

C2

Motion

Y-FED 2024

Proposer: The European Government (decided on: 2024-07-04)

Title: **Government's proposal for Regulation 2024/02
laying down the Federal Budget**

2024-07-18, 13:04

The European Government's proposal for

REGULATION 2024/02/EF OF THE HOUSE OF EUROPEAN CITIZEN AND OF THE SENATE

of 4th July 2024

laying down the Federal Budget

1 THE HOUSE OF EUROPEAN CITIZENS AND THE EUROPEAN SENATE,

2 *Remembering* the continuum of the European integration project, created on the
3 premise of economic cooperation between peaceful nations as a step towards de
4 facto solidarity and federation among European nations,

5 *Having regard to* the European Youth Convention, and in particular Articles 47 to
6 52 thereof,

7 *Having regard to* the OECD/G20 Base Erosion and Profit Shifting Project group's
8 [Statement on a Two-Pillar Solution to Address the Tax Challenges Arising from](#)

9 [the Digitalisation of the Economy](#), by which Member-States of the former European
10 Union agreed upon the implementation of a minimum Tax base for mutli-national
11 corporations,

12 *Having regard to* the proposal from the European Government,

13 Acting in accordance with the procedure laid down in Article 20 of the
14 Convention and Rule 6.1 of the Rules of procedure,

15 **Whereas:**

- 16 1. The European Federation is built on the assumption that economic
17 cooperation leads to interdependencies and ultimately to de facto
18 solidarity among nations. It acts as a descendant body of the former
19 European Union, adopting all the previous legal acts and treaties from the
20 Union, unless contradicted by future legislation.

- 21 2. In order to guarantee macroeconomic and financial stability and solidarity
22 among Member-States, the Federation must pursue and further develop the
23 mechanisms adopted through the Next Generation EU recovery package, the
24 first step towards a genuine Federal Budget, autonomous from national
25 contributions.

- 26 3. In order to fulfill the Federation's commitment to achieving climate
27 neutrality by 2050, it is essential to allocate the proper resources and
28 support mechanisms. To that end, the resources mentioned in Article X of
29 the present Regulation shall be specifically allocated to meet the
30 environmental requirements of the Federation.

- 31 4. In order to meet those two challenges, the European Federation needs to be
32 fitted with the proper fiscal resources. As a the predecessor of the
33 former European Union, it inherits the contributions from Member-States,
34 the collection of part of the Value Added Tax (VAT) as well as customs.
35 Those resources constitute a necessary base, but do not support as it
36 stands all of these objectives. New resources need to be added to the
37 Federal budget.

- 38 5. Member-States of the former European Union committed to implement the OECD

39 agreement on a corporate tax harmonization, setting a minimum tax rate of
40 15% of a company's profit. This must constitute a permanent new resource
41 for the Federal budget, along with the creation of an Internal Carbon Tax.

- 42 6. In order to macro-economic stability, it is absolutely imperative to
43 maintain a sound level of public finances. For that purpose, the
44 Federation must maintain the rule of keeping the annual deficit below 3%
45 of GDP and the level of debt below 60% of GDP. Even if this rule is not
46 explicitly mentioned, an extensive interpretation of Article 52 of the
47 European Youth Convention must be made in this sense. To achieve this, the
48 Federation must absorb national debts so that they can be repaid in the
49 long term.

50 HAVE ADOPTED THE FOLLOWING REGULATION:

51 **CHAPTER 1 : GENERAL PROVISIONS**

52 **Article 1: Object**

53 The present Regulation lays down the Budget through which the Federation can
54 collect and make use of financial resources to meet its financial commitments.

55 **Article 2: Definitions**

56 For the purposes of this Regulation:

- 57 1. Budget - Refers to the set of elements by virtue of which the Federation
58 anticipate its revenues and financial commitments for the following year;
- 59 2. Deficit - Refers to the situation in which a Government's expenditures are
60 higher than its receipts on a yearly basis. The difference between
61 expenditures and receipts is corrected by contracting debts.
- 62 3. Debt - Refers to the total of the Federation's financial commitments. It
63 results from the cumulative financing needs of the Federation over time.

