

Towards a European Union Federal Tax System: Legal and Fiscal Perspective. An International Comparison

Eva María Gil Cruz

PhD in Law, Associate Professor of Financial and Tax Law, Faculty of Law, Universidad Pontificia Comillas (ICADE);
correspondence address: Calle Alberto Aguilera, 23, 28015 Madrid, Spain; e-mail: evagilcruz@comillas.edu

 <https://orcid.org/0000-0001-5389-8502>

Keywords:

federal treasury,
debt,
sovereignty,
own resources,
European integration

Abstract: This paper offers a comprehensive and rigorous analysis of the feasibility of establishing a European federal treasury from a legal, institutional and comparative perspective. Based on a study of established federal tax systems, such as those in the United States of America, Germany and Switzerland, it identifies the structural elements necessary for the EU to develop its own tax structure: direct taxing power, a significant budget, borrowing capacity and effective mechanisms for redistribution and stabilization. The analysis is complemented by an examination of the EU's legal framework, the limitations imposed by the Treaties and the case law of the German Federal Constitutional Court. Finally, recent proposals for tax reform aimed at introducing new own resources and institutionalizing the issuance of common debt are evaluated. The central thesis argues that a European federal treasury is not only desirable but essential to safeguard the EU's strategic sovereignty, internal cohesion and capacity to act at the global level.

1. Introduction: Historical Context and Justification for a European Federal Tax System

The EU's tax system currently faces structural challenges that have been exposed by a series of interlinked economic, health, energy and geopolitical crises, which have highlighted the limited financial capacity of European

institutions to respond effectively and in a coordinated manner to common challenges.¹

With a budget equivalent to just over 1% of the Union's GDP, and without direct tax competition or structural borrowing capacity, the EU faces growing social and strategic demands without the institutional means to meet them.² This structural imbalance can be explained by the historically intergovernmental nature of European integration. Unlike traditional federal models, the EU lacks its own treasury and an autonomous fiscal system that would enable it to play a compensatory role in the event of economic imbalances or to adequately ensure territorial integration among its Member States. The result is a persistent asymmetry between the monetary union, equipped with a central bank and common fiscal rules, and the absence of a genuine fiscal union to give coherence to the project.

The COVID-19 pandemic marked a turning point. The creation of the Next Generation EU (NGEU) instrument, approved in 2020, allowed the European Commission to issue joint debt on international markets for the first time, financing transfers and loans to Member States with the aim of boosting economic recovery. Although initially designed as an exceptional and temporary measure, this mechanism has been considered by some as the seed of a federal treasury in the making.³

However, the institutionalization of a permanent fiscal structure at the European level faces significant challenges of various kinds: legal, political and constitutional. From a regulatory point of view, the existing Treaties greatly limit the EU's financial autonomy. Thus, Article 311 of the TFEU imposes the principle of budgetary balance and makes the creation of new own resources subject to unanimous approval by the Council and national ratification. In addition, some constitutional courts, notably the German Federal Constitutional Court, have set explicit limits on the transfer of fiscal powers, restricting the scope for European action to the maintenance of national budgetary sovereignty.

¹ European Commission, *Annual Report on the EU Budget 2022* (Brussels: Publications Office of the European Union, 2022).

² Centre for Strategic and International Studies, *The Fiscal Future of Europe* (Washington: CSIS, 2024), <https://www.csis.org>.

³ Delors Centre, *Towards a Fiscal Union? The Next Generation EU as a Test Case* (Berlin: Jacques Delors Centre, 2023).

The aim of this paper is to analyze in depth the real possibilities for strengthening a European federal treasury. To this end, we will first undertake a comparative study of three consolidated federal systems (the United States of America, Germany and Switzerland) with the aim of identifying the common elements that make up a federal fiscal structure.

Secondly, the current situation of the European budget will be examined, paying particular attention to its limits and recent developments in terms of own resources and debt, before considering the legal constraints arising from the Treaties and the constitutional law of the Member States. Finally, the implications of all the above for the process of political integration, the democratic legitimacy of the European project and the effective functioning of its institutions will be assessed.

The central hypothesis of this paper is that a European federal treasury is not only desirable from the point of view of economic efficiency and redistributive justice, but also necessary to guarantee the strategic sovereignty of the Union in an increasingly competitive and fragmented international scenario. The question, therefore, is no longer whether the EU can afford a federal treasury, but whether it can really afford not to have one.

2. Comparative Federal Models: United States of America, Germany and Switzerland

In order to assess the feasibility of a European federal treasury, it is essential to resort to comparative analysis. In particular, the study of consolidated federal tax systems such as those in the United States of America, Germany and Switzerland allows us to identify the structural elements that characterize a true fiscal union. Specifically:

- the ability to dispose of the main sources of tax revenue,
- the power to resort to borrowing,
- the existence of effective instruments for territorial redistribution, and
- a legitimate institutional framework aligned with the principle of shared sovereignty.

In this regard, Zubiri (2017) highlights that these models of fiscal federalism effectively combine decentralization of powers with solid systems of coordination and fiscal compensation. This feature is essential to ensure, on the one hand, the autonomy of sub-state government entities and, on

the other, the articulation of common redistribution instruments, which contributes to preserving territorial cohesion and strengthening the democratic legitimacy of fiscal decisions.⁴

The models examined below represent three different configurations: centralized (United States of America), cooperative (Germany) and decentralized (Switzerland), which highlight the legal, political and institutional conditions necessary to articulate an effective federal fiscal system.⁵

2.1. United States of America: Fiscal Centralization

The US federal system is characterized by clear supremacy of the federal level in fiscal matters. Since the adoption of the 16th Amendment to the Constitution in 1913, Congress has had full authority to levy direct taxes on income without having to distribute them proportionally among the states (U.S. Const. amend. XVI). This arrangement has allowed the federal government to collect most of the tax revenue, with personal income tax being the main source of funding for the national budget.

The US federal system has considerable fiscal intervention capacity, with a budget equivalent to approximately 20% of national GDP. This allocation allows the federal government to finance key policies in areas such as defense, public health (through programs such as Medicare and Medicaid), social security, infrastructure, and scientific and technological research.

