCTB)-based OR, EU Emissions Trading System-based OR and a plastic packaging waste-based OR.

⁷ Directive (EU) 2018/852 of the European Parliament and of the Council of 30 May 2018 amending Directive 94/62/EC on packaging and packaging waste (OJ L 150, 14.6.2018, p. 141–154).

Other issues

14. On the basis of input from delegations, the issues of advance payments of OR, conditional payments of traditional own resources (TOR), conditions for deferral from entry into account or the notification of custom debt, and enhancing planning certainty for the withdrawal and incoming payment of cash funds for the EU, were discussed. A significant number of delegations, arguing there is a lack of appropriate legal provisions in the Making Available Regulation (MAR), have requested that it should be reopened for negotiations, even at this stage. It was also agreed that the involvement of customs experts in further analysis in this area may be useful.
15. The Presidency also invited representatives from the Commission to present the state of play concerning digital tax, with a view to clarify the feasibility of this vehiculated candidate for a new OR.

III. NEXT STEPS

16. Based on an analysis of the discussions so far, the Presidency will present a streamlined version of the draft Negotiating Box, as appropriate including on "Part II: Revenue", ahead of the June European Council.
17. Given the importance and the complexity of the issues involved, the Presidency considers that discussions on the technical aspects of the OR proposals should be pursued in the WPOR, including those regarding MAR, while other key elements of the proposals need political impetus in order to be taken forward.

IV. CONCLUSION

18. The Permanent Representatives Committee is invited to take note of the progress achieved in the WPOR in the first semester of 2019.
