

EUROPEAN PARLIAMENT

Working Documents

1982-1983

13 December 1982

DOCUMENT 1-1006/82

REPORT

drawn up on behalf of the Committee on Budgets
on the proposals from the Commission of the European
Communities to the Council for

I. a regulation (ECSC, EEC, EURATOM) amending and
extending the term of validity of Regulation (EEC,
EURATOM, ECSC) No. 2892/77 implementing in respect of
own resources accruing from Value Added Tax the Decision
of 21 April 1970 on the replacement of financial
contributions from Member States by the Communities'
own resources (Doc. 1-560/82 - COM(82) 412 final)

II. a regulation (ECSC, EEC, EURATOM) amending Regulation
(EEC, EURATOM, ECSC) No. 2891/77 implementing the Decision
of 21 April 1970 on the replacement of financial contributions
from Member States by the Communities' own resources
(Doc. 561/82/corr. - COM(82) 316 final)

Rapporteur: Mr H. NOTENBOOM

1.3.1

PE 81.680/fin.

By letter of 10 August 1982 the President of the Council of the European Communities requested the European Parliament to deliver an opinion on the proposal from the Commission of the European Communities to the Council for regulations amending and extending the term of validity of Regulation No. 2892/77 and amending Regulation 2891/77 on own resources.

On 13 September 1982 the President of the European Parliament referred this proposal to the Committee on Budgets as the committee responsible and to the Committee on Economic and Monetary Affairs for an opinion. On 8 October 1982 it was also referred to the Committee on Budgetary Control for its opinion.

On 22 September 1982 the Committee on Budgets appointed Mr NOTENBOOM rapporteur.

It considered the draft report at its meetings of 23 November and 29 November 1982 and unanimously adopted the motion for a resolution on 7 December 1982.

Present: Mr LANGE, chairman; Mr NOTENBOOM, first vice-chairman and rapporteur; Mr BARBARELLA, second vice-chairman, Mr ARNDT, Mr ADONNINO, Mr BARBAGLI, Mr BONDE, Mrs BOSERUP, Mr FICH, Mr HELMS (deputizing for Mr CROUX), Mr KELLETT-BOWMAN, Mr LANGES, Mr NIKOLAOU, Mr NEWTON DUNN, Mr PFENNIG, Mr Price, Mr SABY, Mrs SCRIVENER.

The opinion of the Committee on Economic and Monetary Affairs is attached. This report takes account of the views of the Committee on Budgetary Control as expressed at its meeting of 2 November 1982.

CONTENTS

	<u>Page</u>
Amendments	5
A. Motion for a resolution	12
B. Explanatory statement	16
Opinion of the Committee on Economic and Monetary Affairs.	

The Committee on Budgets hereby submits to the European Parliament the following amendments to the Commission's proposal and motion for a resolution together with explanatory statement:

1. Proposal from the Commission of the European Communities to the Council for a regulation amending and extending the term of validity of Regulation (EEC, EURATOM, ECSC) No. 2892/77 implementing in respect of own resources accruing from value added tax the Decision of 21 April 1970 on the replacement of financial contributions from Member States by the Community's own resources

Amendments tabled by the Committee on Budgets

Text proposed by the Commission of the European Communities

Amendment No. 1

Article 1(9) concerning the insertion of a new Article 10b: the first paragraph of Article 10b to read as follows:

1. Corrections to the summary account referred to in Article 10(1) shall be made by the Commission on the basis of data provided by it or by the Member States, and shall be incorporated in a summary estimate adopted on 30 June.

1. Corrections to the summary account referred to in Article 10(1) shall be made by the Commission and shall be incorporated in a summary estimate adopted on 30 June.

The findings made by the Commission itself shall be notified to the Member State concerned in a reasoned decision. If that Member State does not object to the resulting corrections within a period of 3 months, they may be made by the Commission. If, within the period of three months, the Member State refutes the Commission's findings, the correction shall be postponed until agreement has been reached or the matter settled by the Court of Justice.

The Commission may, however, by reasoned decision, call on Member States to make such corrections within three months.

Amendments tabled by the Committee
on Budgets:

Text proposed by the Commission of
the European Communities

Amendment No. 2

Article 1(14) relating to Article 14,
Insert the following new paragraph between the second and third paragraphs:

This Regulation shall enter into force
on the day following its publication
in the Official Journal of the
European Communities

It shall apply from 1 January 1983 for
a transitional period expiring on
31 December 1985

By 31 December 1984, the Commission shall
submit a report on the application of
this regulation, together with proposals
for a uniform method of calculation for
the determination of the basis of
assessment. In so doing it shall take
account of differences in the matter of
the administrative burden on the tax-
payer and public control bodies.

