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**Annex to the**

**Proposal on the Community programme**

**FISCALIS 2013**

**Impact Assessment**

{COM(2006)XXX final}

*This report only commits the Commission's services and does not prejudge the final form of any decision to be taken by the Commission.*

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## Executive Summary

On 6 April 2005, the Commission adopted a Communication on the Community programmes Customs 2013 and Fiscalis 2013 and proposed to insert these two programmes in the Financial Perspectives 2007–2013, while the EMCS project should be financed through the Fiscalis 2013 programme as from 2009. The tax administrations of the Member States will remain the major stakeholders of the Fiscalis 2013 programme. Like the 2007 programme, the 2013 programme will be opened for participation by candidate and potential candidate countries.

Recent developments have shown that European tax administrations have to be prepared to react swiftly to new fraud and trade patterns. Tax administrations also have to develop an appropriate balance between efficiency of controls and limitation of the burdens on taxable persons. In the mid-term evaluation of the Fiscalis 2007 programme, stakeholders have indicated that they consider the objectives of the 2007 programme to be highly relevant for their needs. The main objective of the 2013 programme will remain assisting the European tax administrations to sustain and improve the functioning of the tax systems. The 2013 programme will continue to stimulate cooperation between tax authorities in order to raise revenue, while at the same time decreasing the administrative burden on taxable persons. The 2013 programme will support the introduction of new trans European computerised systems to enhance the secure and reliable exchange of information between tax officials. The 2013 programme will finally continue to reinforce the cooperation network that exists between tax officials.

A first policy option, the stopping of the Fiscalis programme, will have an immediate and devastating effect for the Internal Market in general and for the functioning of the tax systems in particular. A second policy option, setting up the 2013 programme as an extension of the 2007 programme without providing additional resources to support new policy initiatives and/or to reply to changed circumstances, would imply a progressive deterioration of the current situation. Although this option might look satisfactory in the short term, it would soon show its limitations and undesirable effects, as it would not provide tax administrations with sufficient resources to address the forthcoming challenges. A third policy option foresees that the 2013 programme is set up as an extension of the 2007 programme reinforced with additional financial resources to support new policy initiatives on the one hand and to foresee a marginal increase of the budget of all other sub-headers on the other hand. The new policy initiatives which will contribute to a large extent to the development of a fully-fledged electronic tax administration will absorb the largest share of these additional resources. Additional budget is also required to upgrade the trans European IT systems to absorb the expected increase in exchange of information, while a limited share of the additional resources will be used to develop initiatives to support the promotion of knowledge sharing, in the area of e-learning and the dissemination of information.

The 2013 programme as described under option 3 has a forecasted budget of 156,9 MLN EUR and lasts for six years.

## 1. BACKGROUND

With the completion of the internal market and the removal of border controls for tax purposes inside the Community from 1 January 1993 onwards, European tax control systems had to be improved and integrated into domestic control systems. Taking into account the more international trading patterns where trade (and fraud) patterns were less and less limited to the territory of a single Member State, more and better cross-border cooperation by the tax administrations became a necessary feature of tax work.

Under the VAT rules applicable since 1 January 1993, the intra-community supplies of goods between taxable persons are **exempt** from VAT in the Member State of departure and taxed in the Member State of destination, the acquirer of the goods being liable to pay the tax. The annual value of goods circulating within the Community without VAT is at present more than EUR 1 500 000 million. Since **goods circulate** between Member States **without being taxed** and since national tax authorities do not any longer receive information about the flow of goods into their territory from the Customs controls, this system may encourage fraud unless authorities cooperate to **substitute the information** received earlier from Customs. Therefore, **computerised systems** have been built with the support of the Fiscalis programme<sup>1</sup> to organise this exchange of information.

The taxation work has evolved from being limited to **control within** a Member State before the internal market **to cooperation** between Member States after the establishment of the internal market. Since 1993 Member States electronically consult information through the **VAT Information Exchange System (VIES)** underpinned by agreements on working methods and confidence building measures. It allows in each Member State the consultation of information for the identification of VAT taxable persons and the intra-Community acquisitions and supplies of goods. **As from 2000** pragmatic improvements in the VAT system aim to **simplify** and **modernise** VAT arrangements, standardise their implementation and ensure **closer administrative cooperation** to fight fraud. In October 2003, the Council adopted Regulation<sup>2</sup> 1798/2003 which laid down clear and binding rules to facilitate this information exchange in the field of value added tax. An implementing Commission Regulation was adopted in October 2004.<sup>3</sup> Recently, a feasibility study has been released on the modernisation of the VIES system and on its adaptations to the legal changes in the VAT area.

The flows of **excise goods** under excise duty suspension arrangements within the internal market are currently being controlled through the Early Warning System for Excise (EWSE) for pre-departure notifications and the Movement Verification System (MVS) for a posteriori checks. The development of a more advanced system, the Excise Movement Control System (EMCS)<sup>4</sup> is currently under way and will

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<sup>1</sup> The wording Fiscalis programme refers to the Fiscalis programme as such regardless whether it was Fiscalis 2002, 2007 or 2013. If we refer to a particular programme, we refer to it as 2007 programme or 2013 programme.

<sup>2</sup> Regulation 1798/2003 of 7 October 2003.

<sup>3</sup> Regulation 1925/2004 of 29 October 2004.

<sup>4</sup> COM(2003) 1152 of 16 June 2003.

improve the functioning of the internal market by simplifying the intra-Community movement of excise goods. Member States will also have the possibility of monitoring the flows in real time and of carrying out the requisite checks only where necessary.

In the area of **direct taxation**, cooperation between the Member States tax administrations needs to be strengthened, especially with regard to the national implementing measures of legislation as the number of Court cases has increased in recent years. In recent years, direct taxes have also seen a growing need for exchange of information to combat tax fraud, not only between Member States but also with third countries, including the so-called cooperative tax havens.

The major challenge facing the **European Union** over the next years is to realise **growth and jobs**, as laid down in the re-launch of the Lisbon partnership<sup>5</sup>. The 2013 programme will actively contribute to the realisation of this partnership by further improving cooperation between tax administrations. The 2013 programme will continue to support the trans European secure IT systems that are essential to exchange information between fiscal administrations. It will ensure that Member States **learn from one another** rather than building up expertise from scratch. It will have a **built-in flexibility** to allow Member States to develop a **tailor-made** action plan to answer their particular needs as well as their obligations at European level.

## 2. PROCEDURAL ISSUES AND CONSULTATION OF THIRD PARTIES

On 6 April 2005, the Commission adopted a Communication<sup>6</sup> on the Community programmes Customs 2013 and Fiscalis 2013 and proposed to insert these two programmes in the Financial Perspectives 2007–2013, while the EMCS project should be financed through the Fiscalis 2013 programme as from 2009<sup>7</sup>.

