

Informal Meeting of Economic and Financial Affairs Ministers

27-28 April 2018

PRESIDENCY ISSUES NOTE

Working Session II: Towards a common agenda for modern tax administrations: improving revenue collection and fighting tax fraud in the single market

1. Collecting taxes in the Internal market today and challenges ahead

Tax administrations play a critical role in the implementation of tax laws. They are responsible for the collection and enforcement of tax revenues, while having to respect taxpayers' rights and protect their data. This is a demanding role, due to the rapidly changing national and international environments in which tax administrations operate. Ongoing economic, social and technological developments force tax administrations to adapt constantly for being able to carry out their core business and secure tax revenues while resources are often being reduced. Digitalisation changes the way tax administrations interact with taxpayers and the manner in which data is collected (allowing for more real time information). This calls for innovative approaches to keep tax collection systems up-to-date. Tax fraud, evasion and aggressive tax planning with an international dimension increasingly challenge tax administration practices. They clearly demonstrate that without effective cooperation tax administrations will continue losing tax revenues. The "spill-over" effect – i.e. how a Member State manages its tax system affects other Member States and the EU budget – is today's reality in the internal market.

Evidence shows that the EU faces a substantial tax gap: for VAT, it is estimated at more than EUR 150 billion per year. This amounts to about 5 times the annual budget of the 28 Member State tax authorities put together.¹ The European Court of Auditors and Europol have estimated that missing trader intra community (MTIC) fraud alone could account for EUR 40 to 60 billion of annual VAT revenue losses. Tax avoidance by companies cost EU countries EUR 50-70 billion in lost revenue a year. Cross-

¹ Source of budget figures: OECD, Tax Administration 2017 - Comparative Information on OECD and other Advanced and Emerging Economies, Annex A, Table A.49. 2015 data. No data available for Romania and Slovakia.

border recovery of taxes in some Member States hardly takes place; in these Member States the percentage of average yearly recovered amounts ranges from 0.05% to 2.21%, compared to the average yearly amounts for which recovery assistance was requested.

No Member State can address these challenges by itself. The way forward is for Member States to cooperate so as to:

- obtain more tax revenues due from cross-border activities and from taxpayers having assets abroad;
- deter and detect tax evasion, fraud and avoidance at an earlier stage;
- increase chances that all taxpayers pay their fair share leading to better public services for citizens and fair competition for businesses;
- increase tax revenues providing policy-makers more margins to lower taxes and share the tax burden more equally.

This is why **enhancing administrative cooperation** and effective exchange of information among Member States is high on the EU tax policy agenda. In the field of direct taxes, there exists already a robust and extensive framework for cooperation. Every year, Member States exchange automatically with each other a vast amount of tax data covering non-residents' income from employment, directors' fees, and certain life insurance products, pensions and ownership of and income from immovable property, as well as information on non-residents' financial accounts, tax rulings and – as from mid-2018 – multinationals' country-by-country reports. Using this existing EU framework for administrative cooperation for direct taxes as well as for VAT to its full potential and getting the proposal on administrative cooperation in the field of VAT swiftly adopted are therefore crucial.

Unfortunately, the current level of administrative cooperation and exchange of information between tax administrations is **not as effective as it could and should be**. This is evidenced in the Commission reports of December 2017² on the

² REPORT FROM THE COMMISSION TO THE COUNCIL AND THE EUROPEAN PARLIAMENT - Eighth report under Article 12 of Regulation (EEC, Euratom) n° 1553/89 on VAT collection and control procedures, Brussels, 18.12.2017 COM(2017) 780 final

REPORT FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT AND THE COUNCIL on the application of Council Directive (EU) 2011/16/EU on administrative cooperation in the field of direct taxation, Brussels, 18.12.2017 COM(2017) 781 final - {SWD(2017) 462 final}

REPORT FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT AND THE COUNCIL on the operation of the arrangements established by Council Directive 2010/24/EU of 16 March 2010 concerning

functioning of administrative cooperation and mutual assistance in taxation. Yet, a sustained level of cooperation is a matter of common interest, both for the EU and for the Member States. This is all the more important in times where expectations from European citizens and businesses are high for delivering on fair taxation and tackling tax fraud and evasion in a digitalised economy.

This being said, reaping the full benefits of sincere cooperation requires that we collectively address several obstacles, the most important being the insufficient level of trust between Member States and their administrations, that are mainly driven by national approaches. In a common market, it is necessary that tax administrations are confident about the ability of other Member States' administrations to collect and enforce taxes on their behalf, and can rely on the information and support provided by these administrations. Addressing this challenge is key to allow Member States to safeguard and even collect more revenue.

2. Possible ways forward

Two aspects deserve attention when discussing administrative cooperation in tax matters.

First, the **instruments for administrative cooperation in the EU**. Here, we have seen major progress in rationalising tax collection on cross-border transactions (e.g. VAT Mini One Stop Shop) and creating the channels for exchanging information between authorities, both for direct and indirect taxation. However, we are still lacking the means to collectively exploit the massive amount of data exchanged in order to collect and enforce taxes and tackle cross-border fraud and evasion. Generalising joint audits by teams of different nationalities, a more systematic interaction between tax, customs and other governmental and law enforcement bodies, reinforcing EUROFISC whose capacity as an informal structure has reached its limit, and extending it to new domains, are all areas where tax administrations would see merits in investing.

Second, cooperation requires that national administrations have the **capacity** to sustain it and benefit from its advantages. Exchanging information or detecting fraud

mutual assistance for the recovery of claims relating to taxes, duties and other measures, Brussels, 18.12.2017
COM(2017) 778 final - {SWD(2017) 461 final}

and evasion requires **qualified staff and modern IT tools**, specialised knowledge in data and risk analysis and an ability to work with foreign officials on a daily basis. Moreover, the way the individual **administrations function, are equipped and interact with taxpayers** have a direct impact on the quality and results of the cooperation, and on tax revenue as a whole.

Boosting **staff performance and skills**, managing the **digitalisation** of tax administrations, enhancing **IT collaboration** amongst national tax administrations to share knowledge or design together IT systems to reduce costs, **increasing the resources** allocated to common instruments such as **EUROFISC** are only a few topics for possible discussion.

The dialogue of Heads of Tax Administrations that Greece and the Commission are organising in June provides an opportunity for a first strategic discussion on these topics.

3. Questions for discussion:

- What are your views on the state of our administrative cooperation as described above? Do you agree that there is a need to increase the level of trust between our administrations in order to tackle our common challenges? If so, how could this be achieved?
- Do you agree that it is now opportune for the Member States to explore ways to make a qualitative step forward in administrative cooperation and capacity so as to deliver results for the benefit of all?
- What should be the focus of our Heads of Tax Administrations when exploring a common agenda in the areas of administrative cooperation and tax administration?