The Council, acting unanimously on a
proposal from the Commission, shall
adopt, before 30 June 1985, the
provisions relating to the definitive
uniform system for levying VAT
resources and the detailed rules
for implementing this system.

Amendment No. 3

Article 1(12) relating to Article 13:
- in the third paragraph of Article 13(2)

Following

No later than 30 days following the approval of this report, the Commission shall adopt a decision which it shall communicate to the Member States

Delete

'and which shall apply after a period of 30 days if during this period no Member States has referred the matter to the Council.

The Council may, at the request of a Member State and acting by a qualified majority revise the Commission's decision.

The Commission's decision shall apply after a period of 60 days if the Council has not given a ruling within this period, calculated from the day on which the matter was referred to the Council.'

2. Proposal from the Commission of the European Communities
to the Council for a regulation amending
Regulation (EEC, EURATOM, ECSC) No. 2891/77
implementing the Decision of 21 April 1970
on the replacement of financial contributions from Member States
by the Community's own resources

Amendments tabled by the Committee
on Budgets

Text proposed by the Commission
of the European Communities

Amendment No. 4

Article 1(6) (a) and (b) relating to Article 9(1) of Regulation 2891/77
is amended as follows:

1. The amount of own resources established shall be credited by each Member State to the account opened for this purpose in the name of the Commission with a financial institution agreed upon between the Commission and the Member State; this account shall yield interest.

2nd paragraph unchanged

Delete this paragraph

Article 9(1) to read:

1. The amount of own resources established shall be credited by each Member State to the account opened for this purpose in the name of the Commission with its Treasury or with the body it has appointed.

However, the VAT resources and, where appropriate, the financial contributions based on GNP shall be entered in accordance with the procedure laid down in Article 10(3), (4), (5) and (6).

This account shall yield interest calculated at the discount rate in force in the Member State where the account is held, less half a point.

Amendments tabled by the Committee
on Budgets

Text proposed by the Commission
of the European Communities

The interest for each month shall be entered on the first working day after the 15th day of the following month.

Amendment No. 5:

Article 1(7d) amending Article 10 of Regulation 2891/77 to read as follows:

Article 10(3), paragraph 4 to read as follows:

If the budget has not been finally adopted before the beginning of the financial year, each Member State shall enter each month an amount corresponding to one-twelfth of the last budget to have been finally adopted; the adjustment shall be made on the first due date following the final adoption of the budget.

Calculation of the one-twelfth for the month of January of each financial year shall be based on the amounts provided for in the draft budget; this amount shall be adjusted when the next month's entry is made. If the budget has not been finally adopted before the beginning of the financial year, the twelfth of VAT resources shall be calculated by reference to the VAT base in the draft budget or, if there is no draft budget, in the preliminary draft budget, using the rate fixed for the last budget to have been finally adopted. Twelfths of financial contributions shall be calculated on the basis of the amounts entered in the draft budget or, if there is no draft budget, in the preliminary draft budget. This 'draft budget'

shall be the draft in the form in which it stands at the beginning of the financial year for which the budget has not been finally adopted. Where the absence of a budget is due to the rejection of the draft budget by Parliament as provided for by Article 78(8) of the ECSC Treaty, Article 203(8) of the EEC Treaty and Article 177(8) of the Euratom Treaty, the VAT base and the financial contributions shall be those contained in the rejected draft budget or, where appropriate, the draft budget established after the rejection decision but before the start of the financial year if it is adopted before the 16th day of the month. Otherwise, the adjustment shall be made on the second due date following the final adoption of the budget.'

Amendments tabled by the Committee
on Budgets

Text proposed by the Commission
of the European Communities

Amendment No. 6

Article 1(8) relating to Article 11 of Regulation 2891/77 to read as follows:
Article 11 to read as follows:

Any delay in making the entry in the account referred to in Article 9(1) shall give rise to the payment of interest by the Member State concerned at a rate corresponding to the representative interest rate applicable in that Member State for short-term public financing operations, increased by 5 points. That rate shall be increased by 0.25 of a percentage point for each month of delay. The increased rate shall be applied to the entire period of delay.

Any delay in making the entry in the account referred to in Article 9(1) shall give rise to the payment of interest by the Member State concerned at a rate equal to the rate of discount applied in the Member State on the due date, increased by 5 points. That rate shall be increased by 0.25 of a percentage point for each month of delay. The increased rate shall be applied to the entire period of delay.

Amendment No. 7

Article 1

Add the following new point 17:

17. Article 22 to read as follows:

The Commission shall, by 31 December 1984, submit a report on the implementation of this regulation together with, where appropriate, any proposals for amendments thereto.

The Commission shall, by 30 September 1979, submit a report on the implementation of this regulation together with, where appropriate, any proposals for amendments thereto.