The **tax administrations** of the Member States will remain the **major stakeholders** of the Fiscalis 2013 programme. Like the 2007 programme, the 2013 programme will be **opened for** participation by **candidate and potential candidate countries** to improve the functioning and efficiency of their tax administrations. . At present Bulgaria, Romania and Turkey are actively participating in the 2007 programme and a number of activities are specifically targeting their needs. As for Croatia, the procedure for establishing the conditions for participating in the 2007 programme is in progress. . The Fiscalis programme will organise activities for and with administrations of **third countries**, representatives of **international organisations** and **taxable persons or their organisations** for those initiatives that directly concern them.

The **mid-term evaluation**<sup>8</sup> has been completed in 2005 and has recorded overall satisfaction with the 2007 programme. Stakeholders consider the Fiscalis programme highly relevant to the Participating Countries' needs and agreed that the Fiscalis programme helps to bring about better cooperation and confidence building between

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<sup>5</sup> COM(2005) 330 of 20 July 2005 and SEC (2005)622/3 of 2 May 2005.

<sup>6</sup> COM (2005) 111 of 06 April 2005 and SEC (2005) 423.

<sup>7</sup> The successor programmes will run from 1 January 2008 to 31 December 2013.

<sup>8</sup> SEC(2005)1045 of 29 July 2005

their administrations and officials<sup>9</sup>. Participating Countries appreciated in particular the flexibility offered by the programme and want this to be maintained in the future. They also emphasised that the programme has a key role in supporting Participating Countries to learn from each other and as such allow them to avoid costly mistakes. The mid term evaluation recommended reinforcing activities in the area of training and dissemination of information. All Participating Countries participated in the mid-term evaluation e-survey, while case study visits were conducted in five of them. During these visits, in-depth interviews have been organised with coordinators of the programme, users of the IT systems, participants in events, the hierarchy of the tax administration as well as taxable persons. Participants in programme events are regularly asked for feedback as part of a built-in **monitoring system** for the 2007 programme. This will also be the case in the 2013 programme.

**Participating Countries** have also been involved from an early stage in the **preparation of the impact assessment** for the 2013 programme and had the opportunity to participate in a **project group** established for this purpose.

While the fiscal administrations have the primary responsibility for making their tax system function smoothly, the actions developed under the Fiscalis programme underpin the European dimension of tax work. The Community role is essential to coordinate actions and to create benefits of scale. This is in line with the principle of subsidiarity as set out in Article 5 of the Treaty, since the objectives laid down in this Decision can be better achieved at Community level. In accordance with the principle of proportionality as set out in that Article, this Decision will confine itself to the minimum required in order to achieve those objectives and will not go beyond what is necessary for that purpose

### **3. WHAT PROBLEMS ARE THE SUCCESSOR PROGRAMMES EXPECTED TO TACKLE?**

Recent developments have shown that European tax administrations have to be prepared to react swiftly to new fraud and trade patterns. Tax administrations also have to develop an appropriate balance between efficiency of controls and limitation of the burdens on taxable persons.

#### **3.1 Knowledge of Community tax Law**

The Sixth VAT Directive, the Eight and Thirteenth Directives are the most important Directives in the field of indirect taxation. A harmonised application of the Community VAT rules in all 25 Member States is necessary to ensure the proper functioning of the Internal Market. The Fiscalis programme contributes to the correct application of the Community VAT acquis by Member States, to the extent that it provides a forum for national tax administrations to discuss the practical problems they encounter in applying these rules.

In the direct taxation field there are only a few Directives at EU level which regulate certain cross-border transactions or operations within a group of associated companies. Although these Directives are limited in number, their technical

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<sup>9</sup> Commission Staff working paper, mid-term evaluation of the Fiscalis 2007 programme. SEC(2005)1045 of 29 July 2005, page 2-3.



complexity can give rise to a divergent and inconsistent interpretation and application in Member States which can contribute to an ineffective functioning of the Internal Market. It is therefore important to promote a common understanding of these rules.

In the absence of further measures at Community level, direct taxation falls essentially within the competence of Member States and the conventions concluded between them in order to avoid double taxation. In the exercise of this competence, Member States must however respect the basic principles laid down in the EC Treaty. Restrictions on the exercise of the Treaty freedoms are only allowed if there is a proper justification and if they are proportionate to the aim sought. Because of these principles, the impact of decisions of the European Court of Justice (ECJ) is significant and it is increasing all the time in the field of direct taxation. In incorporating the decisions of the ECJ in their tax systems, Member States must make sure that such measures do not create new distortions which affect the proper functioning of the Internal Market. This requires a common understanding of Community law and of the decisions of the ECJ in the field of direct taxation.

### 3.2 Tax fraud and illegitimate trade

It is estimated that the amounts evaded through tax fraud are significant in comparison with the economic activity. In the report of the COCOBU<sup>10</sup> on the protection of the financial interests of the EU<sup>11</sup> the overall amount of excise fraud in Member States was estimated at 922 million EUR and explicitly mentioned cigarette smuggling. Other sources report, for 1996 alone, that tobacco and alcohol fraud was responsible for an estimated €4,8 billion in lost revenue<sup>12</sup>. Within the excise field the internal market is being characterised mainly by two types of frauds. One is when citizens are abusing their basic freedom to purchase excise goods tax-inclusive in a low-rate Member State but do not use them for personal purposes, using them instead for commercial benefit elsewhere. The other type of excise fraud is when fraudsters operate with untaxed goods, for instance illegal production, smuggling and diversion of excise goods from duty-suspended intra-Community movements. Member States reported in a VAT fraud investigation survey<sup>13</sup> organised by the Commission in 2002 that losses ranged from 35.000 to 400.000.000 per case with many in the range of 5.000.000 and 25.000.000 EUR. Some Member States place VAT fraud at up to 10% of Member States' net VAT receipts, while the overall level of fraud for VAT and excise may be close to 1% of GNP.

Abusers of the global financial system use **weaknesses in cross border cooperation** and information exchange. Despite some recent successes in the fight against carousel fraud, this type of **fraud becomes more sophisticated** involving many companies in many (more than 2) Member States. Since buffer companies are frequently used to hide the fraud, the exchange of information between tax administrations becomes even more crucial. Also complex and opaque corporate

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<sup>10</sup> Budgetary Control Committee of the European Parliament

<sup>11</sup> MEP Bösch report adopted by COCOBU on 09/05/2005

<sup>12</sup> To the Director Generals for Customs and Indirect Taxation of the High level group on fraud in the alcohol and tobacco sector.

