An EU tax as an EU own resource

CGE modeling macroeconomic effects for Slovakia

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Own resources

- I. pillar: from traditional own resources
  - Customs and agricultural duties and sugar levies
- II. pillar: VAT-based resources
- III. pillar: GNI-based resources
  - max 1.27% of GNI of every Member State
- other revenues
  - Bank interest, deductions from EU staff remunerations, contributions by non-EU countries to certain EU programmes

Criticism of present system

- Own resources system too complex and untransparent
- Own resources are not realle resources of EU, but there countries
  - Inconsistent with Treaty of Rome (1957), Article 201:
    - "Without prejudice to other revenue, the budget shall be financed wholly from own resources."
  - they are contributions from national budgets accounting for up to 83% of the EU budget (2013)
- Increased frequency of late payments by member states
- Existence of corrections and rebates

HLG for the EU's own resources

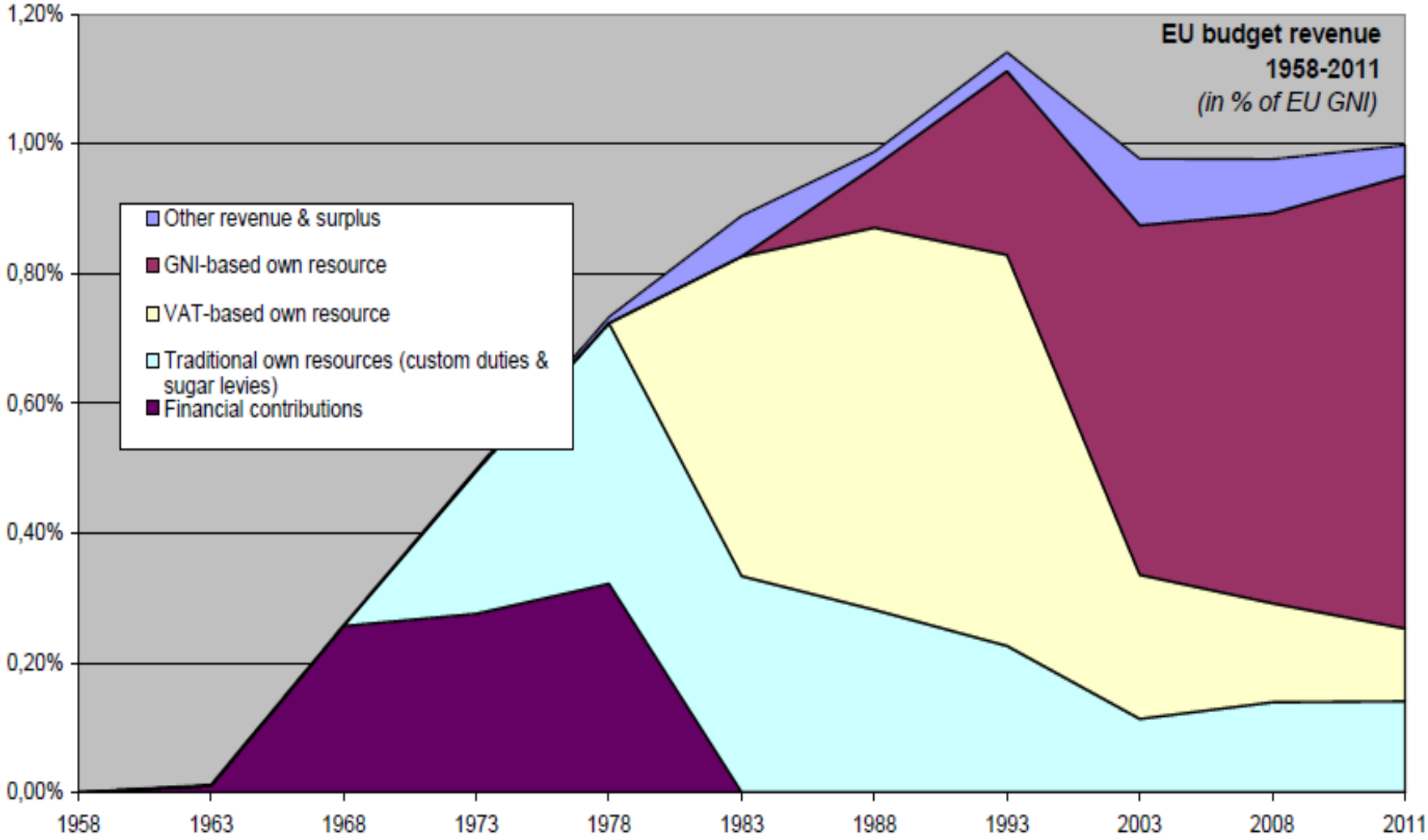
- Established for 2014-2016 Members: 1 + 3 x 3
- Chairman: (jointly appointed by the European Parliament, the Council and the Commission)
- Mario Monti, President of Bocconi University, former Prime Minister of Italy and European Commissioner

- Members appointed by the European Parliament:
- Ivailo Kalfin, former Member of the EP, Dep. Prime-Minister of Bulgaria and Minister of Labor, Soc.Policy,
- Alain Lamassoure (EPP),
- Guy Verhofstadt (ALDE),