MOTION FOR A RESOLUTION

on regulations amending and extending the term of validity of Regulation No. 2892 and amending Regulation No. 2891/77 on own resources.

The European Parliament,

- having regard to the report from the Commission of the European Communities to the Council on the implementation of Council Regulation (EEC, EURATOM, ECSC) No. 2891/77 of 19 December 1977 implementing the Decision of 21 April 1970 on the replacement of financial contributions from Member States by the Communities' own resources (Doc. 1-561/82/corr.);
- having regard to the proposal from the Commission of the European Communities to the Council for a regulation (ECSC, EEC, EURATOM) amending Regulation (EEC, EURATOM, ECSC) No. 2891/77 implementing the Decision of 21 April 1970 on the replacement of financial contributions from Member States by the Communities' own resources (Doc. 1-561/82/corr.);
- having regard to the proposal from the Commission of the European Communities to the Council for a regulation (ECSC, EEC, EURATOM) amending and extending the term of validity of Regulation (EEC, EURATOM, ECSC) No. 2892/77 implementing in respect of own resources accruing from Value Added Tax the Decision of 21 April 1970 on the replacement of financial contributions from Member States by the Communities' own resources, to which is annexed a preliminary report on the inspection visits concerned with VAT own resources (Doc. 1-560/82);

3. Expects the Commission to submit a further report by 31 December 1984 on the implementation of the regulations relating to own resources and to cover in that report all the aspects which have a decisive bearing on the choice of the definitive method for the calculation of the VAT base, with particular reference to the subsidiary burdens which arise for the tax-payer and public control bodies as a function of the method of determining the base;
4. Hopes that on this occasion a report will also be submitted on the way in which the own resources of the Community are shown in the national budgetary documents and accounts and on the compatibility thereof with the financial autonomy of the Community;
5. Agrees that on the occasion of the extension of the validity of Regulation 2892/77 improvements should also be made to the revenue method (and has amended the Commission's proposals in this respect);
6. Strongly reaffirms its view that the financial autonomy given to the Community by Article 201 of the EEC Treaty and by the Decision of 21 April 1970 necessarily implies that the resources collected by the Member States for the account of the Community must be transferred immediately and directly to the Commission and that the Community must be enabled to verify the collection of those resources wherever and whenever it considers this to be necessary;
7. Welcomes, therefore, the Commission's proposal also to revise Regulation 2891/77 and is able, as the next step in the direction desired by Parliament itself, to endorse the proposals of the Commission (as amended by Parliament) on:
 - (a) the principle that credit balances of the Community on its accounts in the Member States must bear interest,
 - (b) improvements in the reporting on frauds and irregularities,
 - (c) the possibility for the Commission to effect local verifications, after giving advance notice of its intention to do so, in respect of the collection of own resources;

8. Feels that the Commission should be placed in a position to ensure that its credit balances with financial institutions are held in FCU;
9. Requests the Council to embody at the earliest possible opportunity in the Financial Regulation of the Community the provisions of Regulations 2891 and 2892/77 after amendment in accordance with the proposals which have now been submitted;
10. Points out in this connection that decisions are being taken in respect of the accounting for the balance of one financial year and of adjustments and corrections to VAT resources in the framework of the revision of the Financial Regulation;
11. Requests the Commission to submit as soon as possible a report on the action it has taken on the above proposals from Parliament and also to take account therein of the proposals contained in the opinion of the Court of Auditors;
12. Requests the Council not to take any unilateral decisions against the opinion of the European Parliament on these proposals, following the example of the agreement reached for legislative decisions on the Financial Regulation; makes a formal request for the opening of the conciliation procedure if the Council wishes to depart from the opinion approved by Parliament; is prepared if necessary to include conciliation on Regulation 2892/77, whose validity expires on 31 December next, in the budgetary conciliation procedure;
13. Instructs its President to forward this resolution to the Commission, the Council and the Court of Auditors.

EXPLANATORY STATEMENTI. BACKGROUND

1. In July 1982 the Commission submitted to the Council a report on the implementation of Council Regulation No. 2891/77 implementing the Decision of 21 April 1970 on the replacement of financial contributions from Member States by the Communities' own resources (1).

Article 22 of that regulation provides that the Commission shall submit this report by 30 September 1979. More recently, in the resolution contained in the Key interim report on the discharge in respect of 1980 (20 April 1982), the European Parliament urged the Commission to submit the report and the proposed amendments to Parliament by 1 June at the latest. The delay is due in part to the length of time taken by the Member States to implement the Sixth VAT Directive and to introduce VAT.

Along with this report the Commission also submitted proposals amending the abovementioned Regulation No. 2891/77 implementing the Decision of 21 April 1970 in respect of own resources in general and Regulation No. 2892/77, similarly implementing the Decision of 21 April 1970 but in respect of VAT resources.