<sup>13</sup> SCAC Document 364/2003. Report on Carousel and Acquisition Fraud – Result of Member State reporting.

vehicles set up in an increasing number of jurisdictions are used for tax evasion schemes. With the support of the Fiscalis programme, standard forms have been developed to organise the exchange of information, but numerous contacts have revealed that **not all officials concerned are yet familiar** with the forms. In this respect, there is room to improve the **information spreading** at all levels of the tax administrations.

The **consequences of fraud** are multiple and range from loss of national revenue, jeopardising legitimate trade to causing distortion of competition to the benefit of dishonest traders. The proliferation of tax fraud, in particular in the field of VAT, has reached worrying proportions and as such the fight against fraud is a real concern for Member States and the Commission. On several occasions Member States have emphasised the importance to make a priority of the fight against fraud and especially the importance to enhance administrative cooperation<sup>14</sup>.

### 3.3 Administrative burden on tax payers

Experience has shown that for optimal effectiveness, it is not sufficient to ask national authorities to have common rules, rather it is imperative to ensure that national authorities apply the common rules in a harmonised way. In the enlarged Community of 25 Member States, taxable persons do not yet benefit from the **same level of service** and a **common administrative culture** in each administration. **Mismatches in tax rules** between Member States are a regular source of complaints, whereas taxable persons have indicated on several occasions the need to **avoid inappropriate accounting** of VAT and direct taxes for taxable persons.

The **European Tax Survey**<sup>15</sup> of 700 companies highlights the importance of taxation for a very broad range of operations of companies in the internal market. The data indicate that **compliance costs increase when EU companies undertake cross-border activity in the EU**, these costs being larger for SMEs than for large companies, respectively 30,9% and 1,9% of taxes and 2,6% and 0,02% of sales. In the VAT area, companies mention also repayment and refund requirements as a major difficulty, even to the extent that an estimated 53,5% of large companies have not requested refunding at some point. Finally the study highlights that taxation is a relevant factor for the location of a production plant, coordination centres or financial service centre, while taxation also proves to be a serious issue for mergers and acquisitions. Without doubt, there is room to reduce the administrative burden on taxable persons.

Inefficient application of the VAT legislation and controls has a direct impact on the **revenue of Member States**. There is also a direct relation between VAT base and the relative weight of the fourth (own) resource (GNI) of the **EU**. If VAT is not collected effectively, the Member States' exchequer is therefore hit twice.

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<sup>14</sup> Report of the Ad hoc Working Party on tax fraud and Fight against tax fraud, COREPER/ECOFIN Council – FISC 67, CRIMORG 83.

<sup>15</sup> A study of Rotterdam university estimates the compliance costs (VAT and statistical requirements) of Intra Community transactions of VAT liable firms in the Netherlands to be on average 5 percent of the value of their Intra Community trade, Verwaal E. and Cnossen S., Europe's new border taxes, Journal of Common Market Studies (2002) 40 n° 2, pp. 309-330.

Cumbersome tax procedures or lack of information may eventually have an impact on **trade creation**. Taxable persons making supplies to a taxable person in another Member State should for instance be able to **check** quickly and easily that the customer in the other Member State holds a valid **VAT identification number**.

### 3.4 Changing tax environment

The **e-economy** challenges the **tax administrations** in a twofold way. Working methods need to be adapted as businesses increasingly use electronic media to transmit and store accounting data (for instance orders, delivery notes, invoices, accounts), whereas the **tax system** needs to be adapted to the evolution of the electronic commerce, which is a global issue to be considered from an international perspective (for instance VAT collection for services supplied from outside the internal market).

All tax authorities currently have access to a European wide secure network (CCN CSI<sup>16</sup>). This system allows the interconnectivity of CCN/CSI sites across the European Union while the interoperability is ensured by the CSI which is a set of protocols and application programming interfaces. Upgrades and improvements of the CCN/CSI periodically need to be done to adapt to the changing IT and legal environment as well as challenges linked to the accession of candidate countries

## 4. WHAT ARE THE MAIN OBJECTIVES THE NEW PROGRAMME IS EXPECTED TO ACHIEVE?

In the mid-term evaluation of the Fiscalis 2007 programme, stakeholders have indicated that they consider the objectives of the 2007 programme to be highly relevant for their needs. The aim of the 2007 programme is to support tax administrations in raising revenue while, at the same time, eliminating tax obstacles to the smooth functioning of the Internal Market and reducing the administrative burden. The main objective of the 2013 programme will remain assisting the European tax administrations to sustain and improve the functioning of the tax systems. The 2013 programme will continue to stimulate cooperation between tax authorities in order to raise revenue, while at the same time decreasing the administrative burden<sup>17</sup> on taxable persons. The 2013 programme will support the introduction of new trans European computerised systems to enhance the secure and reliable exchange of information between tax officials. The 2013 programme will finally continue to reinforce the cooperation network that exists between officials who are involved in the implementation of the policy measures described in this chapter.

### 4.1. Increase knowledge of Community tax law

The 2013 programme will provide a forum for discussion and exchange of information for staff involved in the practical application of the various provisions of

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<sup>16</sup> CCN/CSI = Common Communication Network, Common Secure Interface

<sup>17</sup> Communication of the Commission on the contribution of Taxation and Customs policies to the Lisbon Strategy. COM(2005)532 of 25 October 2005.

the Community VAT rules, based mainly on the Sixth VAT Directive, the Eight and Thirteenth Directives.

The 2013 programme will organise activities to enhance common understanding of the contents of the Directives in the field of direct taxation and as such support a comprehensive and consistent implementation and application of these Directives. This common understanding will also assist Member States to respond effectively to a steadily increasing case-law from the European Court of Justice (ECJ) interpreting how the principles of the EU Treaty apply in the field of direct taxation. The coherent adoption of principles defined by the ECJ into the different taxation systems of all Member States is best achieved by co-ordination and co-operation at Community level. The 2013 programme will also organise activities to raise awareness of Community Law relevant to the field of direct taxation and the need for a co-ordinated application of the existing Directives and the decisions of the ECJ.

## **4.2. Enhance the detection of and the fight against tax fraud and illegitimate trade**

### *4.2.1 Strengthen administrative cooperation and mutual assistance*

A **new legal framework** adopted in October 2003<sup>18</sup> laid down **clear and binding rules** to facilitate **information exchange** between tax administrations, for instance how to make a request for information, how and when to reply, how to handle information exchanges with third countries. These rules enable Member States to go further than mere information exchange allowing them to ask another tax administration to notify on its behalf a decision to one of its taxable persons established on the territory of this other Member State. The new legal framework makes it also possible to make a specific request for an audit or to ask for sending a tax auditor to another Member State and participate in an audit. Those new tools have proved to be very useful in situations where a taxable person is not established within the territory of the country and does not have any tax representative in this country or in situations where a company has all its accounting documents in another country than its own.