64 4. Tax - Refers to a compulsory, unrequited payment to public authorities.

65 5. Corporations - Operate inside the member-states, defined as entities
66 engaging in any type of economic activity within the territory of the
67 member-states, including but not limited to manufacturing, sales, service
68 provision, or any form of commercial operations, shall comply with all
69 relevant regulations and laws of the European Federation. This definition
70 excludes entities whose sole interaction with the member-states consists
71 of importing goods or services from the European Federation without
72 engaging in any other economic activity within its territory, but they
73 might be subject to different tariffs

74 **CHAPTER 2: ON THE FINANCIAL RESOURCES OF THE** 75 **FEDERATION**

76 **Article 3: Minimum Corporate Tax**

77 To ensure a fair and equitable economic environment and to prevent the erosion
78 of the Federal tax base, the Federal European Government hereby establishes a
79 Minimum Corporate Tax Rate.

80 The Minimum Corporate Tax Rate shall be applicable to all corporate entities
81 operating within the Member-States of the Federation.

82 **Article 3a.**

83 1. The Minimum Corporate Tax Rate shall be set by an evaluation by the
84 Ministry of Finance. The evaluation will take into account the Balance
85 Sheet Total (BST) of each corporation. The Minimum Corporate Tax Rate
86 shall be set:

- 87 ◦ For companies with a $BST \leq 10.000.000$ will be taxed at a rate of 5%.
- 88 ◦ For companies with a $BST \geq 42.000.000$ will be taxed at a rate of
89 15%.
- 90 ◦ For companies that hang in the middle range will be taxed
91 progressively at the rate set by the tax determination law.

92 2. This rate shall apply to the profits of corporate entities as defined by
93 the Federal Tax Code.

94 3. Corporate entities that demonstrate significant contributions to
95 environmental sustainability, such as reducing carbon emissions by at
96 least 20% or transitioning to renewable energy sources for at least 50% of
97 their operations, shall receive additional tax incentives. These
98 incentives may include a further reduction in the corporate tax rate by up
99 to 2%.

100 **Article 3b.**

- 101 1. Member-States shall implement the Minimum Corporate Tax Rate through their
102 respective national legislation.
- 103 2. Member-States shall ensure that their national tax laws are in compliance
104 with the Minimum Corporate Tax Rate provisions of this Article.

105 **Article 4: Carbon Domestic Adjustment Mechanism**

- 106 1. In an effort to combat climate change and incentivize the reduction of
107 greenhouse gas emissions, the Federal European Government hereby
108 establishes a Carbon Domestic Adjustment Mechanism applicable to all
109 member states of the Federation, consisting of a hybrid system based on
110 both the 'cap and trade' structure (ie. permits) and a taxation regime.
- 111 2. For the purpose of the present Regulation this mechanism shall:
- 112 ◦ Comprise a tax rate (Art. 4a);
 - Be allocated to environmental programs (Art. 4b);
 - 113 ◦ Include punitive measures against faulty administrations (Art. 4c).
- 114 3. The Carbon Domestic Adjustment Mechanism shall be levied on the carbon
115 dioxide equivalent emissions of fossil fuels, including but not limited to
116 coal, natural gas, and oil, at the point of production or importation into
117 the Federation.
118

119 **Article 4a.**

120 The system shall be structurally based on the 'cap and trade' principle (ie.
121 permits), and will incorporate a 10% tax which shall be applied to the market

122 price of carbon credits. The latter tax is to be borne on the firm purchasing
123 carbon credits.
124 Global emission targets (and thus permits issued), will be decreased at a rate
125 of 5% per year.