In addition, the Treasury Department has full authority to issue debt, subject to a limit set by Congress, which gives the federal government an essential instrument of macroeconomic stabilization. In fact, both during the 2008 financial crisis and in the context of the 2020 pandemic, the Treasury was able to implement ambitious fiscal stimulus packages whose importance was only possible thanks to its full sovereign capacity in tax matters.⁶

⁴ Ignacio Zubiri, *Federalismo fiscal: Principios y aplicaciones* (Madrid: Instituto de Estudios Fiscales, 2017).

⁵ Jonathan Rodden, *Hamilton's Paradox: The Promise and Peril of Fiscal Federalism* (Cambridge: Cambridge University Press, 2006); Bernard Dafflon, *Fiscal Federalism in Theory and Practice* (Cheltenham: Edward Elgar Publishing, 2010); Alberto Alesina and Enrico Spolaore, *The Size of Nations* (Cambridge: MIT Press, 2003).

⁶ Center on Budget and Policy Priorities (CBPP), *Federal Aid to States: Trends and Policy Implications* (Washington: CBPP, 2023).

The US system also incorporates robust redistributive mechanisms. Through intergovernmental transfers and social spending programs, resources are redistributed among states to compensate for economic imbalances.

According to studies by the Centre on Budget and Policy Priorities, states such as Mississippi and New Mexico consistently receive more funds from the federal government than they contribute through taxes, while others such as New York and New Jersey are net contributors (CBPP, 2023). This model rests on solid institutional legitimacy, as the federal government is democratically legitimized by direct election and is backed by a constitutional framework that enshrines its taxing power and redistributive role.

In this sense, the US model represents a clear benchmark for the EU on how to structure an effective federal treasury, combining centralized tax regulations with genuine budgetary autonomy, based on solid democratic legitimacy and the existence of effective mechanisms for solidarity between territories.

2.2. Germany: Cooperative Federalism

The Federal Republic of Germany is a federal state in which fiscal policy is the result of institutional cooperation between the *Bund* (federal level), the *Länder* (federal states) and the municipalities. The Basic Law of 1949 establishes a structure for the distribution of powers and taxation based on joint responsibility.

The main taxes, such as personal income tax, corporation tax and value added tax, are shared by the Bund and the Länder in accordance with constitutionally established guidelines. Thus, basic tax legislation is adopted at the federal level with the participation of the Bundesrat (territorial chamber), while the tax administration is decentralized to the Länder. This ensures a balance between regulatory centralization and executive decentralization (Article 106 GG).

It should be noted that one of the key elements of the German model is the system of financial equality (*Länderfinanzausgleich*), which establishes automatic redistribution mechanisms between states with different fiscal capacities. This system is based on the principles of solidarity and horizontal equity and is implemented through federal transfers and contributions from the wealthier *Länder*. In 2023, the state of Bavaria contributed

approximately €9.1 billion to the interregional fiscal redistribution system, while Berlin was the main recipient region, receiving around €3.8 billion.⁷

Despite the recent constitutional reform approved in 2025, the German tax system continues to operate under strict regulatory restrictions on public borrowing. The reform has introduced greater flexibility in exceptional circumstances, but maintains the core of the so-called *Schuldenbremse*, introduced in 2009, which prevents the *Länder* from running structural deficits and limits the *Bund's* borrowing to 0.35% of GDP. These rules, enshrined in Articles 109 and 115 of the Basic Law, have generated intense debate about their compatibility with countercyclical fiscal policies, especially in crisis contexts. To address these tensions, extra-budgetary funds (*Sondervermögen*) have been used in recent years, although the Federal Constitutional Court ruled in 2023 that some of these mechanisms violated the constitutional principles of budgetary unity and transparency.⁸

From the above, it is clear that based on an analysis of the German experience, it is possible to establish an effective federal treasury through cooperation between different levels of government, with a balanced distribution of fiscal responsibilities and a fair redistribution of resources. However, transferring this model to the European level is not entirely straightforward, as the Union lacks a constitutional structure shared by the different Member States and a central fiscal authority with powers comparable to those of the *Bund*.

2.3. Switzerland: Cantonal Autonomy and Inter-Territorial Coordination

The Swiss case represents an atypical form of fiscal federalism, characterized by intense tax decentralization. The Swiss Confederation grants its 26 cantons broad fiscal autonomy, including legislative competence over income, wealth and inheritance taxes. Each canton can establish its own tax system, which has led to strong tax competition.⁹

⁷ Federal Ministry of Finance, *Financial Compensation Between the Federation and the Länder in 2023: Monthly Report, March 2024* (Berlin: Federal Ministry of Finance, 2024).

⁸ Federal Constitutional Court, Judgment of the Second Chamber of 15 November 2023, 2 BvF 1/22, https://www.bundesverfassungsgericht.de/SharedDocs/Entscheidungen/EN/2023/11/fs20231115_2bvff000122.html.

⁹ Adrian Vatter, *Swiss Federalism: The Transformation of a Federal Model* (London: Routledge, 2020).

The Swiss federal government also levies a direct federal income tax and value added tax; however, its regulatory capacity is limited by the need for periodic approval by popular referendum. Thus, the legitimacy of the system is based on direct citizen participation and the principle of subsidiarity that guides the entire Swiss political organization.

Despite its decentralization, Swiss fiscal federalism includes inter-territorial compensation mechanisms. Since 2008, the Swiss financial equality system (*Neuer Finanzausgleich*) has allowed for a balanced redistribution of resources among cantons, with the aim of ensuring equal access to public services and avoiding territorial fiscal imbalances. Its financing combines contributions from the federal government and the cantons with greater economic capacity, and its management is governed by objective technical criteria, with no room for arbitrary political decisions.¹⁰

Following the recent constitutional reform in Germany in 2025, which we referred to in the previous section, introducing a relaxation of debt limits in order to strengthen fiscal responsiveness in exceptional situations, we consider it relevant to contrast this development with the approach adopted in the Swiss model.