The exchange of information is not limited to VAT, but extended to excise<sup>19</sup> and direct taxation. In the mid-term evaluation report of the Fiscalis programme, officials especially expressed their gratitude about the support of Fiscalis for the activities of the networks of VAT Central Liaison offices (CLO)<sup>20</sup> and Excise Liaison Offices (ELO)<sup>21</sup>. In the near future a similar network will as well be established for Direct Taxation (DLO network).

This new legal framework also **stimulates the spontaneous and automatic exchange of information** in particular for cases which entail a higher risk of fraud or tax evasion like distance selling and new means of transport for private individuals. The regulation obliges Member States to exchange information in all cases where this could help other Member States in detecting and combating fraud. The precise

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<sup>18</sup> EC Regulation 1789 (2003) of 7 October 2003

<sup>19</sup> EC Regulation 2073/2004 of 16 November 2004.

<sup>20</sup> One CLO per Member State is responsible for the administrative cooperation in the field of VAT.

<sup>21</sup> One ECLO per Member State is responsible for the administrative cooperation in the field of excise duties.

categories of information and how to exchange the information have been defined in an implementing regulation<sup>22</sup>.

**Incorporating** these rules into the **business processes** and **daily working practice** of the officials at all levels of the 25 tax administrations is a major challenge for Member State administrations. In this respect, the new regulation has set a major step forward by providing the possibility to grant "competent authority" status to a regional office, a specialised operational service or an individual tax inspector. Before only the Central Liaison Offices (CLOs) had the authorisation to exchange information. This change should make cooperation faster and more effective and should speed up the exchange of information.

An important tool in the fight against fraud will be the systematic **intelligence gathering and sharing** across the border as well as within all levels in Member States (local versus central level). Intelligence gathering should ideally be extended to third countries.

#### 4.2.2 *Improve the organisation of tax controls*

Mutual assistance should become a routine instrument of **tax control**. Substantial efforts are still needed to make auditors aware of the importance of mutual assistance in tax control and **to incorporate culture of cooperation** at every level of the tax administrations. More intensive training of auditors in Community tax law and other Member States' rules and practices is needed.

A list of **good practices**<sup>23</sup> in tax control has already been drawn up and Member States which have gone down this road, are already recording considerable successes for instance in the field of missing trader fraud. However, considerable improvements can still be made. Selection methods used for risk analysis may be optimised further based on principles common to various Member States. A common risk analysis model might be built into the VAT control systems of all Member States focusing controls on high risk operators or sectors.

In its fifth **Article 12**<sup>24</sup> **report**, the Commission identifies a number of deficiencies preventing an efficient tax control. Control powers are not the same in all Member States, for instance the rules for entering the premises of a taxable person unannounced or seeking information from employees on the taxable person. In addition, few administrations have direct access to financial information (banks) while electronic submission of declaration is not yet generalised. Not all Member States have yet a VAT control programme and the Member States have each an individual set of risk analysis indicators for the selection procedure.

There is no discussion that **computerised systems** are essential to help tax administrations deal with **large volumes** of information gathered during a control. This implies that administrations should ensure that all auditors have **basic computer skills** rather than having specialised computer auditors. The level of

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<sup>22</sup> EC Regulation 1925 (2004) of 29 October 2004

<sup>23</sup> Good practices guide for tackling missing trader fraud of 28/08/2003.

<sup>24</sup> Fifth report under article 12 of Regulation 1553/89 on VAT collection and control procedures. COMMISSION 2004/855 of 10 January 2005.

computerisation of the 25 administrations, tools as well as the procedure for their use, still varies widely and is a hindrance for improved cooperation.

Moreover, there is wide variety in **recovery** practices between Member States. In this area the improvement of information sharing on recovery performance indicators is needed. Some administrations have made a priority of reduction of **compliance costs** for taxable persons. For instance, the administration obtained from a company a significant right to examine business computer systems and extract control information in return for relative freedom from compliance costs for the enterprise.

The conclusions of the Article 12 report are to a large extent also applicable in the other tax areas, excise duties and direct taxation.

#### **4.3. Decrease the administrative burden on taxable persons**

Tax administrations should look for an **optimal balance between controls and limiting burden on taxable persons**. On several occasions, traders have emphasised the need for **harmonised implementation of tax legislation** within the 25 Member States. In that respect, the smooth functioning of the Internal Market requires that the tax legislation is applied in the same way by all tax administrations. The electronic Inventory of Taxes will provide administrations and taxable persons with comparable descriptions of all taxes levied in the Member States and should become an important instrument for the harmonised implementation of tax legislation.

The introduction of **VIES on the web** has reduced burdens on the administrations as they are now contacted less frequently by companies that need information on a VAT number and on the other hand allows taxable persons to check if a customer holds a valid VAT identification number. VIES on the web was consulted between 30.000 and 70.000 times per day in the first half of 2005. The Fiscalis 2007 mid-term evaluation has demonstrated that VIES on the web is actively used by traders and that the information provided is widely appreciated.

The functioning of the internal market will also be supported by a further **simplification of the Community tax law**. An envisaged simplification concerns allowing a trader to fulfil all his VAT obligations for Intra-Community trade activities in the Member State where he is established (**One-stop shop scheme**). The simplification means that taxpayers no longer need to be identified for VAT in every Member State where they make supplies and therefore no longer need to manage 25 different VAT numbers. Simplifications are also foreseen in the area of company taxation. The ongoing work on creating a Common Consolidated Corporate Tax Base would provide major reductions of the administrative burden on taxable persons doing business in several Member States. Two other examples of existing simplification are the abolition of the obligatory fiscal representative<sup>25</sup> and the rules concerning invoicing<sup>26</sup>. The Commission has also introduced proposals, awaiting

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<sup>25</sup> Council Directive 2000/65/EC of 17 October 2000

<sup>26</sup> Council Directive 2001/115/EC of 20 December 2001

adoption, concerning the supply of services<sup>27</sup>, the One-stop shop<sup>28</sup> and the business to consumer services<sup>29</sup> to further simplify the situation of the taxable person.

#### 4.4. Adapt to the changing tax environment

Tax administrations will have to modernise their **working** and **control methods** to follow the evolution of the e-economy. This includes changes to the law to permit computer files to be used for control purposes (national law) and acquiring the requisite hardware, software, training for staff, establishing of procedures and working methods.