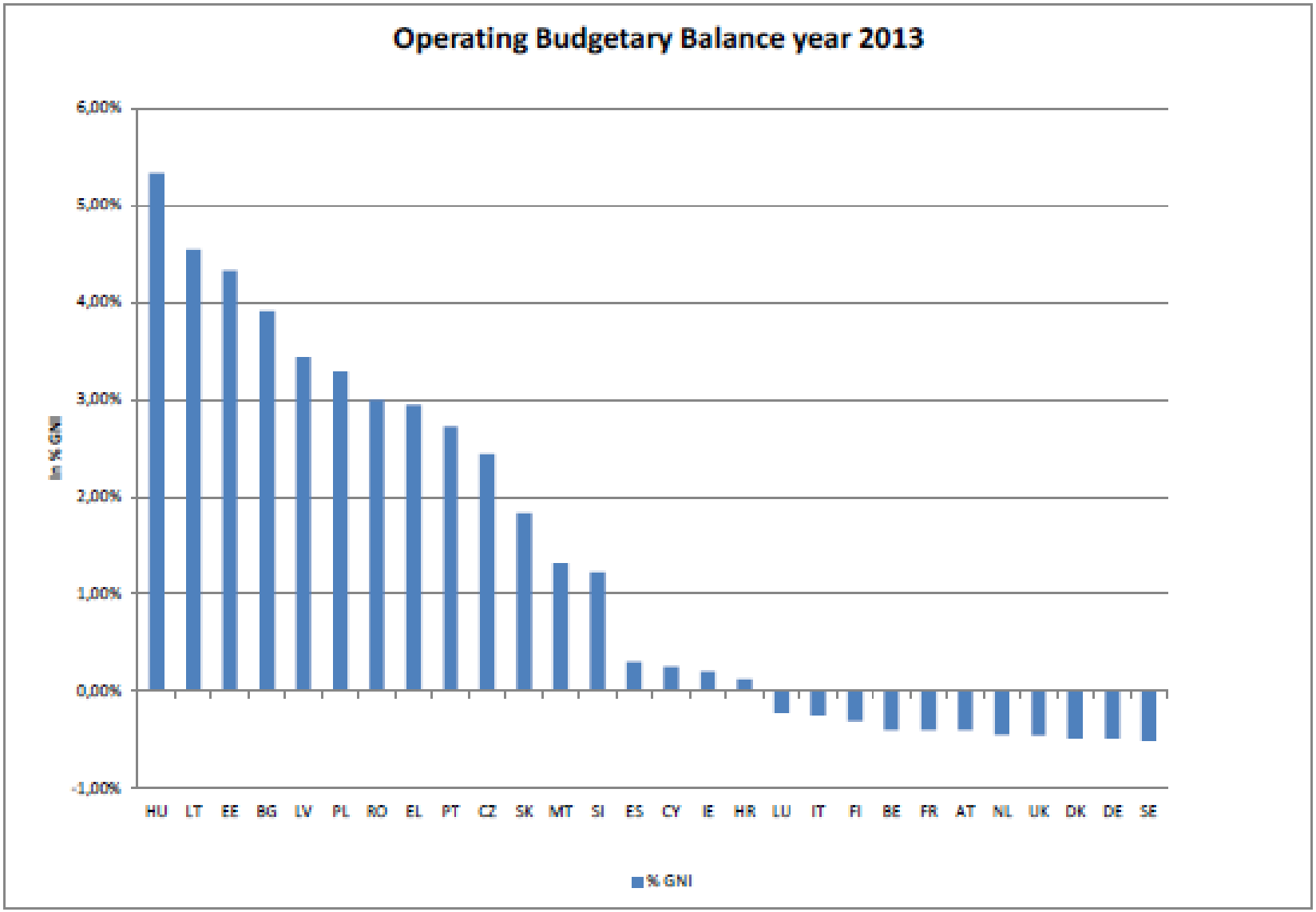
- Members appointed by the Council:
- Daniel Dăianu, former Member of the European Parliament and Finance Minister of Romania,
- Clemens Fuest, President of the Centre for European Economic Research ZEW in Germany,
- Ingrida Šimonytė, former Minister of Finance of Lithuania,

- Members appointed by the Commission:
- Kristalina Georgieva, Vice-President of the Commission in charge of budget and human resources, who replaced former commissioners for Budget Janusz Lewandowski and Jacek Dominik.
- Pierre Moscovici, Member of the Commission in charge of economic and financial affairs, taxation and customs, who replaced former commissioner for taxation, customs, Algirdas Šemeta.
- Frans Timmermans, First Vice-President of the Commission in charge of better regulation, inter-institutional relations, rule of law and Charter of fundamental rights, who replaced former Vice-President Maroš Šefčovič.
- First asset report

HLG for the EU's own resources: First asset report



HLG for the EU's own resources: First asset report



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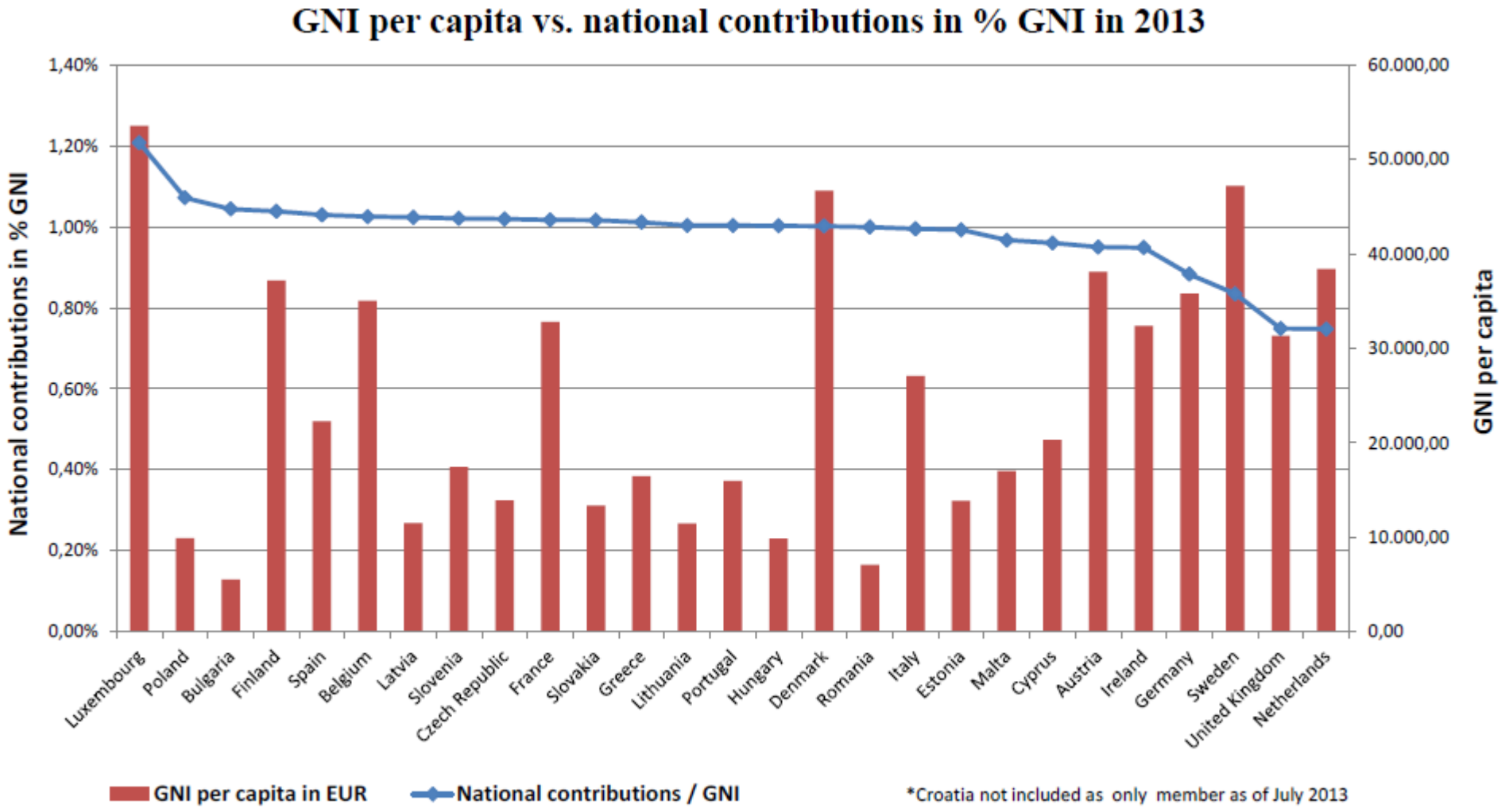