In fact, back in 2003, Switzerland incorporated a fiscal rule (known as *Schuldenbremse*) into its Constitution that requires maintaining a balanced budget, taking into account fluctuations in the economic cycle, and restricts the creation of structural deficits. The consistent application of this mechanism over the last two decades has helped the country maintain one of the lowest levels of public debt among OECD member states.¹¹

As explained above, the Swiss federal model shows that a federal treasury can operate effectively without concentrating fiscal power at a single level of government, provided that there is a smooth institutional relationship between the different authorities, through the application of the principle of redistributive equity. However, adapting it to the European level is no easy task, as the Swiss system is based on a consolidated social and

¹⁰ Reto Schellenberg and Adrian Müller, “Equalisation Mechanisms in Swiss Federalism,” *Swiss Political Science Review* 27, no. 3 (2021): 421–38.

¹¹ Organisation for Economic Co-operation and Development, *Public Administration at a Glance* (Paris: OECD, 2023), <https://www.oecd.org>.

political consensus among the cantons, as well as a strong democratic tradition, all of which are not replicated with the same intensity in the EU.

3. Legal, Institutional and Structural Foundations of the EU's Fiscal Model

3.1. The EU's Fiscal Model: Evolution, Structural Constraints and the Case for a Federal Treasury

The evolution of public finances in the EU has been characterized, among other things, by tension between progress in economic integration and the limitations of the fiscal framework. Thus, while the monetary dimension has been consolidated with increasingly complex common mechanisms, the fiscal sphere remains anchored in the sovereignty of the Member States. The disconnect between a fully consolidated single currency and a still fragmented fiscal policy is one of the main constraints to achieving coherent and resilient European integration.

The Union's budget, framed by Article 310 TFEU, enshrines the principle of budgetary balance, while Article 311 TFEU subjects the introduction of new own resources to unanimous approval by the Council and subsequent ratification by all Member States in accordance with their constitutional requirements. This dual constraint prevents the use of structural deficits as a financing instrument and maintains a high degree of dependence on contributions from Member States, which makes it difficult to strengthen a direct fiscal link between European institutions and citizens.

The EU's financing system is currently based on three main sources of revenue: firstly, traditional own resources, which include customs duties and agricultural levies; secondly, a contribution derived from harmonized value added tax; and finally, a contribution based on each Member State's gross national income (GNI). Since 2021, a new source has been added to these three: a tax on non-recycled plastic waste. Among these, the GNI-linked contribution continues to account for the largest share of the EU budget (around 61–65%), highlighting a significant dependence on national contributions and, therefore, limited fiscal autonomy for the EU.¹²

¹² Council of the European Union, "Financing the EU Budget: Structure, Sources and Figures," 2025, accessed April 3, 2025, <https://www.consilium.europa.eu/en/policies/financing-the-eu-budget/>;

The EU's spending powers are also restricted. Most of the budget is allocated to cohesion policies and the Common Agricultural Policy (CAP), leaving little room for investment in European public goods such as common defense, energy transition, digitalization and technological innovation. Compared to federations such as the United States or Germany, where federal spending can exceed 15–20% of GDP, the EU budget barely reaches 1% of the EU's combined GDP.¹³ This configuration reflects a lack of own tax capacity, which makes the EU fiscally dependent, restricting its effectiveness in the face of challenges such as the pandemic, the war in Ukraine, and the green transition.

The approval of the NGEU instrument in 2020 was an exceptional measure from the principle of budgetary balance enshrined in Article 310 TFEU, allowing the European Commission to issue joint debt for the first time for up to €750 billion. This extraordinary response to the crisis caused by the COVID-19 pandemic was designed as a temporary measure, limited to the period of the 2021–2027 multiannual financial framework.¹⁴

However, the possibility of transforming this mechanism into a permanent tool has generated intense controversy at both the legal and political levels. In Germany, the Federal Constitutional Court raised objections to the legality of structural mutualization of European debt, warning that a decision of such scope would require a profound reform of the Treaties and, predictably, approval by the citizens in a referendum.¹⁵

For this reason, the European Commission has proposed in recent years to introduce new own resources to reduce dependence on national contributions and strengthen the EU's financial autonomy. This debate has also gained urgency in view of the fact that, from 2028 onwards, the Union will have to start repaying the debt issued for NGEU, which could be partly covered through these new revenue streams. The proposals include

European Parliament – Research Service, *Breakdown of Current Own Resources in the EU Budget, 2025*, accessed April 3, 2025, <https://www.europarl.europa.eu/thinktank/en/document.html>.

¹³ CSIS, *The Fiscal Future of Europe*, 2024.

¹⁴ European Commission, *NextGenerationEU: A European Recovery Plan* (Brussels: Publications Office of the European Union, 2021).

¹⁵ Federal Constitutional Court (Bundesverfassungsgericht – BVerfG), Judgment of 15 April 2021, 2 BvR 547/21, https://www.bundesverfassungsgericht.de/SharedDocs/Entscheidungen/EN/2021/04/rs20210415_2bvr054721en.html.

a resource linked to the Emissions Trading System (ETS), a Carbon Border Adjustment Mechanism (CBAM), a harmonized digital tax and a tax on non-recycled plastic waste, to which was added in June 2023 a new proposal for a statistical resource on corporate profits, calculated as 0.5% of the gross operating surplus of resident companies.¹⁶ However, the budgetary impact of these initiatives remains limited, as they are estimated to generate less than 10% of the European budget planned for 2030.

The lack of its own fiscal capacity prevents the Union from playing a stabilizing role in the face of economic shocks. Instead of having a budget with countercyclical capacity, the response to crises has consisted of temporary relaxation of fiscal rules, such as the activation of the Stability Pact's safeguard clause, and recourse to the support of the European Central Bank. This configuration poses challenges in terms of democratic legitimacy, as fundamental decisions are concentrated in institutions that are not directly subject to electoral control.¹⁷

The Union's fiscal system continues to suffer from limitations that hamper its functioning, weaken its link with citizens and make it less capable of dealing with crisis situations. Overcoming this deadlock requires decisive steps towards a more integrated and autonomous model that allows the EU to act more effectively and legitimately when it is really needed.