Article 14 of Council Regulation No. 2892 provides that it shall expire on 31 December 1982, and therefore this regulation needs to be reviewed as a matter of urgency.

(1) Doc. 1-561/82/Corr. of 31.8.1982 COM (82) 316 final

II. REPORT ON THE IMPLEMENTATION OF REGULATION No. 2891/77

2. Your rapporteur acknowledges that there would have been little point in bringing out a report in mid-1979. Regulation 2892/77 did not actually come into force in all Member States until 1 January 1980. Even now, in 1982, the verification of the VAT base has been completed for one year only, namely 1979.

3. Nevertheless considerable importance should be attached to this report. It is the first report since the introduction of own resources, which was an event of great importance for the European Parliament and which contributed appreciably to extending Parliament's powers. When the Community was financed solely by own resources, some of the national powers of control over these resources was relinquished and it was natural that the European Parliament should assume these powers.

4. Unfortunately, the concept of own resources has been cheapened in the past, particularly by the concentration on 'getting one's money back' and indirectly by allowing comparisons between what a Member State pays out in the form of European own resources and what the Community spends in that Member State.

5. One of the chief characteristics of own resources is that they have belonged, since their inception, to the Community. Although the Member States admittedly are still responsible for collecting these resources, they do this on the Community's behalf.

There still seem to be problems at this level which, as far as can be deduced from the report, are caused primarily by difficulties in interpreting the texts.

6. The Commission discusses the problems involved in accurately establishing and making available own resources and the possibility of inspection by the Community. As usual, it remains extremely vague on which actual shortcomings were identified and how the differences of opinion were resolved.

7. The Commission makes no reference at all to the question of whether or not own resources are still being credited to national budgets in some Member States as was found to be the case at the time of the Spinelli report on own resources (Doc. 1-772/80, page 33) which, moreover, called on the Commission to draw up an inventory.

8. It can be stated by way of a tentative summary that while the report provides valuable further information about the proposed amendments to Regulations 2891 and 2892/77, it contains no evaluation of the operation of the system as such, for instance as regards guaranteeing the Community's financial autonomy or the actual problems involved in establishing the VAT base or as regards the choice between the two methods.

9. Since the introduction of the system of own resources, Parliament has repeatedly made its position clear on this matter, notably in the following reports and the accompanying resolutions:

- the Notenboom report, on behalf of the Committee on Budgets, on the proposal from the Commission of the European Communities to the Council for a regulation on the measures to be taken in the event of irregularities affecting the own resources referred to in the decision of 21 April 1970 and the organization of an information system for the Commission in this field (Doc. 167/79; Resolution of 11 May 1979, OJ C 140 of 5.6.1979);
- the Spinelli own-initiative report on behalf of the Committee on Budgets, on the Community's own resources (Doc. 1-772/80; Resolution of 9 April 1981, OJ C 101 of 4.5.1981);
- the reports on the annual discharge procedure, most recently the KEY interim report on the discharge in respect of 1980 (see also point 6 above).

The following themes reappear in each of these reports:

- the need to treat own resources unequivocally as Community resources for accounting and general purposes ;
- the need to extend the Commission's powers and means of control, particularly by allowing it to operate independently in the territory of the Member States;
- the need for complete harmonization of the VAT base;

- Parliament's preference for the introduction of the returns method as the definitive uniform method for establishing VAT, insofar as this can be done without more red tape, particularly in the case of small and medium-sized undertakings.

10. The Commission proposes a number of adjustments in each of these areas which Parliament considers to be crucial. The proposals also contain a number of technical amendments. However, the final decision on a uniform method of calculating the basis for levying VAT own resources has, in our view rightly, been deferred.

III. PROPOSALS RELATING TO REGULATION NO. 2891/77

11. The Commission's proposed amendments to this regulation, which lays down the general rules governing own resources, come some way to meeting two of Parliament's fundamental concerns, namely:

- the emphasis on the Community nature of own resources: this is done by allowing the Member States interest on the balances held in accounts with national Treasuries in the name of the Community (Article 9 (1)),
- the extension of the Commission's powers and practical means of control: this is done first by improving the Member States' system of reporting on frauds and irregularities (Article 17 (3)) and secondly by enabling Commission officials to undertake on-the-spot inspections themselves (Article 18(3)).

12.(a) The principle of financial autonomy obviously implies that Community credit balances may bear interest. Article 207 of the EEC Treaty stipulates with reference to the earlier system of national financial contributions that the available balances shall be deposited with the Treasuries of the Member States or with bodies designated by them. There was a further provision enabling balances to be invested on terms to be agreed with the Member State.