Also **tax systems** will have to be adapted to the electronic evolution, taking into account the international dimension, which will require changes in the legal framework.

An electronic tax administration should provide a **better service to the taxable person** and lower his compliance costs. The Excise Movement Control System (EMCS) will provide Member States with real time information about consignments underway, enabling them to include checks and inspections in their planning. The audit automation techniques will allow faster and more complete audits that will be less time consuming for the taxable persons.

#### 4.5 Build a secure trans European computerised system for the tax authorities

The tax authorities of the Member States have to be able to communicate in a secure and fast way with each other. Information common to all tax administrations needs to be exchanged through a common platform, while tax authorities need facilities to exchange real time information for instance on fraud. Taxable persons should continue to have access to some of these systems while it might be appropriate to make them accessible to third countries as well.

Tax administrations will continue to develop and modernise the trans-European computerised systems which underpin the implementation of tax policy. The CCN network currently interconnects national taxation and customs administrations from the EU Member States, Bulgaria and Romania and ensures the linkage of all national information systems. The CCN network has 39 sites throughout 27 national tax administrations which are all operating their own unique IT systems, thereby creating a significant and complex interconnectivity and interoperability link in Europe.

The CCN network became operational in 1999. **One of the most striking factors currently is the rapid growth of the number of messages handled by CCN every year for taxation purposes.** It is expected<sup>30</sup> that the **number of messages** handled through the secure network between tax administrations will **multiply** rapidly until 2013 and increase from 105 million per year in 2006 to 581 million in 2013. While at present VIES represents almost the totality of messages exchanged for taxation purposes through the CCN network, excise messages will be exchanged as from

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<sup>27</sup> COM (2003) 822 final

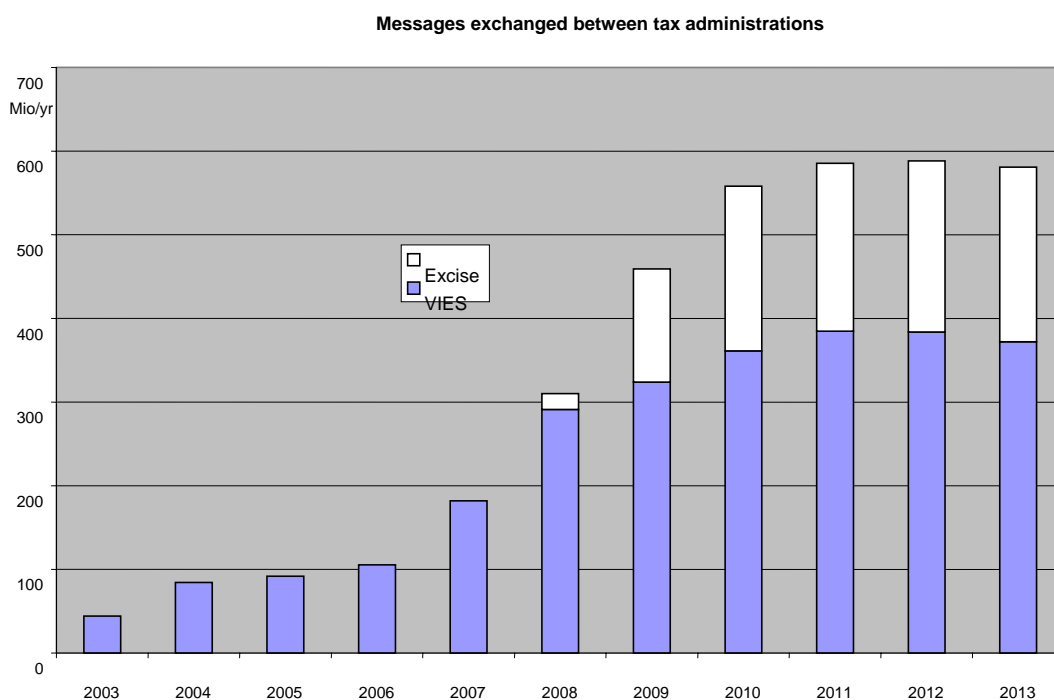
<sup>28</sup> COM (2004) 728

<sup>29</sup> COM (2005) 334

<sup>30</sup> Figures taken from a "2013 IT perspective " analysis by DG TAXUD.

2008 with the entry into operation of EMCS. In the next years, for an increasing number of these CCN messages, a real time link will also exist between the information exchanged and the movement of consignments, which makes it of utmost importance that the network is operational 24 hours a day, 365 days a year.

Graph 1 illustrates the evolution of the number of messages since 2003 and the forecast till the end of the programme.



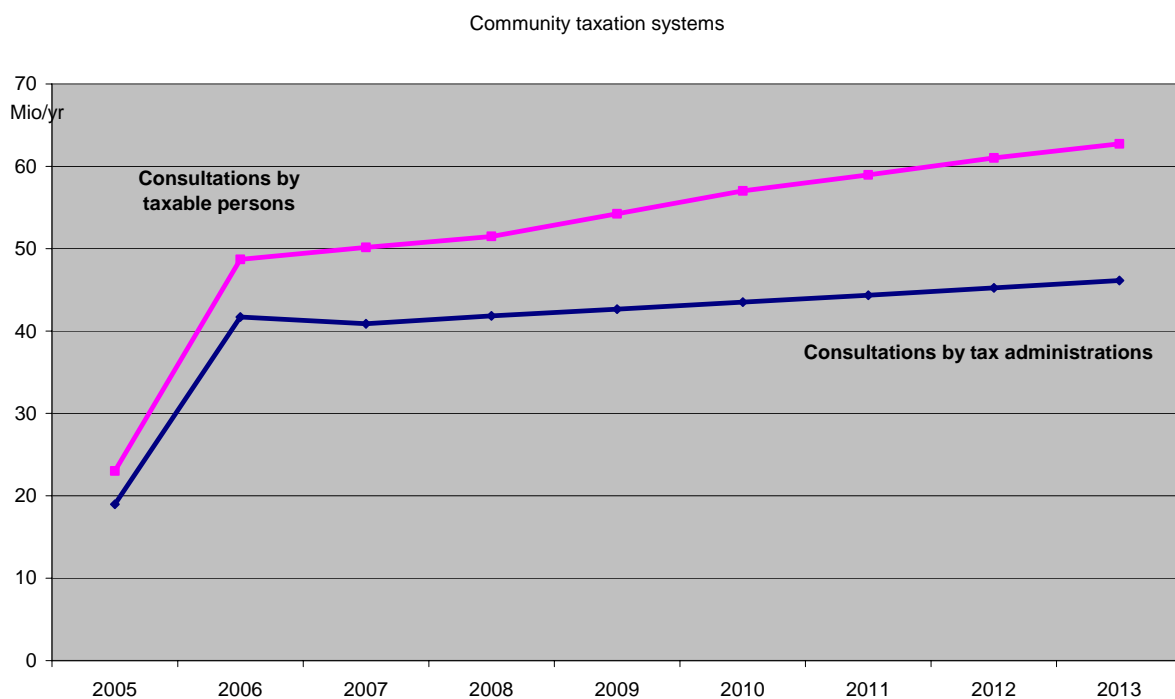
**Graph 1:** Exchange of Information between tax administrations. Number of messages with information exchanged per year

