

European Council adopts conclusions on recovery plan and EU budget for 2021-2027, including agreement on introduction of new taxes

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Executive summary

On 21 July 2020, the European Council (the Council) agreed on a recovery plan and the European Union (EU) budget for 2021-2027. The agreement reached by the leaders of the 27 Member States was reflected in the Council conclusions (the [conclusions](#)) published on the same day, 21 July, and cover:

- ▶ A new recovery instrument worth €750 billion, called "Next Generation EU" (NGEU)
- ▶ The seven-year EU budget (the Multiannual Financial Framework or MFF) of an overall amount of €1,074.3 billion.

The conclusions also include agreement to introduce EU-wide taxes and levies to complement the existing own resources and to cover more than half of the NGEU. The proposed resources are:

- ▶ Tax on non-recycled plastic packaging waste
- ▶ Carbon border adjustment mechanism
- ▶ Digital levy
- ▶ Emissions Trading System-based resource including a possible extension to maritime and aviation sectors
- ▶ Financial transaction tax

Detailed discussion

Background

On 27 May 2020, the European Commission (the Commission) presented its recovery plan proposal (the proposal), embedded within a revamped long-term EU budget.¹ The Commission invited the Council and the co-legislators to examine these proposals rapidly, with a view to reaching a political agreement at the level of the Council by July.

Council conclusions

On the basis of extensive negotiations, the Council adopted its conclusions combining the classical MFF with an extraordinary recovery effort to tackle the effects of the unprecedented COVID-19 crisis.

The first part of the conclusions deals with the recovery instrument, i.e., the Next Generation EU. The Commission will be authorized to borrow funds on the capital markets on behalf of the EU up to the amount of €750 billion for the sole purpose of addressing the consequences of the COVID-19 crisis. The funds borrowed may be used for loans up to an amount of €360 billion and for expenditure up to an amount of €390 billion. The NGEU is limited in time and new net borrowing activity will stop at the latest at the end of 2026. The repayment shall be scheduled, in accordance with the principle of sound financial management, so as to ensure the steady and predictable reduction in liabilities until 31 December 2058.

The second part of the conclusions reflect the Member States' agreement on the 2021-2027 MFF. The approach is based on the draft European Council Conclusions of February 2020,² which had been adapted to respond to the COVID-19 crisis and in the light of the measures taken under the NGEU. The overall amount for commitments agreed is €1,074.3 billion which is lower than the one included in the proposal of February 2020.

The Council also agreed on new own resources to complement the traditional own resources which include customs duties, contributions from the Member States based on value-added tax (VAT) and those based on gross national income (GNI). The agreed new own resources are aligned with the EU's broader tax policy agenda, as also reflected in the Commissions tax package that was issued on 15 July 2020.³ The agreed new resources are:

- ▶ Tax on non-recycled plastic packaging waste (as of 1 January 2021)

- ▶ Carbon border adjustment mechanism (by 1 January 2023)
- ▶ Digital levy (by 1 January 2023)
- ▶ Emissions Trading System-based resource including a possible extension to maritime and aviation sectors (no specific timeline)
- ▶ Financial Transaction tax (no specific timeline, within 2021-2027)

The proceeds of the new own resources introduced after 2021 will be used for early repayment of borrowing under NGEU.

The agreement on the new own resources follows the Commission proposal of May 2020 with two notable differences;

1. The Commission had suggested the introduction of a new own resource which would be levied on large companies that draw huge benefits from the EU single market and will survive the crisis. Such a resource is not included in the conclusions.
2. The Council agreed on the introduction of a financial transaction tax as a new own resource, which was not proposed by the Commission in May 2020.

Next steps

Following the adoption of the conclusions, the Council will start negotiations with the European Parliament. Regarding the adoption of the MFF, the Council would need to first obtain the consent of the European Parliament. For the EU's own resources decision, the European Parliament would need to issue an opinion but the decision-making authority will remain with the Member States which will have to unanimously adopt the decision within the Council and approve it, in accordance with their respective constitutional requirements (typically being parliamentary processes).

Implications

The relatively swift agreement in the Council may have come as a surprise. The Council managed to reach agreement on a number of controversial issues such as the Commission's authority to borrow money on capital markets and the magnitude of and conditions to grants. It is expected that members of European Parliament may ask for an increase of the MFF but may also request an increase of the NGEU.

At the national level, the agreement to develop new EU-wide taxes will likely prove to be controversial in some Member States. Given the complexity of the adoption processes at the EU and national level, it is difficult to predict when and in what form the various elements of the conclusions will be implemented. However, given the ongoing crisis and need for recovery funds, there will be pressure to conclude on the elements as soon as possible this year.

Taken together with the Commission's plans unfolded last week,⁴ it is clear that the political leadership in the EU has an ambitious tax agenda. EU tax policies will affect businesses across all sectors within and outside the EU. In this complex and rapidly changing EU environment, companies should closely monitor and assess the potential impact on their operations and tax strategy.

Endnotes

1. See EY Global Tax Alert, [European Commission publishes proposal for recovery plan and adjusts 2020 Work Programme](#), dated 28 May 2020.
2. <https://data.consilium.europa.eu/doc/document/ST-5846-2020-INIT/en/pdf>.
3. See EY Global Tax Alert, [European Commission publishes action plan for fair and simple taxation: A detailed review](#), dated 20 July 2020; EY Global Tax Alert, [European Commission proposes revision of Directive on administrative cooperation](#), dated 20 July 2020; EY Global Tax Alert, [European Commission publishes communication on intensifying the work on tax transparency and harmful tax competition by means of advocating Tax Good Governance in the EU and beyond](#), dated 20 July 2020.
4. See EY Global Tax Alert, [European Commission adopts package for fair and simple taxation](#), dated 16 July 2020.

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