Criteria for the new tax in own resources

1. More transparent
2. Budgetary neutrality
3. Reduction of labour taxation and/or
   Abolition of administratively demanding methods of environment protection
4. Eliminating of discrimination of European producers on home and world markets

Criterion 1: More transparency

- In connection to EU strategies and goals
  - Environment protection, employment
- Make European policy more clear to voters
  - Low election participation in several countries
- Regularise the position of the European Parliament
  - EP is not budget authority on the income side

Criterion 2: Budgetary neutrality

- Fiscal devaluation:
- Simultaneous and by the same amount:
  - reduction in direct taxes
  - increase in indirect taxes
  - Introduction of new EU tax
  - Reduction labour tax
  - and/or abolition or reduction of taxes, charges + other costs of business in the EU

Criterion 3: Reduction of labour taxation

- Reduction of labour taxation => reduced labour costs
- And/or
  - Environment protection is currently regulated through mainly administrative methods
  - Quantified list will contain volume of financial resources that would replace the financial burden after introduction of new tax
  - In this way fiscal neutrality would be achieved – e.g. excise duty on mineral oils, carbon credits, energy costs

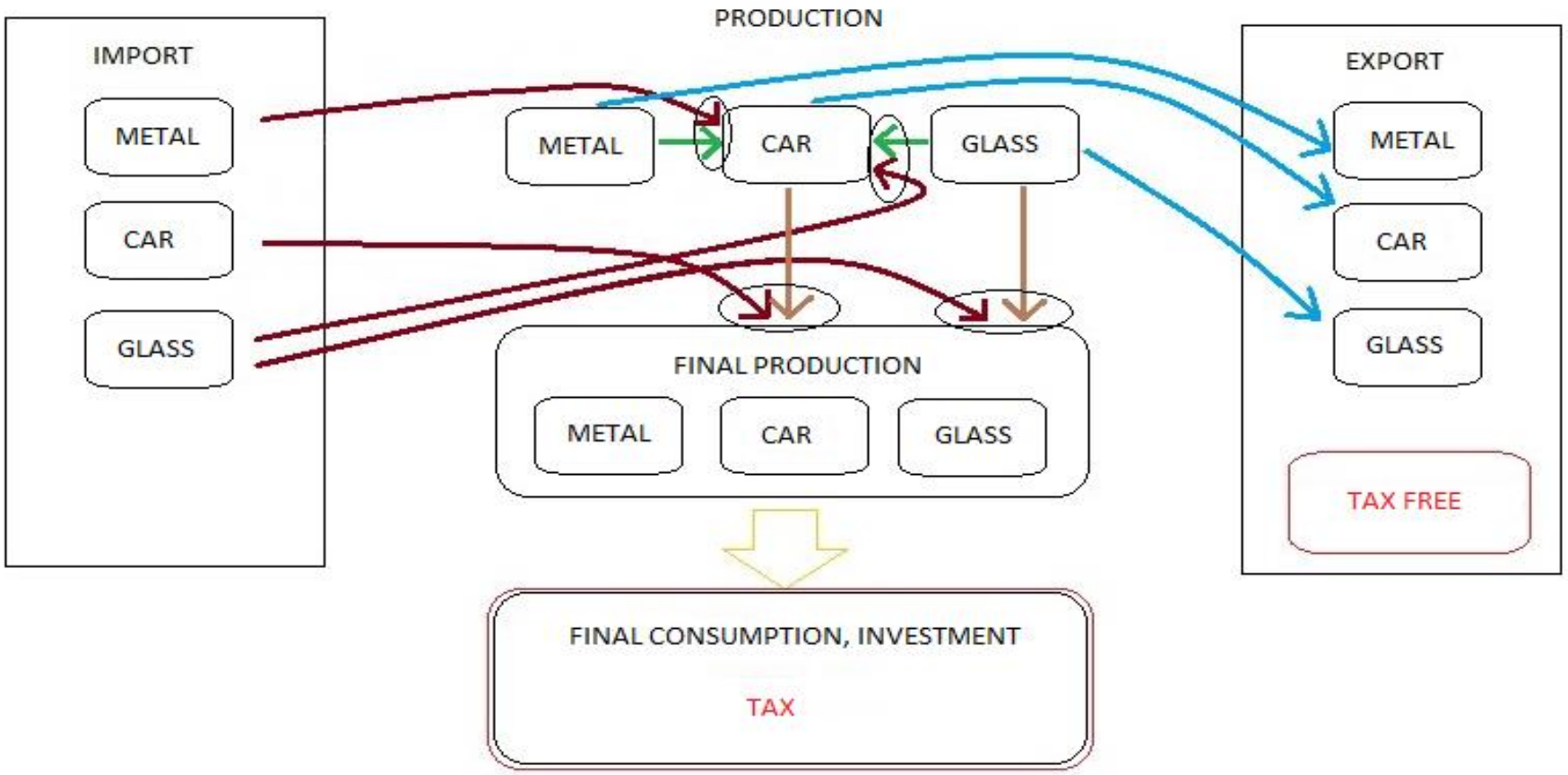
Criterion 4: Elimination of the discrimination of European producers

- Environmental protection
  - increases production costs of EU companies
  - (whilst keeping some non-EU companies costs low)
- Eliminating discrimination of European producers on home and world markets:
  - To end unfavourable treatment of Europe's producers compared with manufacturers in 3rd countries with lower environmental standards
  - To do not burden domestic producers exporting to 3rd countries.

