EUTAX Observatory

Who Will Pay the National Contribution on Operating Surplus?

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NOTE

Summary

In June 2023, the Commission proposed a new contribution based on company profits as part of the next generation of EU's own resources. This note discusses the perimeter and provides country by country revenue estimates for this new proposal. The projected total revenues using 2021 data range from 3.5bn€ to 17.7bn€ depending on the rate used. Member states with the largest economy will be the biggest contributors in absolute terms. In relative terms, Member states with a larger share of corporate profits out of their total tax revenues will be the biggest contributors.

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1 Introduction

In June 2023, the Commission published a proposal for an adjusted package for the next generation of EU's own resources.[1] In the wake of the coronavirus crisis, Europe resorted to an unprecedented 800bn€ package composed of both grants and loans to tackle the economic impact of the crisis. Grants and interests from the loans are to be paid for by the EU by 2058 by raising additional resources called "next generation of own resources".[2] A first package proposal of the next generation of own resources was published in 2021. It featured a proposed percentage from three revenue sources: the EU Emission Trading System (ETS), the Carbon Border Adjustment Mechanism (CBAM) and Pillar One of the G20/OECD reform.[3] The Commission committed to propose new own resources by 2024, including a contribution from the corporate sector. A levy on revenues derived from the BEFIT proposal was among the possible candidates.[4]

The adjusted package features a newly-proposed temporary statistical based own resource on company profits ("Company profit Contribution") that could yield up to 16bn€ per year. This policy note discusses the perimeter and revenue estimates of this new proposal.

2 Rationale and perimeter of the proposal

The rationale for a temporary company profits contribution is to temporarily substitute revenues that should come from the Pillar One of the G20/OECD reform and the BEFIT proposal. Negotiations on the Pillar One proposal are still taking place at the OECD. The Secretariat is expected to come up with a proposal for countries to endorse in July 2023. But it could still take years before countries (particularly countries with many Covered groups) actually implement it.

The BEFIT proposal is expected to be released by the Commission in the third quarter of 2023. In a working paper published in June 2023, the Commission scored the revenue of BEFIT proposal for own resources as good both in revenue potential and simplicity, but modest in terms of fast mobilization due to the time required to pass the underlying proposal.[5] The BEFIT proposal is expected to be examined through article 115 of the TFEU requiring unanimity from all the Member States, which is likely to require time to build an adequate consensus.

On the contrary, the working paper scored the proposed temporary company profit contribution both good in terms of revenue potential and simplicity and full in terms of fast mobilization.[6] As a statistical contribution from Member States, the company profit contribution does not require the adoption of an underlying proposal, which is why the Commission expects a faster mobilization. However, it will

[1] https://commission.europa.eu/system/files/2023-06/COM_2023_330_1_EN_ACT_part1_v5.pdf
[2] https://eur-lex.europa.eu/eli/reg/2021/241/oj
[3] https://ec.europa.eu/commission/presscorner/detail/en/ip_21_7025
[4] https://ec.europa.eu/commission/presscorner/detail/en/ip_21_7025
[5] https://commission.europa.eu/system/files/2023-06/SWD_2023_331_1_EN_autre_document_travail_service_part1_v4.pdf
[6] Ibid.

still require unanimity from the Member States under article 311 of the TFEU. Similarly to the BEFIT proposal, some time will be necessary to build consensus.

FIGURE 1

Evaluation of the own resources examined

	Revenue potential	Simplicity	Fast mobilisation
1. Corporate taxation (BEFIT)	Good	Good	Modest
2. Statistical own resource based on Company profits	Good	Good	Full

Note: Figure from the European Commission working paper.

The proposed company profit contribution would correspond to a 0.5% call rate on a "statistical proxy" of corporate profits in national accounts, that is the gross operating surplus as defined in the European System of Accounts 2010 (ESA 2010)[7] for financial and non-financial corporations. Gross operating surplus corresponds to gross value added and subsidies on production minus employee compensation and taxes on production. The working paper discusses alternative call rates ranging from 0.1% to 0.5%.

