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COMMISSION WORKING DOCUMENT

on calculation, financing, payment and entry in the budget of the correction of budgetary imbalances in favour of the United Kingdom ("the UK correction") in accordance with Articles 4 and 5 of Council Decision 2014/xxx/EU, Euratom on the system of own resources of the European Union

INTRODUCTION

In accordance with the conclusions of the European Council of 7-8 February 2013 and the Council Decision on the system of own resources of the European Union of (.........), this document replaces the Commission working document 9851/07 of 23 May 2007[1]. Unless otherwise stated, any references to Articles relate to the Own Resources Decision of (…..), hereinafter referred to as the 2014 ORD.

This document lays down the following provisions for the UK correction:

- The calculation of the amount of the correction of a given year,
- Its financing in the following year,
- Definitions of budgetary aggregates,
- The entry of the correction in the budget.

The modifications to the own resources system deriving from the conclusions of the European Council of 7-8 February 2013 have no impact on the UK correction for the years prior to 2014. Having regard to the entry into force of the 2014 ORD, the provisions of the present document shall take effect on 1 January 2014. They shall, therefore, apply starting with the calculation of the UK correction originating in the year 2014, to be budgeted for the first time in 2015.

Any use of the general budget of the Union giving rise to compensation under the terms of article 12 of the Intergovernmental Agreement on the functioning of the Single Resolution Fund[2] ('SRM-related expenditure') shall not have an impact on the UK correction. Both the SRM-related expenditure and the corresponding additional use of the GNI resource shall therefore be excluded from the calculation.

[1] Calculation, financing, payment and entry in the budget of the correction of budgetary imbalances in accordance with Articles 4 and 5 of the Council Decision on the system of the EU's own resources, Council of the European Union, 9851/07 ADD 2, of 23 May 2007.

[2] Covering cases of non-contractual liability and costs related thereto, in respect of the exercise of powers by the institutions of the Union under Regulation (xx SRM)

1. THE UK CORRECTION

1.1. The calculation of the correction (Article 4 of the 2014 ORD)

The calculation of the amount of the correction of year t in accordance with Article 4 shall be established by:

(a) Calculating the difference between:

- The percentage share of the United Kingdom in the total sum of uncapped VAT bases, and
- The percentage share of the United Kingdom in total allocated expenditure;

(b) Multiplying the difference thus obtained under (a) by total allocated expenditure;

(c) Multiplying the result obtained under (b) by 0.66;

- The result obtained in steps (a) to (c) shall be called the **original amount** of the UK correction;

(d) Subtracting from the result obtained under (c) the difference between

- The product of the percentage share of the United Kingdom in the uncapped VAT bases times the total payments by all Member States referred to in Article 2(1)(b) and (c) excluding payments to finance SRM-related expenditure relating to the financial year t in question (i.e. the payments that the United Kingdom would have made had the GNI resource not existed and the VAT resource not been capped) for the financing of total expenditure (as defined in point 3.1 hereunder);

and

- The payments by the United Kingdom referred to in Article 2(1)(b) and (c) relating to the financial year t for the financing of total expenditure (as defined in point 3.1 hereunder), excluding payments to finance the gross reductions in the GNI-based contributions of Austria, Denmark, the Netherlands and Sweden referred to in Article 2(5) and excluding payments to finance SRM-related expenditure;

  - The difference referred to in step (d) will be called the UK advantage (because it is the advantage that the UK derives from the VAT capping, the reduction of the VAT uniform rate and the introduction of the GNI resource);

  - The result obtained by subtracting the UK advantage from the original amount (i.e. the result of step (d)) shall be called the core UK correction;

(e) Subtracting from the result under (d) the gains for the United Kingdom resulting from the increase (from 10% to 20%) in the percentage of resources referred to in Article 2(1)(a) retained by Member States to cover their collection costs.
This implies deducting from the result obtained under (d) the result of the multiplication between:

- 12.5%[1] of the net total resources referred to in Article 2(1)(a) entered into the EU budget after deduction of the collection costs, and

- The difference between the United Kingdom's share in the resources referred to in Article 2(1)(a) and its share in the uncapped EU VAT base.