Proposal for a new EU tax

- To tax products based on:
  - amount of energy consumed and CO2 emitted in production process,
  - irrespective of whether all or part of that process is inside or outside the EU.
- Different tax rates for several dozen product grupes.
- Taxation of end use of goods and services on the European market (C+G+I).
- Exported goods and services will not be taxed.

Funding of EU tax: simplified overview



Computable General Equilibrium model on Slovakia

- Benčík (2001) – experimental model
- Brunovský, Páleník, Kotov a Mráz (2002) – new tax reform
- Páleník a Kotov (2003) – enlargement of EU
- Páleník, Ďuráš, Hrivnáková a Kvetan (2004) – new car factory
- Koronczi a Ezaki (2005) – World Bank
- Miťková (2007) – gradual expansion model
- Domonkos a Pániková (2009) – train transport
- Lichner (2013) – labour market
- Miklošovič (2014) – ex post analysis

Social accounting matrix

- Based on the year 2010
- Resources: Supply and use tables, Statistical office of SR, National bank of SR, Ministry of finance and others
- Expenditure of one subject subject generates equivalent revenue of the other subject, the principle of input-output tables
- Overall revenue of one subject is equal to overall expenditure of the same subject- Principles of National Account

Social accounting matrix

- Specification of essential SAM
  - –59 sectors by classification NACE 2
  - –6 institutional sectors

Primary and secondary generation and redistribution of income

- Aggregation of SAM
  - –1 sector
  - –4 institutional sectors (Household, Government, World, Enterprise)
  - –2 areas of World -> the rest of EU and the outside of EU
  - –3 types of capital input -> Human, Land and Capital
  - –Several kinds of taxes

CGE model

- The macroeconomic model partially based on microeconomic theory
- Economic equilibrium -> exogenous shock -> New economic equilibrium
- *Ex ante* vs. *ex post* analyses
- Subjects behave according to production functions and utility functions
- The possibility of observing behavioral changes not only in the short and middle term but also in the long-term behavior (in a dynamic model only)

CGE model on IER SAS

- Recursive dynamic model
- The model simultaneusly calculates the economic equilibrium in demand and supply
- Model is applicable to any:
  - number of production sectors
  - number and structure of households
  - number and structure of enterprises
- The category of foreign countries is divided between the rest of EU and the outside of EU
- The model includes a number of production factors such as labor, land and capital, on top of that disaggregate production factors to more types
- Model includes demographic aspect of population (for the need of simulated shock)

CGE model on IER SAS

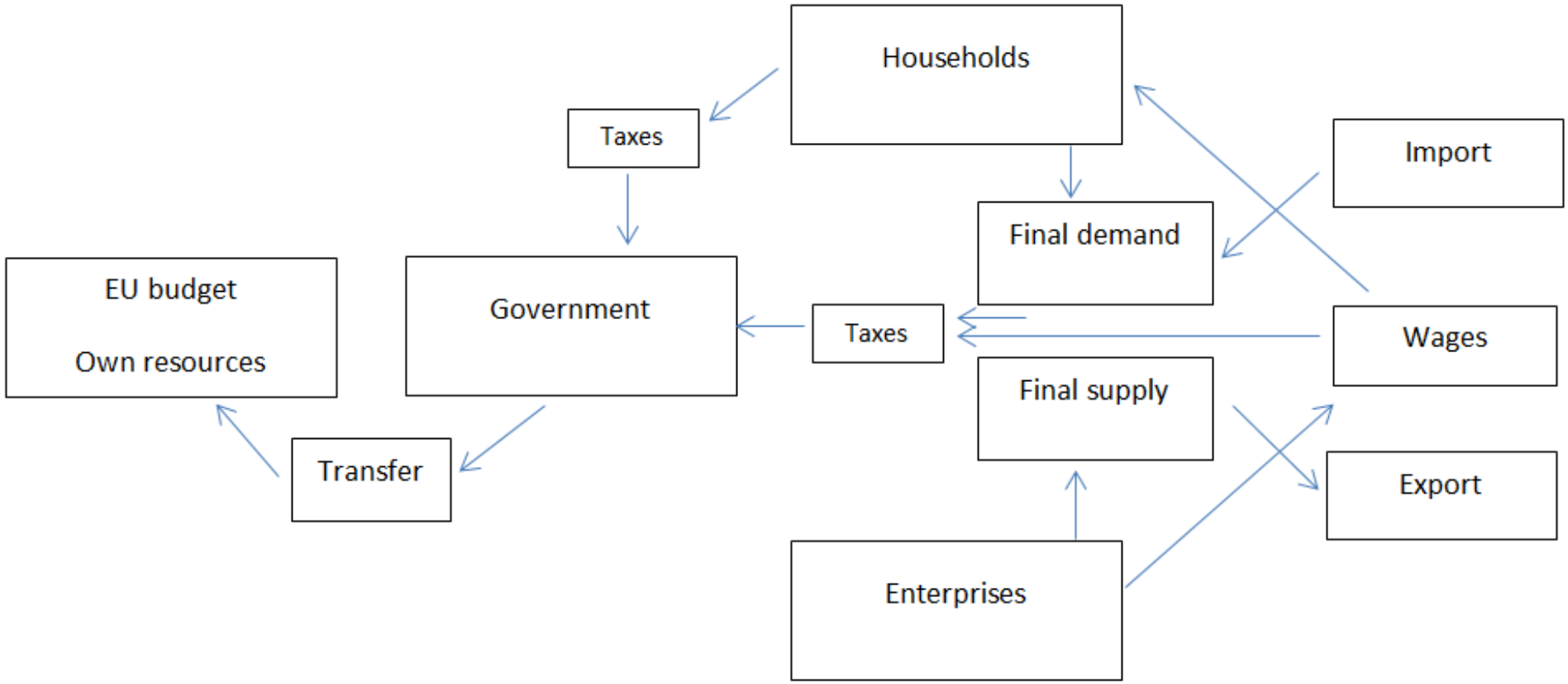
- The production is modelled with a nested CES production function, using capital, labour, land and intermediate goods
- Taxes in the model: import tax, export tax, tax on other taxes and subsidies on products, value added tax, sales tax, direct taxes on production = other taxes on production, subsidies on production, direct taxes on factors of production, direct taxes for households and enterprises
- Households decide their demand using a nested extended Stone Geary utility function
- Labour is immobile acros borders
- Model uses different market clearing mechanisms