3 Revenue estimates

This section estimates Members States' company profit contributions, both in absolute terms and as a percentage of gross national income (GNI) based on Eurostat Data from 2021.[8]

Figure 2 shows the gross operating surplus of corporations for the EU-27 in 2021. Member states with the largest economies report unsurprisingly the biggest company profits: Germany, France, Italy and Spain. Ireland ranks 5th as the reported company profits in Ireland have been increasing rapidly since 2009.

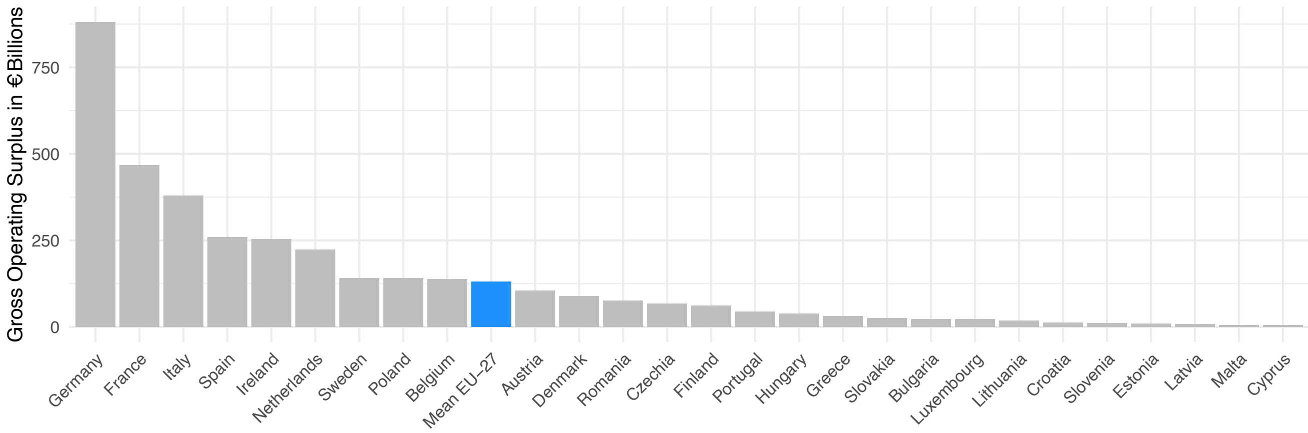
Figure 3 shows the gross operating surplus of corporations as a % of GNI for the EU-27 in 2021. We find that some Member States with an economic model where corporate profits represent a disproportionate size of their revenues move up the ranks. This is notably the case for Ireland and Luxembourg.

[7] https://ec.europa.eu/eurostat/documents/3859598/5925693/KS-02-13-269-EN.PDF/44cd9d01-bc64-40e5-bd40-d17df0c69334

[8] As per the definition provided in the Working paper by the Commission, we use Gross operating surplus which corresponds to ESA balancing item B.2g of financial and non-financial corporations (sectors S12 and S11, respectively) and GNI.