(b) The Treaty contains no specific provisions for the system of financing by own resources. Article 6 of the Decision of 21 April 1970, which has the status of a treaty, specifies that the Member States shall make these resources available to the Commission in a manner to be decided by the Council.

(c) Your rapporteur remains convinced that it would be better if the Member States transferred the own resources directly to the Commission and if the Commission could administer these resources independently. He accepts however the arguments that the automatic transferral of the own resources to Brussels could disrupt the exchange markets and that any action must be taken carefully and gradually. He has therefore proposed a formulation which provides for resources to be deposited on an interest-bearing account with the choice of financial institution left to the Commission and the Member State. The interest rate would then be a matter for negotiation between the Commission and the financial institution. This would also enable account to be taken of differences in national banking laws and prevent the interest payable to the Community from being a direct burden on the taxpayer.

(d) In the financial statement which accompanies the Commission proposal the yield per financial year is estimated at 140m. ECU.

(e) Your rapporteur doubts whether the discount rate is a good yardstick in all countries for the cost of short term government financing and wonders whether the difference between the interest on the credit balances (discount rate less half a point) and the interest rate paid by the Member State in the event of a delay (discount rate increased by five points) is sufficient.

(f) It should also be noted at this point that on several occasions in the past Member States have temporarily withheld amounts due under the budget as established because they questioned the validity of the budget. So far the Commission has not claimed interest for late payment (the highest discount rate applicable in the Member States increased by 0.25% of a percentage point for each month), within the framework of the agreement which must be reached in Council to adopt the budget in question or on any other basis. In other cases of delay this rule has been applied, even when substantial sums were concerned.

13. Own resources are considered as being due as soon as they are established, the only exception being where recovery has not been possible for reasons of force-majeure.

The Commission interprets the concept of force majeure in a fairly restrictive manner. Not all Member States share this interpretation, and this has given rise to a number of differences of opinion. In the light of the outcome of talks currently under way with the Member States, the Commission will decide whether or not to propose amendments to Article 2.

It goes without saying that exceptions to the owing of own resources should be interpreted restrictively. However, this should not be allowed to lead to a situation where there are appreciable differences between the amounts due to the Community and those that can actually be collected. In particular, your rapporteur considers it justified that a Member State should waive the obligation to collect dues from guarantors in cases, for instance, where their good faith appears to have been abused by international criminals, and where recovery would seem to be impossible. Should the Member States foot the bill for this loss of revenue or the Community?

14. The proposals relating to the system of provisional twelfths (Article 9(3) fourth subparagraph), although they tie in with the Commission's proposals for the reform of the 1977 Financial Regulation, also require further study. Is it really essential to create complicated rules of this kind, whereby the VAT rate of the previous year has to be applied according to the new base as set out in the draft budget, which in turn calls for a decision on which stage of the draft budget should be taken into consideration. Given that during the period of provisional twelfths the level of expenditure from the previous year constitutes one of the limits on expenditure, it would be just as easy to stipulate that, in periods when the provisional twelfths system applies, the Member States shall make available each month the same amount as the previous year.

15. The Commission's proposals also cover amendments to the rules governing the balances of the budgetary year. The technical provisions for the calculation of these balances do not give rise to any objections (Article 15). The amendment to Article 16 which leaves it up to the Commission whether to enter the balance in the budget of the following year (by means of an amending budget) or in the budget of the year after that (through the budgetary procedure) is acceptable to your rapporteur, because it gives the Commission greater room for manoeuvre and also enables it to take fuller account of Parliament's wishes.

16. Parts of the proposal for improving reporting on frauds and irregularities are the same in content as the proposal for a Council regulation on measures to be taken to deal with irregularities in the collection of own resources, which the Commission submitted to the Council in March 1979. Parliament approved that proposal (resolution of 11 May 1979, OJ C 140 of 5 June 1979) but it was not adopted by the Council. In his working document drawn up in preparation for the KEY interim report on the discharge in respect of 1980, your rapporteur urged the Commission, where necessary, to adapt its proposal to take account of the latest developments and submit it to the Council again as soon as possible. The proposal which the Commission has now submitted goes some way towards complying with that request.

17. With regard to on-the-spot inspections by Commission officials, it should be noted that these amendments do no more than confer on the Commission the same powers as regards revenue which were already granted to it ten years ago in the field of agricultural expenditure by Regulation 283/73. The rapporteur agrees with this proposal. He would stress, however, that unnecessary proliferation of inspections by a particular body should be avoided, since it is theoretically possible for successive checks to be made by national inspection authorities (for instance taxation or agriculture), the national Court of Auditors, European administrations (e.g. DGs for customs or agriculture), the Commission's internal financial control services and the European Court of Auditors.