Exogenous shock

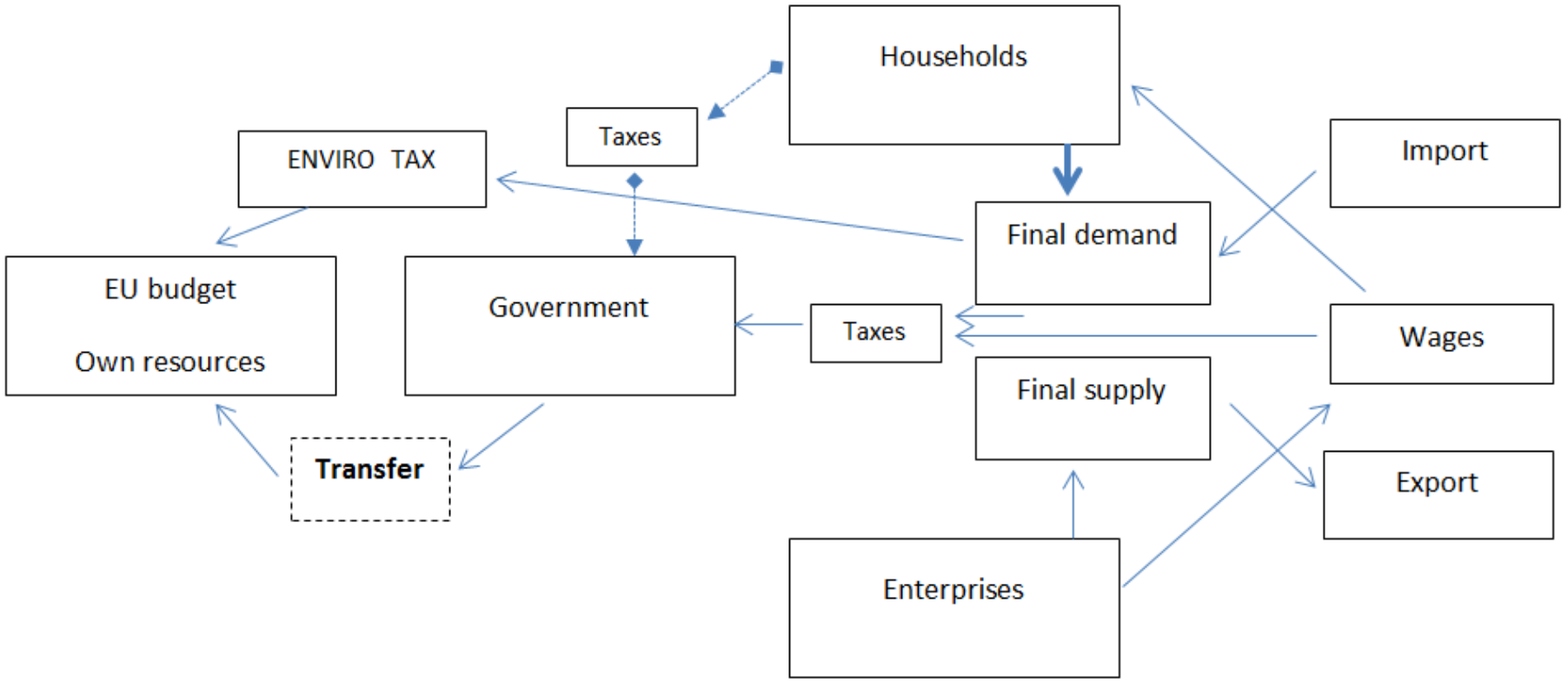
- Baseline scenario (**B**) + 4 alternative scenarios
- The introduction of Enviro tax of 1% of GDP* and the reduction in government transfers to the EU by 1% of GDP in all alternative scenarios
- **H** -> Reduction of wage tax by 1% of GDP, the benefit to **households** (wages unchanged)
  - Only Slovakia
- **H+EU** -> Reduction of wage tax by 1% of GDP, benefit to **households** (wages unchanged)
  - Slovakia and the rest of the **EU**
- **E** -> Reduction of wage tax by 1% of GDP, benefit to **enterprise**s (wages reduced by 1% of GDP)
  - Only Slovakia
- **E+EU** ->Reduction of wage tax by 1% of GDP, benefit to **enterprises** (wages reduced by 1% of GDP)
  - Slovakia and the rest of the **EU**

*(659 million of euro in Slovakia,2010)