FIGURE 2

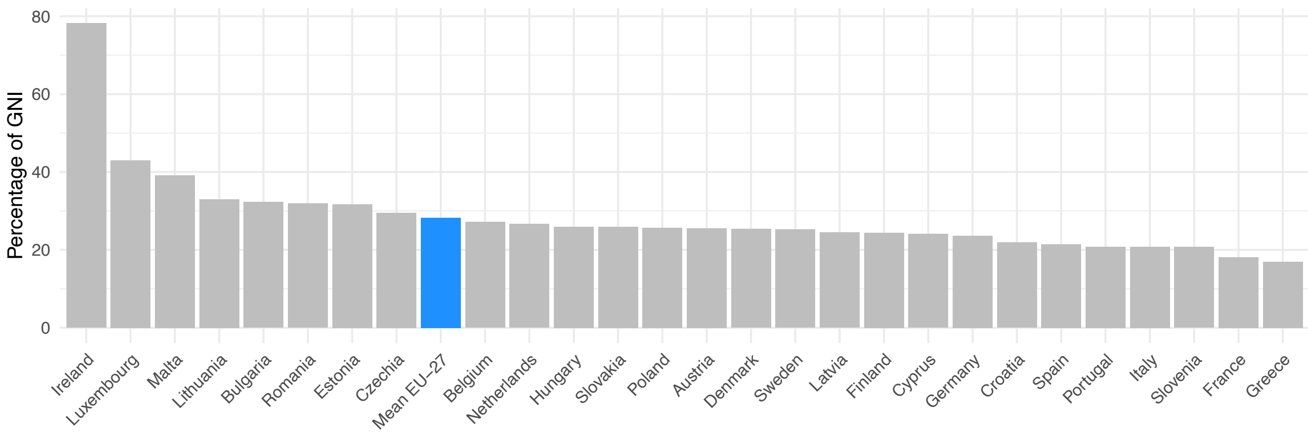
Gross Operating Surplus of Corporations for EU-27 in 2021



Note: Data from AMECO database. Gross operating surplus data for Bulgaria and Malta is imputed based on average growth rate of last ten years with data.

FIGURE 3

Gross Operating Surplus of Corporations as a % of GNI for EU-27 in 2021



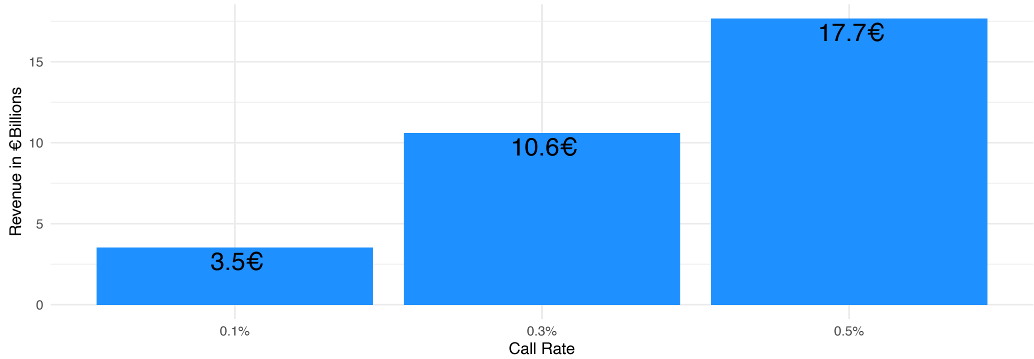
Note: Data from AMECO database. Gross operating surplus data for Bulgaria and Malta is imputed based on average growth rate of last ten years with data.

Figure 4 shows estimates if overall contributions are assessed using three call rates corresponding to the range presented in the working paper: 0.1%; 0.3% and 0.5%. The Commission proposal estimates that a call rate of 0.5% would yield on average 16bn€ per year between 2028 and 2030 (based on 2018 prices). Our estimates suggest that in 2021, such a contribution could yield up to 17.7bn€. The difference is likely due to profit actualization.

Figure 5 presents estimates for 2024 using projections from the EU Commission of the gross operating surplus. It suggests that the tax base could continue to grow and the yield from a 0.5% call rate could reach 22bn€.