18. The Court of Auditors has also delivered an opinion on, and tabled amendments to, these two proposals for regulations. Your rapporteur takes the view that the Commission should, as is the custom with Parliament's amendments, report on the action taken by it as a result.

IV. PROPOSALS RELATING TO REGULATION NO. 2892/77

19. The arguments for the returns method and the statistical method

Regulation No. 2892/77 provides that a uniform method for establishing the basis for levying of VAT resources must be chosen by the end of 1982. So far Parliament has come out in favour of returns method, which the Commission also prefers. However, the European Parliament was aware at the same time of the possible extra burden on business, which should be avoided. Nevertheless given on the one hand the delayed introduction of VAT and on the other the limited number of countries so far applying the returns method, the Commission feels that it does not yet have sufficient information to impose this method as the only method at this stage. Hence its proposal to postpone a choice.

20. In the returns method (Section A of Title III of Regulation No. 2892/77) the basis for levying VAT own resources is established using data provided in taxpayers returns.

In the revenue method (Section B of Title III) the base is established by calculating a weighted average of the total VAT revenue collected on the basis of statistics.

21. Both methods have their advantages. Parliament's objection to the statistical method is that it takes insufficient account of the fact that a Community tax is involved. The supporters of the statistical method argue, inter alia, that the returns method places an additional burden on the taxpayer and on the inspecting authorities.

It is true that only two Member States have opted for the returns method, namely Ireland and Denmark. One other Member State is reported to be considering changing to the returns method, but it is also believed that one of the abovementioned countries intends to abandon that method.

22. Faced with this situation, your rapporteur felt it necessary to seek opinions in a number of Member States. He also took steps to ensure that the parliamentary committees asked for an opinion keep a close eye on this matter.

23. We should not overlook the fact that own resources accruing from VAT are different from traditional own resources. At one time it was felt that the European component of VAT in the purchase price of any product should be clearly stated for the benefit of the consumer. It is not possible at the present moment to create at European level the direct connection which exists between the State, which fixes the rate of tax, and the taxpayer, because VAT is still largely a national tax and because it would make matters much more difficult for the taxpayer and the consumer if there were two different rates of tax on the self-same product.

Nevertheless, the financial autonomy of the Community is such a major achievement that efforts must be made to emphasize as strongly as possible the fact that VAT is a form of own resources.

24. In this connection it is extremely important that the Community should obtain the necessary guarantees that the VAT base is calculated as accurately as possible. The revenue or statistical method is supposed, on the one hand,

- to be less accurate than the returns method and harder to apply uniformly, and
- to require highly complex calculations and estimates to establish the weighted average rate in a Member State.

On the other hand,

- it has the advantage of being based on the actual VAT yield,
- and places the onus of calculation on a limited number of civil servants (national and Community) and not on the taxpayer,
- Moreover, although the complexity of the calculation is a decisive factor when the method is devised and first implemented, this objection no longer applies once the method is 'run in'.

25. The compulsory introduction of the returns method will mean a change in the accounting systems used by persons liable to pay VAT.

In the countries where the revenue method is in force, VAT returns contain only a limited amount of information concerning the VAT base. This is understandable, since the tax authorities are primarily concerned with VAT revenue. Any information about the VAT base merely serves as a check on VAT revenue. The rules governing the amounts which may be deducted from the VAT owed, for instance, do not always provide the required statistics on the tax base, particularly in cases where only a certain percentage of the VAT already paid may be deducted (e.g. goods for private and professional use).

Although conventional accounting systems do contain information it is not in a form which makes it readily usable for the kind of VAT returns required in the returns method. In other words, in order to apply the returns method, the Member States would have to amend their tax return forms and the taxpayers would have to change their accounting system in order to complete the returns correctly.

It is extremely doubtful whether increasing the burden on business in this way is to Europe's advantage. In the case of large firms with computerized accounting systems this exercise probably only involves the expense of modifying their computer programme. For small and medium sized undertakings, however, it represents a real increase in the administrative burden which, in the current economic crisis, they can well do without.

26. Specialists who are familiar with both methods have assured the rapporteur that the margin of error in the two systems, i.e. the returns method and the revenue method, is roughly the same. Allowance has to be made in the statistical method for the existence of different VAT rates and of numerous exemptions from VAT.

In the case of the returns method, it is virtually impossible to check conclusively whether the basis for assessment (to which the national tax authorities attach little importance) indicated by the taxpayer is correct and whether the returns are processed properly within the tax administration, unless statistical control models are devised which are closer to the statistical method.

If the advantages of the returns method, namely uniformity and accuracy, can thus be shown to be only relative, and if the direct link between the Community and the taxpayer is the only remaining argument in favour of the compulsory introduction of the returns method, surely the same psychological effect can be achieved by other means, which do not involve additional burdens on business.