In this context, the construction of a European federal treasury emerges in our opinion as both a necessary and complex endeavor. It poses multiple legal and political challenges, and its realization requires the transformation of the current budgetary model, based on an intergovernmental model and dependence on contributions from each Member State, into a truly federal fiscal system. This, in turn, demands a profound change in the Union's regulatory framework, as well as a reconfiguration of the balance of power between the European institutions and the Member States.

Below we examine the main legal obstacles, the room for maneuver available in the Treaties and the institutional reforms that would enable progress towards genuine fiscal capacity.

¹⁶ European Commission, *Proposal for New Own Resources: Enhancing EU Financial Autonomy*, COM(2023) 323 final (Brussels: European Commission, 2023).

¹⁷ Gregory Claeys, Zsolt Darvas, and Guntram B. Wolff, *Benefits and Drawbacks of European Unification of Fiscal Rules* (Brussels: Bruegel, 2014).

3.2. The Current Regulatory Framework: Article 311 TFEU and the Limits to European Fiscal Autonomy

Article 311 TFEU constitutes the legal basis for the financing of the Community budget, stipulating that the Union shall have the necessary resources to achieve its objectives and carry out its policies. However, this provision incorporates significant limits, as any progress towards a more autonomous fiscal structure continues to depend on the unanimous consensus of the Member States, which in practice restricts their capacity for reform.

First the provision requires that any decision relating to the system of own resources be adopted unanimously by the Council, after consulting the European Parliament, and subsequently ratified by all Member States in accordance with their respective constitutions. This rigid legal clause prevents substantial progress without complete political consensus.

Specifically, Serrano Antón (2022) examines EU proposals such as Pillar 2 (regulated by Global Anti-Base Erosion Rules, GloBE) and highlights how Article 311 TFEU constitutes a mechanism for protecting national fiscal sovereignty by requiring unanimous agreement for any tax change and its subsequent implementation in accordance with national procedures. This approach, according to the author, reinforces the ability of each State to veto reforms that could limit its tax autonomy.¹⁸

These limitations have been upheld by the case law of the CJEU, which has interpreted the Union's fiscal powers very strictly and always in accordance with the express provisions of the Treaties. The implementation of innovative financial instruments, such as the NGEU, although made possible by a combined legal basis (Articles 122, 175 and 311 TFEU), has been understood as an exceptional measure, not as a model that can be repeated on a stable basis in the future.¹⁹

¹⁸ Fernando Serrano Antón, "Crónica sobre la Fiscalidad de la UE: El fracaso en la adopción de la propuesta de Directiva sobre la tributación mínima global (Pilar 2)," *Unión Europea Aranzadi*, no. 6 (2022).

¹⁹ Pierre-Henri Verdier, "La cláusula del artículo 311 TFUE y la autonomía fiscal de la Unión Europea," *Revista de Derecho Comunitario Europeo* 26, no. 71 (2022): 89–112.

3.3. The Distribution of Powers and the Institutional Structure: Council, Parliament and Commission

The distribution of fiscal powers within the European institutional system is another major obstacle to fiscal federalization. Unlike classic federal systems, where the power to levy taxes lies directly with a democratically legitimate federal parliament, fiscal powers in the EU are fragmented among various institutions. The Council of the EU, as the representative body of the Member States, retains predominant control over budgetary and fiscal decisions. The European Parliament, although a co-legislator in many areas, plays a more limited role in matters of own resources and has no legislative initiative in tax matters. For its part, while the European Commission can propose new sources of financing and coordinate budgetary policy, it has no coercive power or direct taxing capacity.

This institutional configuration leads to a lack of fiscal sovereignty at the supranational level, as the EU lacks a unified political center capable of deciding and implementing its own fiscal policy. Furthermore, it raises serious problems of democratic accountability, as decisions on taxes and spending are not directly accountable to European citizens but are diluted in opaque and technocratic intergovernmental negotiations.²⁰

Overcoming this institutional deadlock would require not only rethinking the legal framework of the Treaties to give the European Parliament a greater role in the allocation of resources and the composition of the Union budget, but also integrating the principle of shared fiscal sovereignty more coherently into the European constitutional order. Achieving this goal would require moving towards a parliamentary model more consistent with the idea of shared fiscal sovereignty, in which both chambers would assume joint responsibility for budgetary matters and there would be effective mechanisms for democratic control over how public resources are collected and managed at the European level.

²⁰ Jürgen Habermas, *The Lure of Technocracy*, trans. Ciaran Cronin (Cambridge: Polity Press, 2018).

3.4. National Constitutional Constraints:

The German Case and the Doctrine of Competence-Competence

One of the most significant obstacles to the institutionalization of a European federal treasury lies in the limitations derived from national constitutional systems, especially in those countries where constitutional courts have exercised strict control over the transfer of fiscal sovereignty to the EU. The paradigmatic case is that of the German Federal Constitutional Court (*Bundesverfassungsgericht*).

In its well-known ruling of May 5, 2020,²¹ on the European Central Bank's asset purchase program (PSPP), the BVerfG held that European institutions cannot exercise powers beyond those expressly conferred on them by the Treaties, and that control of *ultra vires* ultimately lies with the national constitutional courts (BVerfG, 2020). This doctrine has been reiterated in the context of the debate on the legality of the NGEU recovery fund, in relation to which the Court expressed reservations about the constitutionality of debt mutualization, considering that it violates the principle of budgetary responsibility of the *Bundestag*.²²

In this context, moving towards European fiscal federalism with legal backing means gradually developing forms of fiscal integration that respect the constitutional frameworks of the Member States. These mechanisms must be built on the principle of subsidiarity, while ensuring that the Union has the necessary means and capabilities to fulfill its objectives in an environment where its competences are constantly expanding.²³ This gradual expansion has taken place in key areas such as financial and banking supervision, climate and energy policy, harmonization of indirect taxation, the design of own resources and joint borrowing instruments, and enhanced economic policy coordination, driven by Treaty reforms, secondary legislation, and measures adopted in response to major crises.

²¹ Federal Constitutional Court of Germany, Second Chamber (Bundesverfassungsgericht, Zweiten Senats), Judgment of 5 May 2020, 2 BvR 859/15, 2 BvR 1651/15, 2 BvR 2006/15, 2 BvR 980/16.