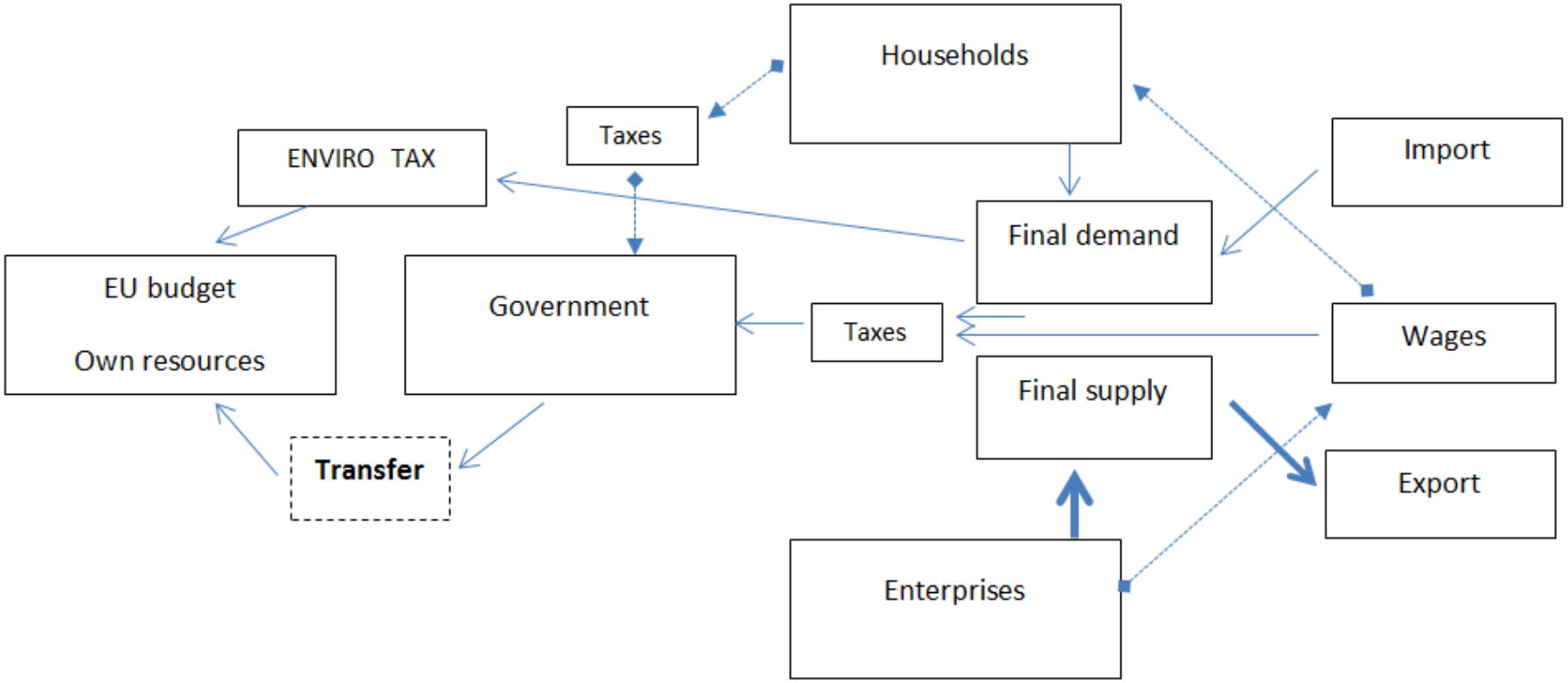
Baseline scenario



Scenario H


Households
Taxes
ENVIRO TAX
Import
Final demand
EU budget
Own resources
Government
Taxes
Wages
Final supply
Transfer
Export
Enterprises

Scenario E


Households
Taxes
ENVIRO TAX
Import
Final demand
EU budget
Own resources
Government
Taxes
Wages
Final supply
Transfer
Export
Enterprises

Results

Results of scenarios, mil. EUR, *qty of people (Slovakia 2010)

	B	H	H+EU	E	E+EU
Gross domestic product	65 897	66 705	66 774	68 468	68 323
Consumption of households	37 142	38 208	38 278	39 048	38 905
Export to EU	44 804	45 396	45 476	46 467	46 302
Export to ROW	8 155	8 262	8 277	8 457	8 427
Import from EU	39 966	40 715	40 741	40 996	40 942
Import from ROW	13 290	13 540	13 574	13 633	13 564
Netto export EU	4 838	4 681	4 735	5 471	5 360
Netto export ROW	-5 136	-5 277	-5 296	-5 176	-5 137
Intermediate consumption	101 126	102 842	103 075	104 101	103 627
Domestic production	164 622	167 105	167 442	170 097	169 408
Income of households	42 858	44 089	44 169	45 058	44 893
Employment*	2 316 255	2 350 304	2 354 927	2 466 809	2 457 059

Results

Results of scenarios against B, mil. EUR, people

*absolute change against a basic scenario B

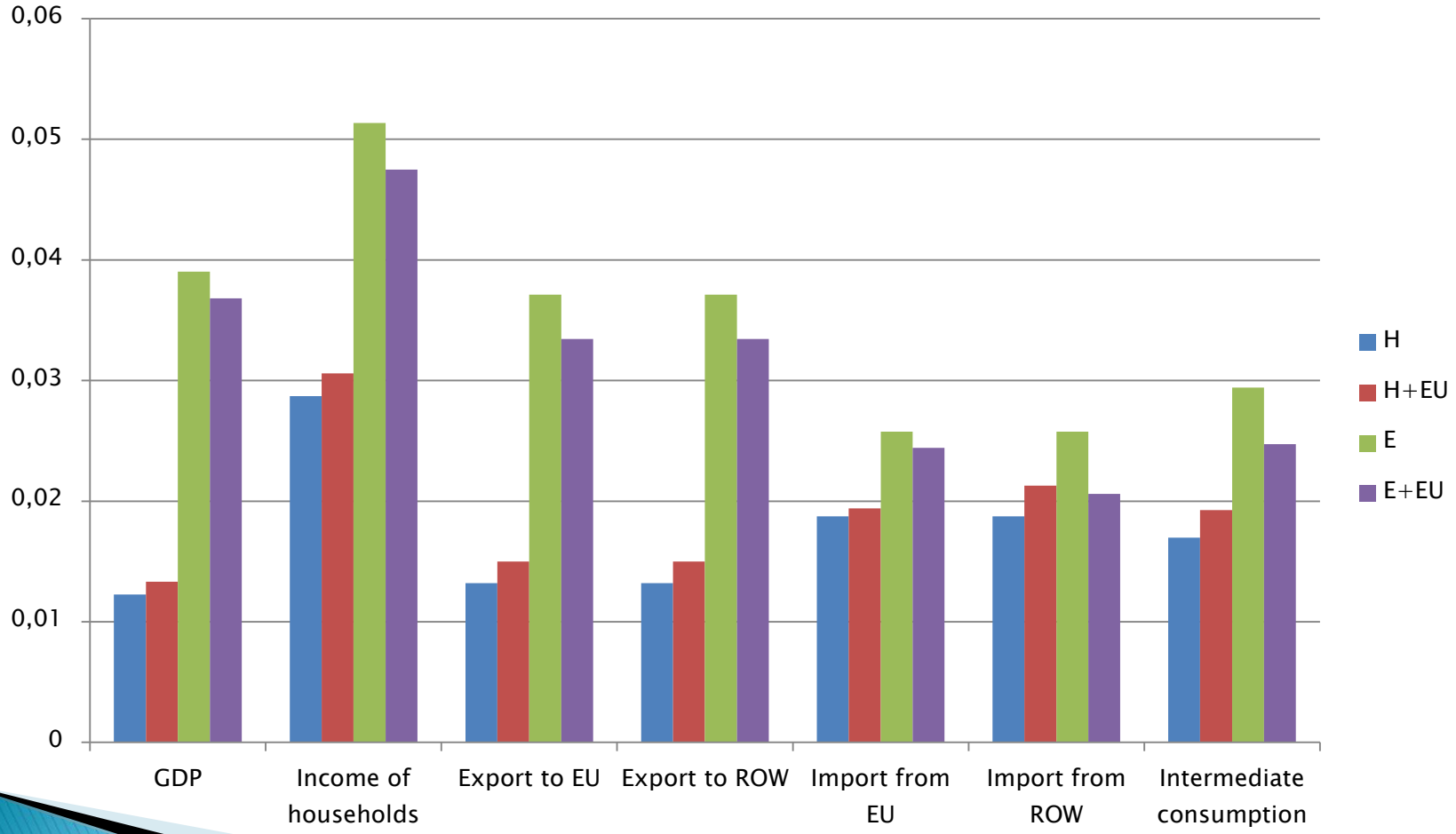
	H*	H+EU*	E*	E+EU*
Gross domestic product	808	877	2 571	2 426
Consumption of households	1 066	1 136	1 907	1 764
Export to EU	592	672	1 663	1 498
Export to ROW	108	122	303	273
Import from EU	749	776	1 030	976
Import from ROW	249	283	343	274
Netto export EU	-157	-104	633	522
Netto export ROW	-141	-161	-40	-1
Intermediate consumption	1 715	1 949	2 975	2 501
Domestic production	2 483	2 820	5 475	4 786
Income of households	1 231	1 311	2 200	2 035
Employment qty of people (SVK 2010)	34 048	38 671	150 554	140 804