27. Your rapporteur can thus endorse the Commission's view that the choice of method should be postponed until more experience has been gained with both methods. However, in gathering the information, the Commission should pay particular attention to the respective costs and benefits for those concerned: individuals as payers of VAT and Community citizens, national and Community authorities.

28. In the meantime it should be pointed out that this review exercise is being used to introduce a whole series of amendments to the statistical method, the aim of which is to gain more experience of the shortcomings which have been identified and to improve the accuracy of the method.

Further explanations would be useful on certain points:

- a. The purpose of the proposals relating to Article 7, according to the Commission, is to obtain a clearer picture of payments and thereby make it easier to calculate the tax base. Neither the substance of these improvements nor the difficulties which they are intended to avoid are altogether clear. This matter has also been discussed by a technical working party in the Council. Parliament should be informed of the outcome.
- b. Article 10(b)(1) states that the Commission may call on Member States to make corrections to their summary accounts. This amounts in fact to transferring the onus of proof: the Member State must prove that its summary accounts are in order. The Commission has given an assurance that this was not its intention and is prepared to amend the text in accordance with the wishes of Parliament.

c. Article 10(b)(2) introduces what amounts to a time limit: when three years have elapsed from the end of a given financial year, no further correction may be made to the VAT base. This is acceptable as a principle of common law. Practice has shown that it may be necessary.

29. Your rapporteur does not, however, see why the Commission has not used the opportunity to amend the provisions relating to the powers of the committee on own resources. Although Article 20 of Regulation 2891/77 sets up an advisory committee and various areas of consultation are designated in Article 21, Article 13 of Regulation 2892/77 paints quite a different picture. Here every Member State is given the opportunity to appeal to the Council against decisions by this committee. Your rapporteur will table amendments to safeguard the purely advisory nature of this committee.

V. GENERAL COMMENTS AND CONCLUSIONS

30. As a general point, your rapporteur feels that much of the content of the regulations on own resources would be better dealt with in the Financial Regulation, to which amendments have also been proposed. This would help to speed up the trend towards a uniform Financial Regulation governing all the Community's financial activities.

31. To sum up, it can be said that the proposals amending Regulation No 2891/77 follow Parliament's line of thinking. They therefore deserve to be supported. This does not mean, however, that we are 100% satisfied with them.

With regard to Regulation No. 2892/77 the postponement requested seems justified. Indeed, experience shows that what has appeared in the eyes of both Parliament and Commission, to be the best solution in theory, calls at the very least, for some clarification. Your rapporteur believes that this contradiction of the conventional wisdom is justified in view of Parliament's extreme concern for unemployment and economic recovery, including its concern that the amount of paperwork and reports which firms are required to produce, should be kept to a minimum, where possible without adverse effects on performance. The opinion of the Committee on Economic and Monetary Affairs follows the same line.

32. In conclusion your rapporteur feels that, should the Council intend to curb the proposed extension of the Commission's powers of inspection or reject the principle that balances on deposit with national Treasuries should bear interest, then there would be sufficient grounds for initiating the conciliation procedure.

OPINION

of the Committee on Economic and Monetary Affairs

Draftsman : Mr GIAVAZZI

On 22 September 1982 the Committee on Economic and Monetary Affairs appointed Mr Giavazzi draftsman.

It considered the draft opinion at its meeting of 3/4 November 1982 and unanimously adopted the conclusions contained therein on 4 November 1982.

The following took part in the vote: Mr J. Moreau, chairman; Mr Herman (deputizing for Mr Giavazzi, draftsman), Mr von Bismarck, Mr Bonaccini, Mrs Desouches, Mrs Forster, Mr Mihr, Mrs Tove Nielsen (deputizing for Mr de Gucht), Mr Purvis (deputizing for Sir Brandon Rhys Williams), Mr Wagner, Mr Wedekind (deputizing for Mr Schnitker) and Mr Welsh.

1. Regulation No. 2891/77 regulates the implementation of the Council Decision of 21 April 1970 on the replacement of financial contributions from the Member States by the Communities' own resources; Regulation No. 2892/77 lays down detailed rules on own resources accruing from VAT in implementation of the same decision.