Effective implementation of tax policy also requires transparent and effective information dissemination to tax administrations and taxable persons. Member State administrations and taxable persons can consult information via the internet. It is estimated that the consultation of online information by taxable persons will increase from 23 million in 2005 to 55 million in 2013. The consultations by administrations are expected to rise from 25 million in 2005 to 100 million in 2013. The growth will be mainly fuelled by the start up of the electronic customs, which will very likely create a surge in the traffic on the VIES system as VAT numbers are likely to be used as reference number in the electronic customs project.

Increasing exchanges also originate from the CCN Mail system currently available in the 25 Member States. The CCN Mail system has been established at the end of 2001 and replaces the exchanges of information by paper, fax or non-secure email. The CCN Mail system allows a speedy and standardized exchange of forms in the secured CCN environment. It is used for administrative as well as anti-fraud purposes throughout the Community. CCN Mail is used in various areas: VAT, excise, recovery and e-Commerce.



Graph 2 illustrates the evolution of on line consultations DDS and the forecast till the end of the programme.



**Graph 2:** Consultation of online tax information by taxable persons and administrations. Number of consultations per year

Annex 2 provides an overview of the trans European computerised systems that is developed through the programme.

#### 4.6. Establish cooperation with tax administrations from third countries

Tax fraud has an increasing extension outside the territory of the EU. Consequently, the exchange of information on fraud mechanisms<sup>31</sup> with administrations across the border of the EU will have to be organised. Special attention is needed to promote exchange of information with financial centres and the so-called cooperative tax havens based on the OECD's model agreement for exchange of tax information.

#### 4.7 Future challenges

Undoubtedly, tax administrations will be confronted with a number of challenges in the next years like:

- The Common consolidated tax base (Company Taxation) providing a framework for the proper understanding and implementation of the Common Consolidated Corporate Tax Base, which is currently in the preparatory stage

<sup>31</sup> In line with the Communication on "preventing and combating corporate and financial malpractice", COM(2004)611 of 27 September 2004.

- New trends in tax fraud like complex corporate structures and tax fraud which make knowledge sharing and awareness raising imperative
- The follow up and updating of best practices developed during activities that were supported by previous Fiscalis programmes
- The revision of the invoicing directive in 2008
- Supporting the preparation of possible bilateral or multilateral agreements among Member States concerning Home State Taxation<sup>32</sup>
- Improving cooperation with non-tax governmental bodies
- The further enlargement of the European Union
- Improving transparency and exchange of information with third countries
- Any political initiative in the tax area taken at European level

## **5. WHAT ARE THE MAIN POLICY OPTIONS AVAILABLE TO REACH THE OBJECTIVE?**

On the basis of the problem analysis and the objectives set out above, three policy options have been identified:

- Option 1 : No Community Instrument: stop the Fiscalis programme
- Option 2 : Community instrument – Fiscalis 2013 programme: continue the 2007 programme without providing means to support new policy initiatives and to reply to changed circumstances
- Option 3 : Community instrument – Fiscalis 2013 programme: extend the 2007 programme and provide means to support new policy initiatives and to reply to changed circumstances

## **6. WHAT POSITIVE AND NEGATIVE IMPACTS ARE EXPECTED FROM THE OPTIONS SELECTED?**

### **6.1. Option 1: No Community instrument: stop the Fiscalis programme**

The stopping of the Fiscalis programme will have an immediate and devastating effect for the Internal Market in general and for the functioning of the tax systems in particular. From one day to another, all centrally coordinated information channels between the tax administrations of the Member States will disappear. A complete stop of the trans-European computerised networks already in use in the fiscal area would be a step back into the old paper procedure. The electronic exchange of information through the VAT Information Exchange System (VIES) would not be possible anymore. Intra-Community trade would become completely disorganised while the risk of major fraud would increase immediately. Candidate countries, the

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<sup>32</sup> COM(2005)507 final

Western Balkans and the partner countries of the European Neighbourhood Policy will also no longer benefit from experience shared by the Member States. The scenario described under option 1 would have a major negative impact on the amount of tax collected by the administrations. Although precise figures of the losses are not available, it would undoubtedly be in the order of billions of EUR. The following paragraphs describe in more detail the impact of stopping the Fiscalis programme.

#### *6.1.1. Consequences for the secure network between Member States*

Stopping the Fiscalis programme implies that the Communication Network (CCN/CSI) will be switched off. Since CCN/CSI is the backbone for the exchange of information between tax administrations, switching off the network will profoundly affect each national tax administration as well as the Commission services. As all electronically exchanged data will become unavailable, switching of the network will have a profound impact on tax control.

To compensate for this situation, the Commission and the Member States will have to incur high administrative and human costs without the guarantee that the same level of security and performance will be available as when the CCN/CSI network was functioning.

Other Commission services and corresponding organisations in Member States will equally be affected. Stopping the CCN network will deeply affect the fight against fraud activities, as most Member States use the CCN network to implement the communication systems of the European Anti-Fraud Office (OLAF).

#### *6.1.2 Impact on the common information basis*

Tax officials would no longer have access to a common information basis when the Fiscalis programme is stopped. The next paragraphs describe what would happen if the exchange of information systems would no longer be available.

##### *6.1.2.1 VAT Information Exchange System (VIES)*

**Without the VIES system** Member States would not have the opportunity to exchange information electronically on the VAT acquisitions on intra-Community transactions between domestic and outside traders. VIES allows Member States to detect mismatches in the information on the VAT acquisitions on intra-Community transactions and therefore most administrations have integrated VIES into their national control systems. This means that VIES data are used systematically when a VAT control is performed allowing to compare data supplied by national traders with data provided by their partners in other Member States. Recently, it became possible for companies to build in automated requests to integrate the VAT validity check in their IT systems.

If Member States would not have the VIES system at their disposal, each of them would have to set up a specific department to collect from and provide to other Member States the VAT information. These departments would have to communicate by fax or email and each of them would have to set up a repository with the collected information. Very likely these repositories would have all their particularities which will hamper a possible merger in the future. Without doubt, there would be severe delays in obtaining information from other Member States. It

would take more time and personnel to perform a tax control than when the VIES system would be available, as all information would have to be gathered by hand and risk analysis would be far less accurate.