  - The gains referred to in step (e) will be called the **TOR (traditional own resources) windfall gains**;

  - Subtracting the **TOR windfall gains** from the **core UK correction** will complete the calculation of the UK correction (i.e. the result under (e));

(f) Total allocated expenditure, referred to above under (a) second hyphen and (b), shall be reduced by total allocated expenditure in Member States that have acceded to the EU after 30 April 2004, except for agricultural direct payments and market-related expenditure as well as that part of rural development expenditure originating from the EAGGF guarantee section.

The shares as included in the table below shall be used to calculate the part of rural development expenditure originating from EAGGF guarantee for each MS concerned.

EU-13 EAFRD commitment appropriations 2014-2020
Theoretical shares originating from EAGGF guarantee

	2014	2015	2016	2017	2018	2019	2020
BG	67,6%	66,0%	64,1%	62,6%	61,1%	59,6%	58,2%
CZ	35,0%	33,4%	31,8%	30,1%	28,4%	26,6%	24,7%
EE	43,9%	41,2%	38,6%	36,0%	33,3%	30,6%	27,8%
CY	100,0%	100,0%	100,0%	100,0%	100,0%	100,0%	100,0%
LV	67,2%	65,6%	64,0%	62,5%	60,9%	59,3%	57,6%
LT	57,7%	55,8%	53,8%	52,0%	50,2%	48,3%	46,4%
HU	25,2%	23,1%	20,8%	18,8%	16,5%	14,0%	11,1%
MT	84,2%	83,9%	83,7%	83,5%	83,3%	83,1%	82,8%
PL	31,2%	27,1%	22,8%	18,9%	14,9%	11,0%	7,0%
RO	73,1%	71,2%	69,0%	67,4%	65,7%	64,1%	62,6%
SI	84,0%	83,7%	83,4%	83,1%	82,8%	82,5%	82,2%
SK	30,6%	27,1%	23,5%	20,0%	16,1%	12,0%	9,7%
HR	74,0%	69,9%	68,6%	67,4%	66,0%	64,6%	63,2%

[1] The percentage of 12.5% being the ratio of the additional share of TOR (10%) retained as collection costs divided by net TOR collected (80%)

1.2. Formalisation of the calculation of the UK correction

The UK correction of a year t (to be budgeted for the first time in year *t+1*) is equal to:

$$\text{UK correction}_t = \text{Original amount}_t - \text{UK advantage}_t - \text{TOR windfall gains}_t$$

The precise determination of each element is as follows:

ORIGINAL AMOUNT (points 1.1(a) to 1.1(c), and 1.1(f))

$$\text{Original amount}_t = 0.66 * (\frac{ncVAT_t^{UK}}{ncVAT_t^{EU}} - \frac{AE_t^{UK}}{AE_t^{EU} - NAgE_t^{MS2004}})(AE_t^{EU} - NAgE_t^{MS2004})$$

where:

$ncVAT_t^{XX}$: N*on-capped VAT base of Member State/group of Member States XX (where XX = UK or EU) in year t;*

AE_t^{XX} : *EU expenditure allocated to XX (where XX = UK or EU) in year t;*

$NAgE_t^{MS2004}$: N*on-agricultural EU expenditure (as defined in point 1.1.(f) above) allocated in year t to Member States which have acceded to the EU after 30 April 2004;*

UK ADVANTAGE (point 1.1(d) above)

$$\text{UK advantage}_t = \frac{ncVAT_t^{UK}}{ncVAT_t^{EU}} * (GNIP_t^{EU} + cVATP_t^{EU}) - (GNIP_t^{UK} + cVATP_t^{UK})$$

where:

$ncVAT_t^{XX}$: *Non-capped VAT base of Member State/group of Member States XX (where XX = UK or EU) in year t;*

$GNIP_t^{XX}$: *Total GNI payments made by XX (where XX = UK or EU) in year t;*

$cVATP_t^{XX}$ *: Total capped VAT payments made by XX (where XX = UK or EU) in year t;*

TOR WINDFALL GAINS (point 1.1(e) above)

$$\text{TOR windfall gains}_t = 0.125 * TOR_t^{EU} * \left(\frac{TOR_t^{UK}}{TOR_t^{EU}} - \frac{ncVAT_t^{UK}}{ncVAT_t^{EU}}\right)$$

where:

TOR_t^{XX} : *Net traditional own resources of Member State/group of Member States XX (where XX= UK or EU) in year t;*

$ncVAT_t^{XX}$: *Non-capped VAT base of Member State/group of Member States XX (where XX = UK or EU) in year t;*

2. FINANCING OF THE UK CORRECTION IN THE FOLLOWING YEAR (ARTICLE 5 OF THE 2014 ORD)

The cost of the UK correction of year t shall be borne by the other Member States in year *t+1* in accordance with the following arrangements:

a) The distribution of the cost shall be calculated by reference to each Member State's share in the payments referred to in Article 2(1)(c) relating to year *t+1*, the United Kingdom being excluded and without taking account of the gross reductions in the GNI-based contributions of Austria, Denmark, the Netherlands and Sweden referred to in Article 2(5);

b) It shall then be adjusted in such a way as to allow the restriction of the share of Germany, of the Netherlands, of Austria and of Sweden to one-fourth of the shares resulting from the calculation under (a);

The amount of the correction is granted to the United Kingdom by a reduction in its VAT payments; if the amount of the correction exceeds the VAT payments, the correction is granted by a reduction in its GNI payments.
The costs borne by the other Member States shall be added to their VAT and GNI payments.

The following table presents an example to illustrate the implementation of the above calculation method on the basis of the GNI estimates entered in the 2013 adopted budget.

CALCULATION OF THE FINANCING OF THE UK CORRECTION					
Member State	Percentage share in GNI	Shares without the UK	3/4 of the share of DE, NL, AT and SE in column (2)	Column 3 distributed among MS other than UK, DE, NL, AT and SE	Financing scale
	(1)	(2)	(3)	(4)	(5)=(2)+(3)+(4)
Belgium	2.95	3.47		1.51	4.98
Bulgaria	0.30	0.36		0.16	0.51
Czech Republic	1.08	1.27		0.56	1.83
Denmark	1.95	2.29		1.00	3.29
Germany	20.93	24.59	-18.44	0.00	6.15
Estonia	0.13	0.15		0.07	0.22
Ireland	1.02	1.20		0.52	1.72
Greece	1.39	1.63		0.71	2.34
Spain	7.86	9.24		4.03	13.27
France	15.97	18.76		8.19	26.95
Croatia	0.16	0.19		0.08	0.28
Italy	11.87	13.94		6.09	20.03
Cyprus	0.12	0.14		0.06	0.20
Latvia	0.18	0.21		0.09	0.30
Lithuania	0.25	0.30		0.13	0.43
Luxembourg	0.25	0.29		0.13	0.42
Hungary	0.72	0.85		0.37	1.22
Malta	0.05	0.06		0.03	0.08
Netherlands	4.65	5.46	-4.10	0.00	1.37
Austria	2.42	2.85	-2.13	0.00	0.71
Poland	2.93	3.45		1.51	4.95
Portugal	1.21	1.43		0.62	2.05
Romania	1.05	1.24		0.54	1.78
Slovenia	0.26	0.31		0.14	0.44
Slovak Republic	0.55	0.65		0.28	0.93
Finland	1.52	1.79		0.78	2.56
Sweden	3.31	3.89	-2.92	0.00	0.97
United Kingdom	14.89	0.00		0.00	0.00
Total	**100.00**	**100.00**	**-27.59**	**27.59**	**100.00**

GNI forecast entered in DAB 6/2013.

Member States' shares in GNI payments (Article 2(1)(c)) in year *t+1* are shown in the first column of the table. The second column presents the shares obtained according to point (a) here above. The third column shows the reduction in the shares of Germany, the Netherlands, Austria and Sweden (three-fourth of their shares resulting from point (a) here above).

The fourth column reflects the distribution of the reductions for Germany, the Netherlands, Austria and Sweden among the other Member States excluding these four countries and the United Kingdom. Finally, column 5 shows the shares in the financing of the UK correction resulting from this calculation.