Article 22 of the first regulation provides that the Commission shall by 30 September 1979 submit a report on the implementation of the regulation together with, where appropriate, any proposals for amendments thereto. The delay in presenting the report is attributed by the Commission to delays in implementing the Sixth Directive on VAT, which was only introduced in three Member States with effect from 1 January 1980, whereas the starting date provided in the directive was 1 January 1978. As a result of the delay in implementing the Sixth Directive the Commission has had experience of the rules on the control of these resources on only one occasion so far, namely as regards the control of the actual VAT base for 1979; verification of the base for the 1980 financial year has not yet been completed. The Commission proposes a number of improvements in the light of its experience, intended to do greater justice to the Community nature of own resources and rectify certain flaws which have come to light. In addition to a number of technical budgetary amendments, together with some amendments which should facilitate and improve Community-level control, the Commission proposes certain more fundamental amendments designed to ensure financial autonomy and a balance between revenue and expenditure. To this end the Commission proposes, amongst other things, that the amount entered in the Commission's accounts in the national treasuries should bear interest. The interest rate is to be determined by the prevailing bank rate in the Member State concerned, reduced by 0.5. In its financial statement the Commission estimates that this would yield 140 million ECU. In this way the Community nature of own resources and financial autonomy would be demonstrated more effectively, a point fully endorsed by the Committee on Economic and Monetary Affairs. The Committee on Economic and Monetary Affairs accordingly agrees to this measure and to the other amendments to Regulation No. 2891/77 proposed by the Commission.

2. The second Commission proposal concerns an amendment to Regulation No. 2892/77 dealing with own resources accruing from VAT. Article 14

of this regulation states that the regulation should apply from 1 January 1978 until 31 December 1982. The regulation also stipulates that the Council, acting unanimously on a proposal from the Commission, should before 30 June 1982 adopt the provisions relating to the definitive uniform system for levying VAT resources and the detailed rules for implementing the system. The proposal now submitted by the Commission is certainly rather late but is intended to enter into force from 1 January 1983. This date is clearly essential in view of the fact that the present Regulation No. 2892/77, as already mentioned, expires on 31 December 1982. In contrast with the provisions of the said regulation, the Commission is now proposing only to amend the regulation rather than lay down a definitive system for levying VAT resources. As with Regulation No. 2891/77 the Commission maintains that because of the delayed implementation of the Sixth Directive on VAT it has had insufficient experience of the provisions of the regulation to be able to decide on a definitive system.

3. Regulation No. 2892/77 gives the Member States a choice between the so-called revenue method and the returns method. Under the revenue method, the base for own resources is determined by applying a weighted average rate calculated essentially from statistical data to total revenue collected in a given year. In the returns method, on the other hand, the own resources base is determined by reference to the information contained in the returns made by taxable persons for a given budgetary year. A definitive system was to have been prepared after a five-year transitional period. In its proposal, however, the Commission suggests postponing the choice for three years for the reasons mentioned above, although it does also draw some conclusions from its limited experience so far. According to the Commission, the revenue method is extremely complicated in practice, not only in the interpretation of Community rules but also when it comes to interpreting national statistics. The Commission goes on to reiterate its view that the returns method presents the best guarantees of consistency and accuracy.

At the same time, the Commission admits that it has only had limited experience of the returns method, in Denmark and Ireland alone, where some problems of application have arisen. It gives no further details of the

nature of the problems with which it has had to contend, but expects to have wider experience of the returns method as some Member States are apparently considering abandoning the revenue method in its favour.

The Commission itself is clearly in favour of the returns method, but in the light of its limited experience proposes postponing the choice between the two systems for three years. It also proposes a number of amendments suggested in the light of experience and designed to improve the application of the old regulation.

4. The Committee on Economic and Monetary Affairs understands the Commission's arguments to the effect that consistency and accuracy are better safeguarded by the returns method. It feels, however, that there must be an assurance that the determination of VAT under the returns method will not give rise to a number of administrative formalities which would impose an additional administrative burden on companies and could cause difficulties for the small to medium-sized business. The problems of interpretation with which the Commission complains that it and the Member States' administrations, have had to contend, would then be shifted to the taxpayer. Besides, these problems of interpretations are likely to be resolved once the initial period is over, in which case difficulties with the revenue method will be completely eliminated. Careful consideration must therefore be given to the question as to whether the choice of the returns method produces such gains in consistency and accuracy as to justify the trouble involved in imposing this method on the taxpayer.

Conclusions

5. The Committee on Economic and Monetary Affairs

- (a) agrees to the amendments to Regulation No. 2891/77 proposed by the Commission;
- (b) agrees, likewise, to the proposed amendment of Regulation No. 2892/77; accepts the prolongation of the system which allows a choice between the returns and revenue methods of calculating the base of own resources;
- (c) notes the Commission's preference for the returns method; considers it essential, however, that in choosing the returns method, the

problems associated with the application of the directive should not be shifted away from the Commission and the national authorities on to the taxpayer; emphasizes that, when a definitive system is being selected for the levying of VAT resources, sight should not be lost of the need to avoid creating administrative formalities for the determination of VAT which would place companies, and particularly small and medium-sized undertakings, in difficulty.