Results

Results of scenarios compare B, % (SVK 2010)
*relative change against a basic scenario B (in %)

	H*	H+EU*	E*	E+EU*
Gross domestic product	1,2%	1,3%	3,9%	3,7%
Consumption of households	2,9%	3,1%	5,1%	4,7%
Export to EU	1,3%	1,5%	3,7%	3,3%
Export to ROW	1,3%	1,5%	3,7%	3,3%
Import from EU	1,9%	1,9%	2,6%	2,4%
Import from ROW	1,9%	2,1%	2,6%	2,1%
Netto export EU	-3,3%	-2,1%	13,1%	10,8%
Netto export ROW	2,8%	3,1%	0,8%	0,0%
Intermediate consumption	1,7%	1,9%	2,9%	2,5%
Domestic production	1,5%	1,7%	3,3%	2,9%
Income of households	2,9%	3,1%	5,1%	4,7%
Employment	1,5%	1,7%	6,5%	6,1%

Results compare with B scenario



Results and conclusions

- Introduction of this EU tax:

- Sustainable own EU resources
- Fair competitive environment for EU companies
- Contribution to environmental protection
- Reduced costs for companies :
  - more competitive
  - on domestic and foreign markets
  - leading to growth in:
    - domestic production
    - Employment, household income
    - GDP

Results and conclusions cont.

- The results are the same as expected for small and open economy
- Positive aspects on GDP (between 1.2% to 3.9%) and the income of households (between 2.9% to 5.1%)
- Number of employees increases from between 30 thousand (1,5% negative scenario) to 150 thousand (6,5% positive scenario)

Results and conclusions cont.2

•The introduction of the environmental tax as the own resource of the EU while reducing taxes on labor by the same amount (1% of GDP)

• Calculated by using the CGE model of medium-term* positive effects on the Slovak economy

• Approximate annual effects range:

  • Increased GDP growth between 0.2 to 0.6 percentage points

  • Additional household income growth between 0.6 to 1.0 percent (growth for the benefit of households)

  • Additional employment growth between 0.3 to 1.2 percent

•* 5 years

Thank you for your attention

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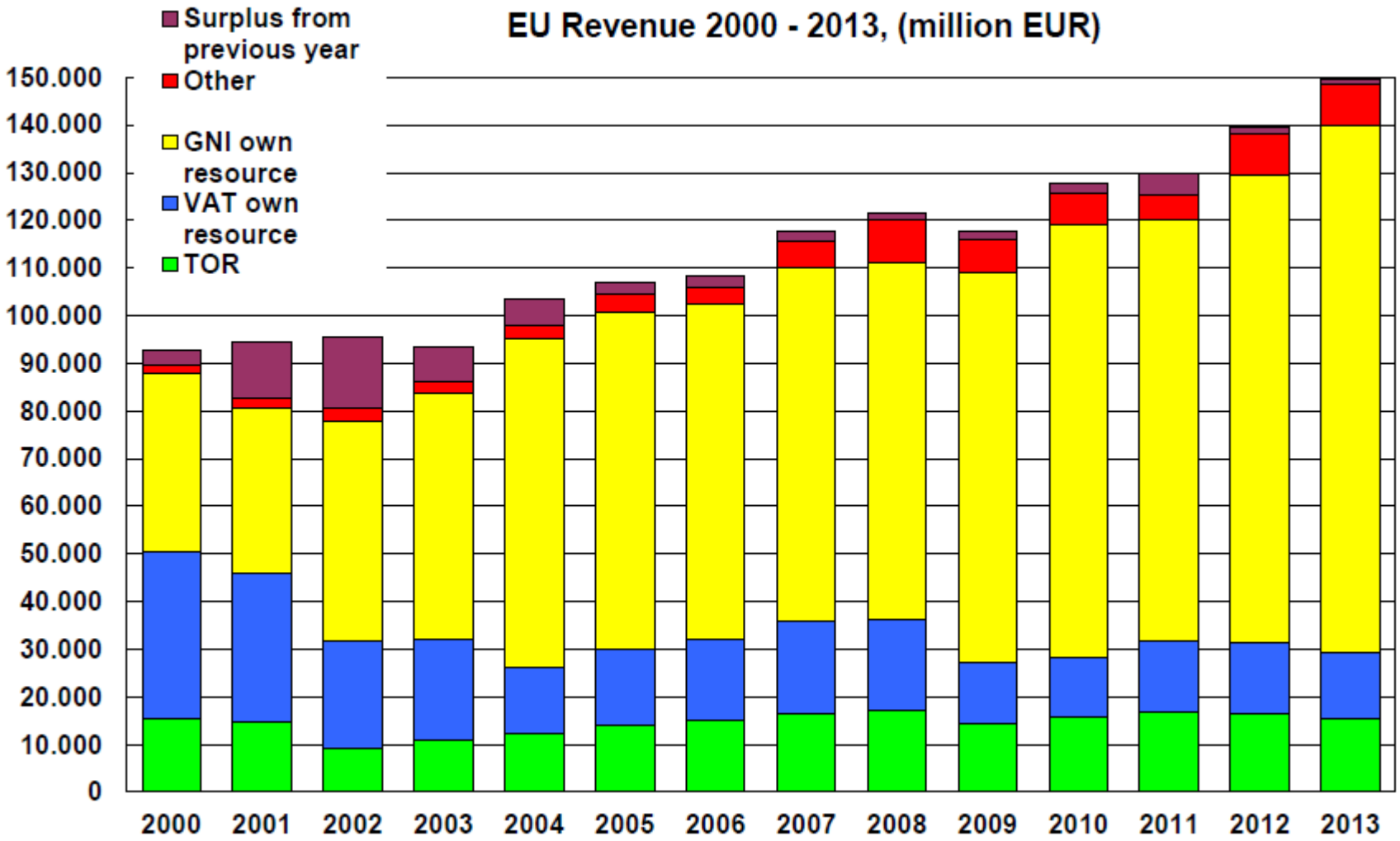
Own resources