²² Federal Constitutional Court (BVerfG), Judgment on the EU Recovery Fund, 2021, <https://www.bverfg.de>.

²³ Paul De Grauwe, *Economics of Monetary Union*, 13th ed. (Oxford: Oxford University Press, 2020). Fritz W. Scharpf, *Community and Autonomy: Institutions, Policies and Legitimacy in Multilevel Europe* (Frankfurt: Campus Verlag, 2010).

A viable option for moving in this direction would be to create a common fiscal power, permanent in nature but with a limited scope, intended to finance public services that clearly serve the European interest. In order to preserve the legitimacy of this new fiscal framework, it would be essential to strengthen the components of democratic control, both at the level of the Union institutions and in national parliaments.²⁴ The concept of European public goods (EPGs) is subject to academic debate and lacks a universally accepted definition. In EU practice, it refers to cross-border projects whose added value increases when designed and financed jointly, meeting economic, institutional, and political criteria. Their production tends to deliver widely shared benefits, reducing the emphasis on national net balances and easing tensions between so-called creditor and debtor states. Priority areas often include cross-border energy and digital infrastructure, large-scale research and innovation, coordinated security and defense initiatives, public health cooperation, and strategic raw materials.

4. Political, Fiscal and Democratic Implications of a European Federal Tax System

The emergence of genuine European fiscal federalism is one of the most complex challenges facing the process of EU integration in the 21st century, from both a political and institutional point of view.

The current EU fiscal and budgetary system, based on national contributions and conditioned by the principle of budgetary balance, appears insufficient to effectively address contemporary global challenges. However, it could be considered efficient in maintaining budgetary discipline and stability under the existing rules, a feature that any reform should aim to preserve. That is why the transition to a federal taxation model cannot be considered a mere technical issue, but rather a decision of great political significance that directly affects the European constitutional foundations.

For a European federal treasury to be effectively consolidated, the Union's budget would need to be significantly increased, which would not

²⁴ European Fiscal Board, *Annual Report 2022* (Brussels: European Commission, 2022); Jean Pisani-Ferry, *The Euro Crisis and Its Aftermath* (Oxford: Oxford University Press, 2014).

only entail a profound change in the fiscal sphere, but also an institutional reorganization to adapt the functioning of the Union to this new reality.

Such a scenario would require strengthening accountability mechanisms, ensuring more solid democratic legitimacy and moving towards effective electoral representation at the European level. All of this would necessarily be accompanied by a profound reform of the Union's institutions in order to establish truly representative fiscal governance.²⁵ From this perspective, in the following section we will establish the political, fiscal and democratic implications of creating a fully-fledged European federal treasury.

4.1. The Principle of Subsidiarity as the Cornerstone of a New Institutional Balance

A federal treasury will require a reconsideration of the powers and responsibilities of the European institutions, particularly the role of the European Parliament, the Council and the Commission. Currently, fiscal decisions are subject to the principle of unanimity in the Council and to limited legislative initiative on the part of the Parliament.

The establishment of genuine federal taxation would involve transferring part of the Member States' tax sovereignty to the supranational level, which would require a thorough reform of the Treaties and a more effective application of the principle of subsidiarity, ensuring that powers are exercised at the most appropriate level to achieve common objectives.

From the perspective of democratic legitimacy, the principle of "no taxation without representation" requires that any taxation at the European level be subject to control by a representative authority with effective decision-making powers. In this context, strengthening the role of the European Parliament in tax matters appears to be an essential condition for ensuring this democratic link, by enabling it to participate actively in shaping the tax system, defining the budget and monitoring its implementation. This institutional development should also be accompanied by a functional reorganization that provides a European Treasury with the necessary means

²⁵ Fundación Alternativas, *Is a Fiscal Union in the EU Feasible?* (Madrid: Fundación Alternativas, 2023).

to operate autonomously, manage its own resources and ensure tax compliance throughout the Community.²⁶

4.2. Consolidation of the Principle of Territorial Solidarity

One of the main reasons for giving the EU its own fiscal capacity is the need to strengthen the mechanisms that guarantee solidarity and cohesion between its different territories. In consolidated federal models, the central treasury plays a key role in correcting regional imbalances by channeling resources to areas with lower levels of development or more exposed to crisis situations. In the case of the EU, this redistributive function has been carried out mainly through structural and cohesion funds.

However, the effectiveness of these instruments has been limited, not only due to their weak adaptability to economic cycles, but also because, although the EU has reserve mechanisms such as the European Globalisation Adjustment Fund, the Solidarity and Emergency Aid Reserve, the EU Solidarity Fund, the Brexit Adjustment Reserve, the Single Margin Instrument and the Flexibility Instrument, their scale and flexibility are insufficient to deliver a rapid and substantial response to major external shocks.²⁷

The development of a genuine federal treasury would enable the Union to deploy more ambitious redistributive policies that are better adapted to the social, economic and demographic realities of its Member States. Formulas such as permanent transfers between territories, automatic stabilizers at the European level or common crisis protection mechanisms would move us towards a more robust model of integration capable of sustaining real structural cohesion.²⁸ This approach requires, in any case, the establishment of binding rules that consolidate fiscal solidarity as a structural principle of the system, based on criteria of redistributive justice and institutional co-responsibility among Member States.²⁹

²⁶ Vivien A. Schmidt, “Democracy and Legitimacy in the European Union Revisited: Input, Output and Throughput,” *Political Studies* 67, no. 1 (2019): 3–21, <https://doi.org/10.1111/j.1467-9248.2012.00962.x>.

²⁷ Thomas Piketty, Emmanuel Saez, and Gabriel Zucman, “Towards a Fiscal Union for the EU,” *Journal of European Public Policy* 28, no. 3 (2021): 350–73.

²⁸ Ibid., 356–8; Sebastian Dullien and Ferdinand Fichtner, “A Common Unemployment Insurance Scheme for the Euro Area,” *DIW Economic Bulletin* 3, no. 1 (2013): 9–14.

²⁹ European Commission, *Reflection Paper on the Deepening of the Economic and Monetary Union* (Brussels: Publications Office of the European Union, 2017).