FIGURE 4

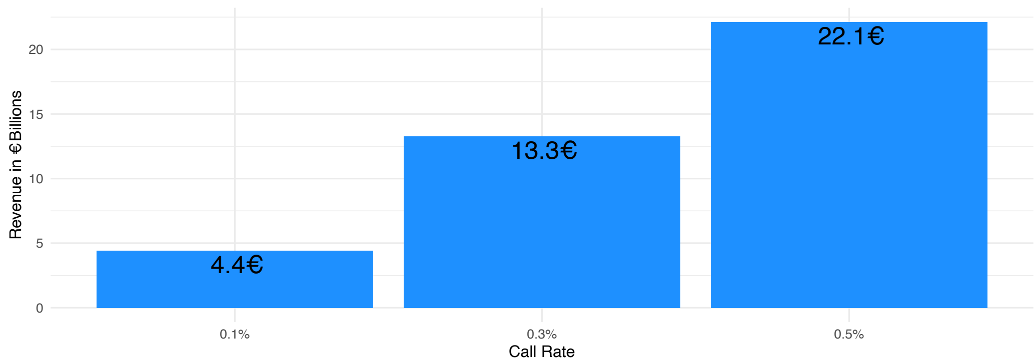
Projected Total Revenues of Different Call Rates on Gross Operating Surplus of Corporations for EU-27 in 2021



Note: Data from AMECO database. Gross operating surplus data for Bulgaria and Malta is imputed based on average growth rate of last ten years with data.

FIGURE 5

Projected Total Revenues of Different Call Rates on Gross Operating Surplus of Corporations for EU-27 in 2024



Note: All countries except Bulgaria and Malta use official estimations from the AMECO database for gross operating surplus. Gross operating surplus data for Bulgaria and Malta is imputed based on average growth rate of last ten years with data.

Figure 6 below synthesizes the contribution of each Member states both in absolute term and as a fraction to GNI for the three proposed call rates in 2021:

FIGURE 6

Revenue Estimates by Member Country for Different Call Rates, in bn€ and as a % of GNI for 2021

	Call Rate of 0.1%		Call Rate of 0.3%		Call Rate of 0.5%	
Country	bn€	% GNI	bn€	% GNI	bn€	% GNI
Austria	0,10	0,03%	0,31	0,08%	0,5	0,13%
Belgium	0,14	0,03%	0,41	0,08%	0,7	0,14%
Bulgaria	0,02	0,03%	0,07	0,10%	0,1	0,16%
Croatia	0,01	0,02%	0,04	0,07%	0,1	0,11%
Cyprus	0,01	0,02%	0,02	0,07%	0,0	0,12%
Czechia	0,07	0,03%	0,20	0,09%	0,3	0,15%
Denmark	0,09	0,03%	0,26	0,08%	0,4	0,13%
Estonia	0,01	0,03%	0,03	0,10%	0,0	0,16%
Finland	0,06	0,02%	0,19	0,07%	0,3	0,12%
France	0,47	0,02%	1,40	0,05%	2,3	0,09%
Germany	0,88	0,02%	2,64	0,07%	4,4	0,12%
Greece	0,03	0,02%	0,09	0,05%	0,2	0,08%
Hungary	0,04	0,03%	0,12	0,08%	0,2	0,13%
Ireland	0,25	0,08%	0,76	0,23%	1,3	0,39%
Italy	0,38	0,02%	1,14	0,06%	1,9	0,10%
Latvia	0,01	0,02%	0,02	0,07%	0,0	0,12%
Lithuania	0,02	0,03%	0,05	0,10%	0,1	0,16%
Luxembourg	0,02	0,04%	0,07	0,13%	0,1	0,21%
Malta	0,01	0,04%	0,02	0,12%	0,0	0,20%
Netherlands	0,22	0,03%	0,67	0,08%	1,1	0,13%
Poland	0,14	0,03%	0,42	0,08%	0,7	0,13%
Portugal	0,04	0,02%	0,13	0,06%	0,2	0,10%
Romania	0,08	0,03%	0,23	0,10%	0,4	0,16%
Slovakia	0,03	0,03%	0,08	0,08%	0,1	0,13%
Slovenia	0,01	0,02%	0,03	0,06%	0,1	0,10%
Spain	0,26	0,02%	0,78	0,06%	1,3	0,11%
Sweden	0,14	0,03%	0,42	0,08%	0,7	0,13%
Mean EU-27	0,13	0,02%	0,39	0,07%	0,7	0,12%