126 **Article 4b.**

127 Revenues generated from the European Union emission Trading systeme (ETS) shall
128 be allocated to the Federal Budget and used for the following purposes:

- 129 1. Investment in renewable energy and energy efficiency projects.
- 130 2. Support for innovation in low-carbon technologies as determined by the
131 independent commission.
- 132 3. Assistance to industries and communities transitioning away from fossil
133 fuels with the decision of the independant commission.
- 134 4. Mitigation of the impact on low-income households through rebates or tax
135 credits.

136 **Article 4c.**

- 137 1. Entities subject to the Carbon Domestic Adjustment Mechanism must report
138 their emissions annually to the designated national Authority.
- 139 2. Failure to comply with reporting requirements or payment of the Carbon
140 Domestic Adjustment Mechanism shall result in penalties, including fines
141 and legal action.

142 **Article 4d.**

143 The national authority that will decide the allocation of the revenues of the
144 ETS will be an independent commission:

- 145 • This commission will be composed by an equal number of experts, the
146 Minister of finance and the ministers of environments from each member-
147 state.
- 148 • Each member states will propose a list of experts, and the European House
149 of citizens will decide witch ones will be a part of the commission.
- 150 • This commission can propose an exception to the ETS that must be approved
151 by the parliament.

152 **Article 5: Uniform VAT Rate**

153 In the interest of economic harmonization and fairness, the Federal European
154 Government hereby establishes a Uniform Value Added Tax (VAT) Rate.

155 The Uniform VAT Rate shall be applicable to all goods and services sold within
156 the member states of the Federation.

157 The Uniform VAT Rate shall be set at:

- 158 • 2% for essential goods and services, this VAT rate shall not be raised any
159 higher by Member States;
- 160 • 5% of the common goods and services;
- 161 • 10% for luxury goods and services.

162 Each commodity's value added shall go to the European Federation budget, while
163 Member States retain the ability to fix at their discretion a higher national
164 VAT rate.

165 This rate shall apply to the final consumption of goods and services, excluding
166 those exempted by the Federal Tax Code.

167 **CHAPTER 3: ON THE FINANCIAL INSTRUMENTS OF THE** 168 **FEDERATION**

169 **Article 6: Issuance of debt**

170 In accordance with Article 52 of the European Youth Convention, the Federation
171 may raise temporary debt to face situations that put the Federal Treasury at a
172 risk of structural imbalance.

173 Those situations include and are limited to:

174 1. economic and financial crisis, putting the Federal budget at risk;

175 2. pandemics;

176 3. natural disasters occurring within the Federation;

177 4. events that pose a direct threat to national or Federal
178 security;

179 5. economic and financial crisis, putting the welfare of the citizens of the
180 Federation at risk.

181 6. energy crises.

182 The issuance of debt shall be granted solely to the Federal Treasury Agency,
183 under the approval by an absolute majority of the Senate.

184 When a risk of imbalance occurs, the Federal Treasury Agency may issue debt with
185 a maturity exceeding no longer than 40 years.

186 **Article 7: National contribution to the budget**

187 Member-States shall contribute to the Federal budget by paying at least 2% of
188 their gross national income through the taxes they collect in the name of the
189 Federation, including but not limited to the Minimum Corporate Tax, the Domestic
190 Carbon Adjustment Mechanism, Customs and VAT.

191 Member-States remain the sole accountables for collecting taxes.

192 Member-States may apply a national Corporate Tax Rate higher than 15%, but are
193 entitled to pay for the amount which is due to the Federation.

194 Member-States may apply a Value Added Tax rate higher than 20%, but are entitled
195 to pay for the amount which is due to the Federation.

196 Member-States shall be able to generate debt but must meet the Maastricht
197 criteria by 2040 (60% of debt to GDP ratio and 3% of deficit).

198 If the resources levied to meet the Federation fiscal commitments do not meet
199 the financial objectives of the Federation, the Government may, following the
200 extraordinary legislative procedure, present measures to increase the
201 aforementioned taxes or create new resources destined to the Federal Budget.
202

203 Ensuring Transparency and Accountability in Tax Payments, Member States shall
204 ensure full transparency and accountability in the payment of all taxes and
205 levies, including those owed to international organizations and funds.