4.3. Redefining the Democratic Link between Citizens and European Institutions

The current EU tax system is characterized by a lack of a direct link between citizens and European finances. Citizens perceive the EU as a technical and distant structure, whose spending capacity depends on national decisions. A federal treasury would make it possible to reverse this distancing by establishing a direct fiscal relationship between taxpayers and the European tax authority, which would strengthen the visibility and legitimacy of European public action.³⁰

The establishment of European taxes, such as those on polluting emissions, digital activities or financial transactions, must be accompanied by a process of fiscal democratization, which includes, as already stated above, mechanisms for accountability, citizen participation and fiscal transparency. European taxation can, thus, become an educational tool for strengthening European identity and a sense of shared responsibility between citizens and supranational institutions.

4.4. Tax Harmonization that Respects National Sovereignties

One of the most complex challenges in shaping European fiscal federalism is ensuring its compatibility with national tax systems without jeopardizing their stability or effectiveness. The coexistence of different levels of taxation requires careful coordination to clearly define competences, avoid duplication and prevent distortions that could lead to unfair tax burdens.

In light of the above, moving towards greater tax harmonization, especially in key areas such as corporate tax, value added tax and digital taxation, appears to be an essential condition. Initiatives such as the Business in Europe: Framework for Income Taxation (BEFIT) proposal, presented by the European Commission in 2021 as a revised replacement of the former Common Consolidated Corporate Tax Base (CCCTB) which has consequently been withdrawn, and the measures adopted on tax transparency through the DAC6 and DAC7 directives, are important steps in this direction. However, they remain insufficient to provide a structural response to the persistent fragmentation of the EU's tax landscape and the absence

³⁰ John Erik Fossum and Agustín José Menéndez, *The Gift of the Constitution: A Constitutional Theory for a Democratic European Union* (Lanham: Rowman & Littlefield, 2020).

of a fully harmonized framework capable of ensuring long-term revenue stability and fairness across Member States.

Consolidating a coherent European tax system would entail establishing a harmonized and well-integrated framework for taxation within the EU, including aligned tax bases, coordinated rates where appropriate, and consistent application of rules across Member States. Achieving this goal will also require the Union to further strengthen effective tools to combat tax evasion, artificial avoidance strategies, and the existence of tax havens, both within and outside its territory.³¹

4.5. Political and Institutional Challenges in Building a European Federal Treasury

Despite the potential benefits of a European federal treasury, its implementation faces significant political resistance. Some Member States have expressed concerns about the possible loss of fiscal sovereignty, the transfer of resources without proper control by national parliaments, or the risk of generating undesirable effects in the countries benefiting from the transfers.³² These objections, which are partly understandable, require a rethinking of the institutional design to strike a balance between fiscal responsibility and effective transparency and accountability mechanisms at both the national and European levels.³³

A legally viable strategy for moving in this direction is to adopt a gradual approach, based on the principle of flexible integration or “differentiated capacity,” to which the European Commission has referred on several occasions. This approach would allow a group of Member States committed to deepening fiscal cooperation to develop common instruments without

³¹ European Commission, *Towards a Fair and Efficient Tax System in the European Union* (Brussels: Directorate-General for Taxation and Customs Union, 2023), https://ec.europa.eu/taxation_customs/home_en.

³² Scharpf, *Community and Autonomy*; Sergio Fabbrini, *Which European Union? Europe after the Euro Crisis* (Cambridge: Cambridge University Press, 2021).

³³ European Commission, *Reflection Paper on Strengthening the Economic and Monetary Union* (Luxembourg: Publications Office of the European Union, 2017), accessed March 28, 2025, https://ec.europa.eu/info/publications/reflection-paper-deepening-economic-and-monetary-union_en.

relying on unanimous consensus, by invoking the enhanced cooperation mechanism provided for in Article 20 of the TEU.³⁴

In addition to respecting different integration speeds, this model would make it possible to test the proposed mechanisms institutionally, strengthen their democratic legitimacy and demonstrate, on the basis of experience, the concrete benefits of greater fiscal integration.³⁵

5. Proposals for Institutional Reform

5.1. Need for Structural Reform of the European Fiscal Model

Comparative evidence shows that the current EU fiscal model, based on national contributions and the absence of its own taxing powers, is insufficient to ensure an effective response to systemic crises, to finance European public services and to articulate a coherent redistributive policy.³⁶

It is therefore essential to push for structural reform that will enable the Union to move towards a genuine federal treasury. This transformation cannot be limited to a mere technical adjustment. It must be a major political decision aimed at consolidating financial autonomy, strengthening democratic accountability and reinforcing structural solidarity within the European project.³⁷

5.2. Delimitation and Exercise of Fiscal Sovereignty at the European Level

A key step in this transformation is the recognition of the Union's own fiscal powers in the Treaties, in an explicit, permanent manner and with institutional guarantees. This recognition should include the possibility of establishing European taxes with their own regulatory basis, subject to parliamentary control and coordinated with national treasuries to avoid overlaps.

³⁴ Sergio Fabbrini, *The Future of Europe: Decoupling and Reforming Multilevel Democracy* (Cambridge: Cambridge University Press, 2019); Bruno De Witte, "Legal Instruments and Judicial Protection" in *The Evolution of EU Law*, 2nd ed., eds. Paul Craig and Gráinne de Búrca (Oxford: Oxford University Press, 2012), 237–70.

³⁵ Amy Verdun and Jonathan Zeitlin, "The European Semester as a New Architecture of EU Socio-Economic Governance in Theory and Practice" *Journal of European Public Policy* 25, no. 2 (2018): 137–48, <https://doi.org/10.1080/13501763.2017.1363807>.

³⁶ Piketty, Saez, and Zucman, "Towards a Fiscal Union for the EU," 356–8; European Fiscal Board, *Annual Report 2022*.

³⁷ Fabbrini, *The Future of Europe*; Jürgen Habermas, *The Crisis of the European Union: A Response*, trans. Ciaran Cronin (Cambridge: Polity Press, 2012).