In the mid term evaluation, tax administrations are unanimous, VIES is an indispensable instrument for the smooth functioning of tax administrations and systems.

#### 6.1.2.2 Excise Systems

If the **Excise Movement Control System (EMCS)** would not exist, excise officials would not be able to transmit electronically the documents accompanying products under excise duty suspension arrangements, and as such it would no longer be possible to monitor the flows of these goods in real time and to carry out risk based checks to inhibit fraudulent movements of these goods.

Without the 2013 programme, public services responsible for monitoring individual movements of excisable goods would no longer be ensured to have access to the information of the Movement Verification System for Excise (MVSE) or be able to exchange information or warning messages through the Early Warning System for Excise (EWSE). The detection of fraud cases or fraud patterns in the excise area which relies on information from these systems would get a major setback, obliging Member States to set up more robust national risk analysis procedures.

The contribution of the above three information exchange systems – EMCS, MVS and EWSE – in the correct functioning of the Internal Market, the facilitation of trade and the fight against fraud are of paramount importance. In the legal decision<sup>33</sup> establishing the computerised EMCS, the need is recognised to improve these current systems before the EMCS is operational, thus affording Member States the possibility of monitoring the flows in real time and of carrying out the requisite checks where necessary.

#### 6.1.3. *Loss of impetus for knowledge sharing between tax administrations*

The Fiscalis programme has established structures to share knowledge and experiences between tax officials in an organised way. Thanks to these structures, the Fiscalis programme has become **a reference for cooperation in the area of cooperation between tax systems of the European Union**. The Fiscalis programme supports a **wide range of activities**:

- sharing working practices such as procedures for risk analysis
- spreading expertise, for instance on carousel fraud schemes
- support the implementation of a new legislative act like the e-invoicing directive in 2003
- preparation of legislative initiatives through a consultation of the stakeholders

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<sup>33</sup> OJ L 162, 1.7.2003, p.5 (COM/1152/2003)

- establish instruments required for the exchange of information
- capacity building within administration, for instance e-audit
- train officials on how to use the Trans European IT systems

The programme has a **built in flexibility** which gives Member State administrations the opportunity to develop a **tailor-made reply** to their particular needs. For this purpose each administration has a Fiscalis programme contact point which assists the Commission with the implementation of the Fiscalis programme. In the mid-term evaluation, stakeholders have referred to **added values** like:

- The creation of a **network** that facilitates contact taking and therefore solution building at working level,
- The programme has contributed to **confidence building** between administrations,
- The programme motivates countries that have an advantage in a particular area to further develop their expertise to **maintain** their expert and **leading position** and further train the others,
- The programme prevents from making costly mistakes, **to save time and resources** by learning from experiences of others,
- The programme contributes to establishing **links** between different tax initiatives,
- The programme makes officials aware there is a **European dimension to their work**.

Without the 2013 programme, it will not be possible to organise the **information and knowledge sharing** between all tax administrations and in all tax policy areas in a systematic way. If the Fiscalis programme is stopped, the established structures and contacts will fall apart as the binding force between them will fall away. Tax administrations may as consequence become more inward looking rather than promote knowledge sharing and learning from each other.

## 6.2 **Option 2: Community instrument – Fiscalis 2013 programme: continue the 2007 programme without providing means to support new policy initiatives and/or to reply to changed circumstances**

Setting up the 2013 programme as an extension of the 2007 programme without providing additional resources<sup>34</sup> to support new policy initiatives and/or to reply to changed circumstances, would imply a progressive deterioration of the current situation. Although this option might look satisfactory in the short term, it would soon show its limitations and undesirable effects, as it would not provide tax administrations with sufficient resources to address the objectives enumerated in chapter 4.

In the next decade, tax administrations will have to take new policy initiatives to counter fraudsters that are exploring new ways of fraud and take new technological

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<sup>34</sup> In this option the budget is frozen at 2007 level.

developments into account. The trans European networks will need to cope with increasing volumes of information to be treated on a daily basis as well be able to absorb the extra needs related to the new political initiatives. Continuing the Fiscalis programme without any scope for replying to these evolutions will even fail to preserve the current situation. The most visible consequence would be the overloaded information infrastructure. These blockages would become synonymous for stepping back in time, reducing security, losing the fight against fraudsters and not creating an optimal reduction of the burden on taxable persons.

The following paragraphs describe consequences if the Fiscalis programme is rolled out as described under option 2.

#### 6.2.1 *Less stimulation for increased knowledge of Community law*

The 2013 programme would not be able to provide satisfactory support for activities aiming to raise awareness of tax officials concerning Community tax Law and to contribute to a co-ordinated application of the existing Community law and the decisions of the ECJ. The 2007 programme is regularly organising activities to provide tax administrations of the Member States a forum for discussion and exchange of information concerning the practical application of the various provisions of the Community VAT, excise and direct taxation rules. These activities enhance the common understanding and the straightforward and harmonised application of these provisions in all 25 Member States.

Increasing knowledge of the Community fiscal law is a key challenge from an accession perspective. Deficiency and weaknesses in the implementation of the fiscal acquis would seriously hamper the smooth functioning of the Internal Market.

#### 6.2.2. *Endanger the fight against fraud*

##### 6.2.2.1 Weaken administrative cooperation and recovery assistance

The 2013 programme would provide more limited support to Member States to **integrate** the new **administrative cooperation framework into the daily control practice** at all levels of the tax administration. The mid-term evaluation of the 2007 programme nevertheless has shown that **confidence and network building** is an important element to underpin the agreed legal framework for mutual assistance. Under this option resources for further extending and deepening these networks will not be available. The development **forms, structures and procedures** for the exchange of information may also be interrupted. The 2007 programme has supported the development of the SCAC 2004 form and the development of guidelines for the exchange of spontaneous and unstructured information as well as the forms for the verification of the excise movements. Throughout the years it became also clear that it is necessary to **monitor** if the agreed working practices are respected and to take **corrective action** were required. This is not a one time action, but needs repetition over a longer period of time. Further development of the **computerised information exchange systems**, the key tool for administrative cooperation and the fight against fraud, may be hampered as well. The information flow for control and tax offices who investigate taxable persons operating within their territory or nationals operating abroad may be interrupted. The high standard of

interconnectivity and interoperability, usefulness has been widely recognised during the mid-term evaluation of the 2007 programme, may not be maintained.