206 Each Member State shall establish a publicly accessible registry detailing all
207 tax payments made to international bodies, including the specific amounts,
208 dates, and purposes of such payments. This registry shall be updated quarterly
209 and made available online in an open data format.

210 Failure by a Member State to comply with transparency and accountability
211 requirements for tax payments shall result in the following penalties:

212 1. The Member State shall be brought before the Court of Justice of the
213 European Federation. The Court may impose periodic penalty payments or
214 lump sum fines until compliance is achieved.

215 2. If the Member State still fails to comply after Court penalties, the
216 Commission may seek further enforcement measures under Articles 258-260
217 TFUE.

218 Whistleblowers and civil society organizations that report suspected tax payment
219 irregularities shall be protected from retaliation and their claims thoroughly
220 investigated. A reward system shall be established to incentivize the reporting
221 of fraud and corruption.

222 The European Federation shall establish a centralized monitoring system to track
223 tax payments across all Member States.

224 **CHAPTER 4: ON THE FINANCIAL GOVERNANCE OF THE**
225 **FEDERATION**

226 **Article 8 : The Federal Treasury Agency**

227 A Federal Treasury Agency shall be created and placed under the responsibility
228 of the Ministry of Finances and Budget. It is:

- 229 1. Responsible for meeting the Federal Government's liquidity commitments so
230 that it can honor all of its financial commitments at all times and under
231 all circumstances.
- 232 2. Tasked with managing and reimbursing on time the debt accumulated by the
233 Federal Government and Member-States

234 Under no circumstances is the Federal Treasury Agency allowed to generate debts
235 on its own initiative and profits from the bonds already issued.

236 **Article 9: Budget planning**

237 In order to pursue its objectives and financial commitments, the Federation
238 shall adopt, under the ordinary legislative procedure, an annual budget.

239 The additional resources laid down by the present Regulation shall be allocated
240 in priority to the reimbursement of:

- 241 1. The borrowing of financial capital through the former EU Next Generation
242 EU recovery package.
- 243 2. The potential deficit generated by the Federal Pension Regime mentioned in
244 Directive 2024/XX laying down fair and decent social standards across the
245 Federation.

246 **Article 10: Budgetary monitoring**

247 The European Parliament shall monitor the appropriate implementation of the
248 budget. The European Parliament is entitled to sanction a Member State, or the
249 Federal Government, via a procedure for a lack of contribution to the Federal
250 budget if they do not meet their financial commitments.

251 **CHAPTER 5: IMPLEMENTATION**

252 **Article 11: Entry into force and application**

253 1. The present Regulation shall enter into force immediately following its
254 publication in the Official Journal of the European Federation.

255 2. The Government shall be allowed to adopt any decree or implementing act
256 related to the implementation of the technical aspects of the present
257 Regulation.

258 3. It shall apply from [Day][Month][Year]

259 The present Regulation shall be binding in its entirety and directly applicable
260 to the European Government and in all Member States.

261 For the European Parliament

262 The President

263 For the European Senate

264 The President

Reason

In 2020, the former European Union adopted the Next Generation EU recovery package. Member-States of the EU allowed for the first time the former EU to borrow credits on financial markets and therefore to generate debt. The package consisted of an allocation made of a subsidy portion and loan portion. Member-States set the reimbursement deadline to 2028, giving 8 years for the former EU to find the proper resources to reimburse its debt.

On May 9th 2023, Member-States ratified the European Youth Convention, leading to the emergence of the European federation as we know it, on the assumption that it would allow the achievement of European economic integration and solidarity.

However, the recent unfolding of events have shown quite the contrary. The level of national debts have skyrocketed over the last years. More importantly, the Federation currently does not have the proper resources to face its new competences but also to reimburse the debt generated by the former European Union through the Next Generation EU package.

The stated objective of this proposal is therefore to give the Federation the necessary revenues to efficiently carry out its new competencies and reimburse its debt.