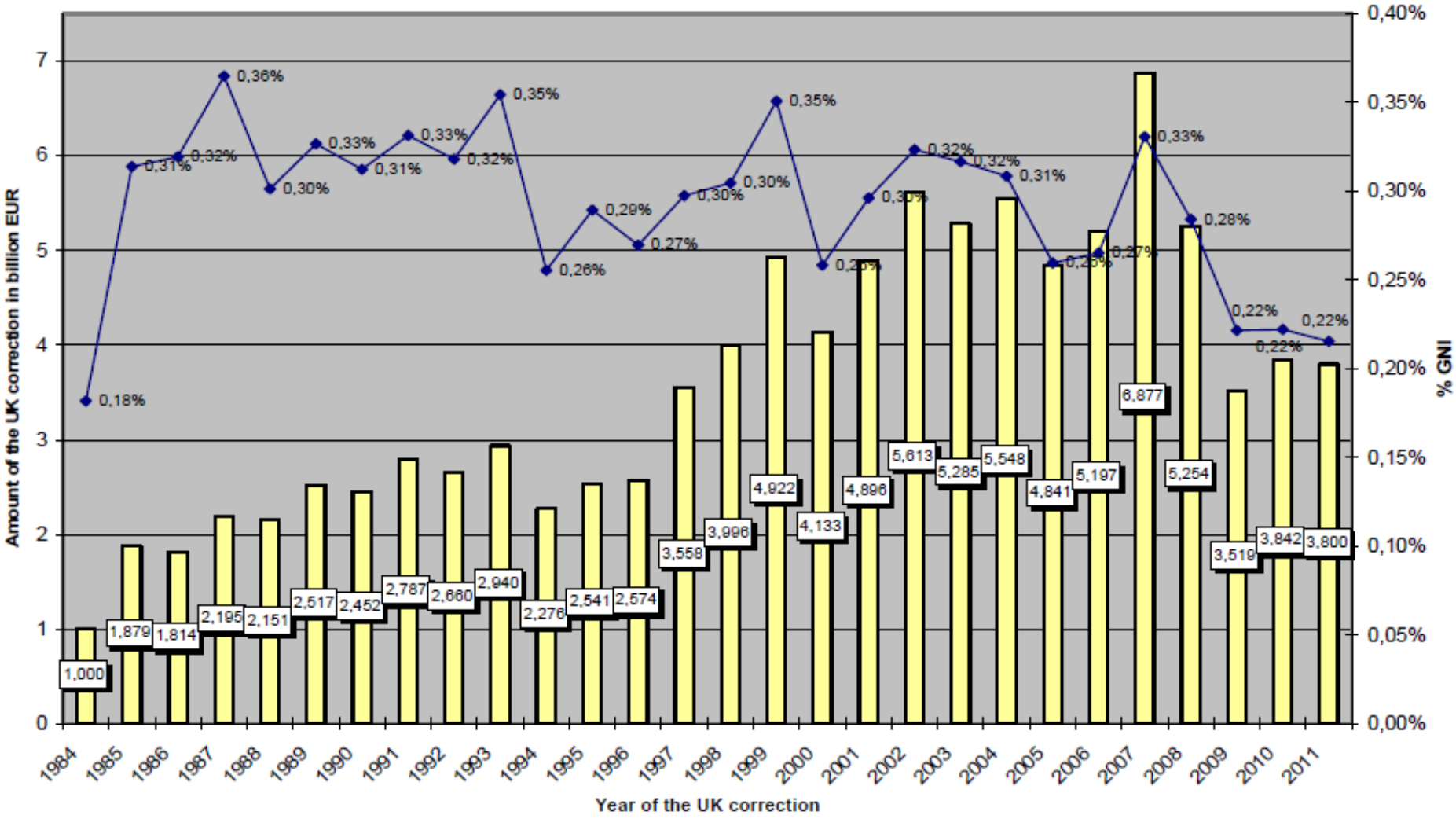


Own resources

Table 1: EU budget revenue 1970-2010 (% GNI)

	1970	1979	1988	1995	2004	2010
	EU-6	EU-9	EU-12	EU-15	EU-25	EU-27
VAT-based own resource (1)	---	0,38	0,59	0,58	0,13	0,10
GNP/GNI-based own resource (2)	---	---	0,10	0,21	0,65	0,75
Other payments from/to Member States (3)	0,78	---	---	---	---	---
Total national contributions (4)=(1)+(2)+(3)	0,78	0,38	0,68	0,80	0,78	0,85
Traditional own resources (5)	---	0,39	0,28	0,22	0,12	0,13
Total own resources (6)=(4)+(5)	0,78	0,77	0,96	1,01	0,90	0,97
Surplus from previous year (7)	---	0,00	0,01	0,10	0,05	0,02
Other revenue (8)	0,00	0,01	0,01	0,01	0,03	0,05
TOTAL REVENUE (9)=(6)+(7)+(8)	**0,78**	**0,78**	**0,99**	**1,12**	**0,98**	**1,05**

United Kingdom corrections



Note: The amounts of the UK correction for 2008-2011 are provisional.

Elements of the EU tax 1

- To apply in all EU Member States and thus throughout the EU
- 60 to 100 groups of products subject to different rates of EU tax
- Taxation of end use of goods and services on the European market
- No taxation of goods and services exported from EU
- Same taxation of end use of goods and services on the European market regardless of origin

Elements of the EU tax 2

- Tax bands for individual product groups to depend on energy consumption and levels of CO_2 throughout entire production process
- Uniform rates the same for all MS
- Rates for products calculated on basis of input-output analysis so that total revenue from this tax matches current MS payments into EU own resources