To this end, Article 311 TFEU needs to be amended to remove the unanimity requirement and replace it with qualified majorities in the Council and co-decision with the European Parliament, following the model of the ordinary legislative procedure.³⁸

5.3. Strengthening the European Parliament as a Fully-Fledged Fiscal Chamber

In order to ensure the democratic legitimacy of a federal tax system, it is essential to strengthen the role of the European Parliament in all phases of the budgetary and tax cycle. This means giving it the power of initiative in tax matters, defining its competence to approve the Union's own resources and enabling it to exercise political control over the European fiscal authority.³⁹ Only with a representative chamber with effective fiscal capacity can the principle of "no taxation without representation" be fulfilled, which is an essential element of any consolidated democratic system.⁴⁰

5.4. Creation of a European Treasury with Debt Management and Issuance Capacity

The consolidation of a true federal treasury requires not only clear fiscal powers, but also an efficient and autonomous administrative structure. In this vein, some scholars advocate the creation of a European Treasury with powers to collect taxes, execute the budget and issue debt on behalf of the Union, as well as ensuring compliance with fiscal discipline.⁴¹ This entity could be set up as an autonomous body within the European Commission or as a specialized mechanism under parliamentary control, which would strengthen the Union's operational capacity to manage its resources, deploy European funds effectively and react quickly to crisis scenarios.

5.5. Development of a European Fiscal Policy with Stabilizing and Redistributive Capacity

Beyond its institutional configuration, a true federal treasury must be structured around substantive functions that enable it to effectively address the

³⁸ European Parliament, *Breakdown of Current Own Resources in the EU Budget*.

³⁹ Fabbrini, *Future of Europe*.

⁴⁰ Habermas, *Crisis of the European Union*, 2012.

⁴¹ Anne-Laure Delatte and Nicolas Valla, *A European Treasury: Facing the Next Crisis*, Bruegel Policy Contribution, no. 5 (2020).

present and future challenges of the integration process. In this regard, we consider it crucial for a common fiscal framework to assume a stabilizing role, through the possibility of resorting to debt for countercyclical purposes, while exercising a redistributive function aimed at strengthening economic, social and territorial cohesion within the internal market.⁴² To achieve these goals, common fiscal policy should be closely aligned with the Union's strategic objectives, such as the ecological and digital transition, energy security and the construction of a common defense policy. Achieving these objectives requires a predictable and sufficient source of funding. In our view, this could be best ensured within the framework of a federal tax system, accompanied by medium-term and long-term budgetary planning.⁴³

5.6. Gradual Implementation and Enhanced Cooperation Mechanisms

The establishment of a genuine European federal treasury cannot happen suddenly or through uniform implementation. It is essential to develop a phased implementation strategy that integrates, on the one hand, institutional reforms with a particular impact on structure and, on the other, intergovernmental mechanisms through a transitional regime that allows for progressive and realistic progress, depending on the political and institutional conditions at the time.

A particularly suitable option from a legal and political point of view is the use of the enhanced cooperation mechanism provided for in Article 20 of the TEU, which allows a group of Member States to move forward more ambitiously in certain areas without the need for unanimity.⁴⁴ This would facilitate the introduction of European-wide taxes in specific sectors, the creation of common investment funds or the design of experimental fiscal mechanisms, whose practical effectiveness would open the door to their eventual extension to the whole of the Union.⁴⁵

⁴² Dullien and Fichtner, "A Common Unemployment Insurance Scheme for the Euro Area," 9–14; Pisani-Ferry, *The Euro Crisis and Its Aftermath*.

⁴³ European Fiscal Board, *Annual Report 2022*.

⁴⁴ De Witte, "Legal Instruments and Judicial Protection."

⁴⁵ Verdun and Zeitlin, "European Semester."

5.7. Strengthening Fiscal Transparency and European Democratic Education

Finally, any reform of the tax system must be accompanied by an unequivocal commitment to transparency, accountability and tax education for citizens. The introduction of European taxes must be clearly communicated, explaining their purpose, impact and territorial distribution, with the primary aim of ensuring voluntary compliance with tax obligations by taxpayers in Member States.⁴⁶ Similarly, the use of the Union's own resources must be subject to rigorous public control mechanisms and ex post evaluation procedures.

Only through this requirement for transparency and accountability will it be possible to strengthen a critical European tax citizenship that is both informed and committed to the sustainability of the common project.

6. Final Reflections

The construction of a genuine European federal treasury is an essential step in the process of political and economic integration of the Union. The current fiscal structure, based on contributions from Member States and subject to unanimity rules, has proven insufficient to effectively address crises of all kinds, finance European public goods and services, and strengthen cohesion between Member States.

The COVID-19 pandemic, the war in Ukraine and the challenges of the ecological transition have highlighted the structural limitations of the current model and the need to provide the Union with its own stable and legitimate fiscal capacity. Reform in this area cannot be limited to technical adjustments but requires a profound transformation of the legal and institutional framework, explicitly recognizing the EU's fiscal competence.

This development must be accompanied by the amendment of Article 311 of the TFEU in order to overcome the obstacle of unanimity and move towards decisions based on qualified majorities and democratic control through the ordinary legislative procedure. It is also essential to strengthen the role of the European Parliament as a fully-fledged fiscal chamber, in line with the democratic principle of “no taxation without representation.”

⁴⁶ Habermas, *Crisis of the European Union*, 2012; Fabbrini, *Which European Union?*.

In turn, the creation of a federal treasury must be accompanied by the development of redistributive functions structured around common strategic objectives such as the ecological and digital transition, energy security and European defense. These functions require not only innovative fiscal instruments, but also a European Treasury with the capacity to manage, collect and issue debt.

However, this transformation should not be seen as a break with the current model, but rather as a pragmatic evolution consistent with the logic of the European integration process. We understand that cooperation is the most appropriate legal mechanism for moving forward gradually, respecting the different paces of Member States. At the same time, it will be essential to promote an informed European tax citizenry that is aware of the collective benefits of this reform and committed to sustaining a more democratic, resilient, and supportive common project.