3. DEFINITION OF BUDGETARY AGGREGATES

3.1 Total expenditure of year *t*

The concept of expenditure to be used in the calculation of the UK correction corresponds to actual payments (execution of appropriations for payments) relating to the year in question (year *t*), pursuant to either that year's budget appropriations or to carryovers of non-executed appropriations to the following year (from year *t* to the year *t+1*). Only utilised appropriations for payments, that is the amount of payments actually made, shall be taken into account.

3.2. Total allocated expenditure

The allocation across Member States of total expenditure, as defined under point 3.1 above, is governed by the following rules:

In general, payments are allocated to the Member State in which the principal recipient resides. However, in those cases where the Commission is aware that the recipient in question acts as an intermediary, the payments must be allocated whenever it is possible to the Member State(s) in which the final beneficiary(ies) is (are) resident, in accordance with their shares in these payments.

SRM-related expenditure shall be excluded.

Certain components of expenditure cannot be allocated either fully or partially to the Member States. Starting from total expenditure of the general budget of the European Union as the basis, at least two main categories of expenditure need to be excluded (though this list is indicative and not necessarily exhaustive):

1. *External expenditure*, corresponding mainly to heading 4 – EU as a global player - of the financial framework for 2014–2020. This category also includes expenditure under other headings benefiting recipients outside the Union, such as development co-operation, research expenditure spent outside the EU, administrative expenditure paid to recipients outside the Union, etc.

2. *Expenditure that can not be allocated or identified.* This could be due to conceptual difficulties, such as expenditure on representation, on missions and on formal and other meetings as well as payments related to cross-border Community initiatives, promotion of inter-regional co-operative operations and other cross border actions.

The definition of allocated expenditure corresponds in principle to Headings 1, 2, 3, 5 and 6 of the financial framework for 20014–2020.

4. ENTERING THE UK CORRECTION OF YEAR *t* INTO THE BUDGET

4.1. Provisional estimate (to be entered in the Draft Budget of year *t+1*)

A provisional calculation of the amount of the UK correction of year *t* shall be performed on the occasion of the draft budget (DB) of year *t+1*. The calculation shall be based on the most recent and available data for both contributions and expenditure.

The amount of the UK correction shall take the form of a reduction of the UK VAT and GNI payments. The other Member States shall see their VAT and GNI payments increased by the amount of their respective share in the financing.

4.2. Update of the provisional estimate (between the year *t+1* and the year *t+3*)

If need be, the Commission has the possibility to propose an update of the provisional estimate at any time between the year *t+1* and the year *t+3*. Such an update shall be entered in a draft amending budget (DAB).

The update shall be proposed if the Commission has ground to believe that the initial forecast of the provisional calculation will differ significantly from the definitive calculation (see hereunder) of the UK correction to be proposed in the DAB of year *t+4*.

An update could also be proposed if it emerges that the estimated GNI bases entered in the DB of year *t+1* will differ significantly from the definitive GNI bases, thus changing significantly the sharing of the financing of the UK correction.

4.3. Definitive calculation of the UK correction (to be entered in a DAB of year *t+4*)

4.3.1. Calculation of the definitive amount

The procedure to calculate the definitive amount of the correction is set out in section 1 of this document.

The data to be used in the calculation of the definitive UK correction are the VAT and GNI bases and the allocated expenditure estimates relating to year *t* as they are known at 31 December *t+3* and shall be converted to euro at the annual average exchange rate of the year *t*.

In order to estimate the "UK advantage" for the definitive calculation (section 1.1(d)) contributions of traditional own resources and other revenues in year t must be taken into account. This implies that it is necessary to recalculate a notional budget on the basis of definitive data for any type of resource and revenue.

4.3.2. Calculation of the definitive financing of the correction and its entering in the budget

Section 2 previously sets out the procedure to calculate the financing of the definitive correction. The definitive financing data shall be the VAT and GNI bases of year *t+1* as they are known at 31 December *t+3*.

The final financing data shall be compared to the payments already entered in the budget (i.e. in the budget of *t+1* and possibly in the budget of *t+2* or *t+3* if an update has been made in those years).

The differences per Member State shall be entered in an appropriate budget chapter of a DAB of the year *t+4* and converted into national currency at the annual average exchange rate of the year of the financing of the correction (year *t+1*).