References

- Alesina, Alberto, and Enrico Spolaore. *The Size of Nations*. Cambridge: MIT Press, 2003.
- Center on Budget and Policy Priorities (CBPP). *Federal Aid to States: Trends and Policy Implications*. Washington: CBPP, 2023.
- Centre for Strategic and International Studies. *The Fiscal Future of Europe*. Washington: CSIS, 2024. <https://www.csis.org>.
- Claeys, Grégory, Zsolt Darvas, and Guntram B. Wolff. *Benefits and Drawbacks of European Unification of Fiscal Rules*. Brussels: Bruegel, 2014.
- Congressional Budget Office (CBO). *The Budget and Economic Outlook: 2024 to 2034*. Washington: U.S. Congress, 2024.
- Council of the European Union. “Financing the EU Budget: Structure, Sources and Figures,” 2025.
- De Grauwe, Paul. *The Economy of the Monetary Union*. 13th ed. Oxford: Oxford University Press, 2020.
- De Witte, Bruno. “Legal Instruments and Judicial Protection.” In *The Evolution of EU Law*, 2nd ed., edited by Paul Craig and Gráinne de Búrca, 237–70. Oxford: Oxford University Press, 2012.
- Delatte, Anne-Laure, and Nicolas Valla. *A European Treasury: Facing the Next Crisis*. Bruegel Policy Contribution, no. 5 (2020): 76–88.
- Delors Centre. *Towards a Fiscal Union? The Next Generation EU as a Test Case*. Berlin: Jacques Delors Centre, 2023.

- Dullien, Sebastian, and Ferdinand Fichtner. "A Common Unemployment Insurance Scheme for the Euro Area." *DIW Economic Bulletin* 3, no. 1 (2013): 9–14.
- European Commission. *Annual Report on the EU Budget 2022*. Brussels: Publications Office of the European Union, 2022.
- European Commission. *NextGenerationEU: A European Recovery Plan*. Brussels: Publications Office of the European Union, 2021.
- European Commission. *Proposal for New Own Resources: Enhancing EU Financial Autonomy*. COM(2023) 323 final. Brussels: European Commission, June 2023.
- European Commission. *Reflection Paper on Strengthening the Economic and Monetary Union*. Luxembourg: Publications Office of the European Union, 2017. Accessed March 28, 2025. https://ec.europa.eu/info/publications/reflection-paper-deepening-economic-and-monetary-union_en.
- European Commission. *Towards a Fair and Efficient Tax System in the European Union*. Directorate-General for Taxation and Customs Union, 2023. Accessed April 21, 2025. https://ec.europa.eu/taxation_customs/home_en.
- European Fiscal Board. *Annual Report 2022*. Brussels: European Commission, 2022.
- European Parliament – Research Service. *Breakdown of Current Own Resources in the EU Budget*. Brussels: European Parliamentary Research Service, 2020. Accessed April 3, 2025. <https://www.europarl.europa.eu/thinktank/en/document.html>.
- Fabbrini, Sergio. *The Future of Europe: Decoupling or Integration?*. Cambridge: Cambridge University Press, 2021.
- Fabbrini, Sergio. *Which European Union? Europe after the Euro Crisis (2021)*. Cambridge: Cambridge University Press, 2021.
- Federal Ministry of Finance. *Financial Compensation Between the Federation and the Länder in 2023: Monthly Report, March 2024*. Berlin: Federal Ministry of Finance, 2024.
- Fossum, John Erik, and Agustín José Menéndez. *The Constitution's Gift: A Constitutional Theory for a Democratic European Union*. Lanham: Rowman & Littlefield, 2020.
- Fundación Alternativas. *Is a Fiscal Union in the EU Feasible?*. Madrid: Fundación Alternativas, 2023.
- Habermas, Jürgen. *The Crisis of the European Union: A Response*. Translated by Ciaran Cronin. Cambridge: Polity Press, 2012.
- Habermas, Jürgen. *The Lure of Technocracy*. Translated by Ciaran Cronin. Cambridge: Polity Press, 2018.
- Organisation for Economic Co-operation and Development. *Public Administration at a Glance*. Paris: OECD, 2023. <https://www.oecd.org>.
- Piketty, Thomas, Emmanuel Saez, and Gabriel Zucman. "Towards a Fiscal Union for the EU," *Journal of European Public Policy* 28, no. 3 (2021): 350–73.

- Piketty, Thomas, Isabelle Martucci, and Guillaume Guionnet. *For a Treaty for the Democratisation of Europe*. Paris: Seuil, 2021.
- Pisani-Ferry, Jean. *The Euro Crisis and Its Aftermath*. Oxford: Oxford University Press, 2014.
- Rodden, Jonathan. *Hamilton's Paradox: The Promise and Peril of Fiscal Federalism*. Cambridge: Cambridge University Press, 2006.
- Scharpf, Fritz W. *Community and Autonomy: Institutions, Policies and Legitimacy in a Multilevel Europe*. Frankfurt: Campus Verlag, 2010.
- Schellenberg, Reto, and Lukas Müller. "Equalisation Mechanisms in Swiss Federalism." *Swiss Political Science Review* 27, no. 3 (2021): 421–38.
- Schmidt, Vivien A. "Democracy and Legitimacy in the European Union Revisited: Input, Output and Throughput." *Political Studies* 67, no. 1 (2019): 3–21. <https://doi.org/10.1111/j.1467-9248.2012.00962.x>.
- Serrano Antón, Fernando. "Crónica sobre la Fiscalidad de la UE: El fracaso en la adopción de la propuesta de Directiva sobre la tributación mínima global (Pilar 2)." *Unión Europea Aranzadi*, no. 6 (2022): 105–10.
- Vatter, Adrian. *Swiss Federalism: The Transformation of a Federal Model*. London: Routledge, 2020.
- Verdier, Pierre-Henri. "La cláusula del artículo 311 TFUE y la autonomía fiscal de la Unión Europea." *Revista de Derecho Comunitario Europeo* 26, no. 71 (2022): 89–112.
- Verdun, Amy, and Jonathan Zeitlin. "The European Semester as a New Architecture of EU Socio-Economic Governance in Theory and Practice." *Journal of European Public Policy* 25, no. 2 (2018): 137–48. <https://doi.org/10.1080/13501763.2017.1363807>.
- Zubiri, Ignacio. *Federalismo fiscal: Principios y aplicaciones*. Madrid: Instituto de Estudios Fiscales, 2017.