#### 6.2.2.2 Less support the organisation of tax control

**The 2013 programme may not continue its work to facilitate the organisation of Multilateral Control and tackle the obstacles preventing efficient controls.**

Another consequence may be that working practices for strengthened control at registration which should prevent suspect traders to enter the system or detect them early after they have entered the system through analysis of VAT returns or VIES mismatches may not be developed. The linking between missing traders and VAT refunds or the adaptation of administrative procedures and legislation, in such a way that VAT refunds do not occur if there is missing trader suspicion, may be delayed as well.

The actual implementation of the guide on the **Risk Management process**, which is currently developed with the support of the 2007 programme and which will provide a common basis for how tax administrations deal with risks, by providing the tools to measure the quality of the decision-making process, may be hampered.

### 6.3 **Option 3: Community instrument – Fiscalis 2013 programme: extend the 2007 programme and provide means to support new policy initiatives and to reply to changed circumstances**

The third policy option foresees that the 2013 programme is set up as an extension of the 2007 programme reinforced with additional financial resources to support new policy initiatives on the one hand and to foresee a marginal increase of the budget of all other sub-headers on the other hand. The new policy initiatives which will contribute to a large extent to the development of a fully-fledged electronic tax administration will absorb the largest share of these additional resources. Additional budget is also required to upgrade the trans European IT systems to absorb the expected increase in exchange of information, while a limited share of the additional resources will be used to develop initiatives to support the promotion of knowledge sharing, in the area of e-learning and the dissemination of information.

#### 6.3.1. *Enhancing the existing trans-European IT systems*

The VAT Information Exchange System (VIES) was designed as a temporary solution to last for 4 years but has operated already for more than 10 years. Considering the slow progress made in the reform of the VAT and given that no progress in the legal procedure will very likely be reached in the coming years, a modernisation project has started in 2004<sup>35</sup>. Besides enhancing the current functionalities, the **VIES II system** will improve the quality of VIES data by making it possible for traders to validate VAT numbers online and making VIES data easier and faster to exploit and query. VIES II will give taxable persons also access to additional information on their intra-Community transactions, whereas VIES II will be extended to transactions on certain services<sup>36</sup>. The VIES II system should also

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<sup>35</sup> The system will be called VIES II.

<sup>36</sup> In the context of the proposal to change the place of supply of certain services and business to business (B2B) services

offer an integrated infrastructure for the exchange of forms between the national administrations. The **customs' electronic customs project** may significantly increase traffic on the VIES system if electronic customs as planned uses the VAT number as unique key.

Currently, taxation at the place of consumption means EU traders have to be identified and make returns and payments in every Member State where they carry out taxable transactions. The **One-stop shop scheme** would require extended exchange of information between the Member States concerned regarding the registration, declaration and refund to allow taxable persons to use a single VAT number for all supplies made throughout the EU and to make a single global VAT declaration to an electronic portal through which the return would be submitted automatically to the different Member States where the taxable persons have taxable activities. The One-stop shop system will underpin this scheme, which will require a much higher availability of the CCN network than present.

The **CCN mail system** is regularly adapted to offer more flexibility to the users and answer new needs. One of the future challenges will be the possible decentralisation of the VAT administrative cooperation which will allow Member States to work with multiple accounts. Another challenge will be the integration of CCN mail with the national mail systems.

### 6.3.2 *Support the development of a computerised tax administration*

The 2007 programme has intensively supported the implementation of **electronic audit procedures** in the Member States. Action ranged from the study of law and administrative procedures, to exchange of information on software, best practices and training in use of different tools. There is a link with the e-invoicing directive to permit cross-border electronic invoicing.

There are three directions in which tax administrations need to develop in terms of computerisation. The first one is the automation of tax audit. Although the 2007 programme is intensively working on this topic, the rapid evolution of the accounting and management software of taxable persons requires a constant effort from the administrations to maintain the effectiveness of their extraction and analysis tools and methods.

A second step is the search and monitoring of the internet in order to identify non compliant traders. With the support of the 2007 programme, tools are already developed and very fruitful exchanges are taking place between Member States. However, the context is evolving extremely fast and requires a constant adaptation effort of the administrations.

The last challenge is the fight against computerised fraud. Fraudsters develop very technical IT based fraud solutions. This is the field of IT forensics. With the support of the 2007 programme, administrations have recently explored ways to detect and fight this type of fraud, but the expertise is still in its infancy.

In the field of excise, the development of the **Excise Movement Controls System** will allow Member States the possibility of monitoring the flows in real time and of carrying out the requisite checks where necessary. As from 2009, EMCS will be incorporated and financed through the Fiscalis 2013 programme.



### 6.3.3. *Decrease the administrative burden on taxable persons*

With the support of the 2007 programme, events have been organised relating to the **interpretation and further clarification** of newly adopted **tax legislation**, for instance its transposition in national law. During these events, experts meet with colleagues who face similar challenges and discuss possible solutions. Experts exchanged experience on, among others, the legislation on e-invoicing, VAT on financial services, transfer pricing and VAT special schemes. The 2007 programme will also be instrumental in implementing the proposal changing the place of taxation of services. The 2013 programme will continue to provide a platform to exchange views on the interpretation and clarification of newly adopted tax legislation.

The introduction of the principle of the **One-stop shop scheme** would encourage making **coordinated audits** in the Member State of establishment of the supplier and the Member States where the transaction takes place and as such counter the risks linked to the reduction of the 25 points of contact to a single one. Steering from EU level with input from Member States supported by the 2013 programme will be needed to organise these controls efficiently and in a single way.

In the field of excise, simplification will first of all be achieved through the greater use of electronic means of communication between traders and excise authorities and between excise authorities. Moreover, the alignment of excise legislation with EMCS should allow traders to have a better view of the extent of their exposure to financial risks, for example by reducing the time needed for the discharge of the excise movements. At the same time the notion of discharge of the excise movement could be further explained to increase the legal certainty when excise liabilities either commence or finish. Also the possible introduction of new legal concepts with the aim to reduce and simplify excise obligations for traders, in particular for traders carrying out cross-border business without compromising excise controls, may be considered.

### 6.3.4 *Development of common training tools*

In the mid-term evaluation Member States emphasised the value added from learning from other administrations during a Fiscalis supported event. They referred among others to the setting up of a specialised department like audit of large businesses, the development of electronic auditing and the application of risk analysis techniques. Member States indicated they would have needed much more time and people to set up this capacity if they had to work from scratch and they would not have been able to avoid repeating costly mistakes already made by others.

Member States also stressed that activities from the Fiscalis programmes increased awareness and knowledge of Community law, even though levels of awareness still differ between officials of a single Member State as well as between Member States. The 2013 programme will continue to stimulate a high common understanding of Community law and decrease the differences in level of awareness. Common training may also anticipate the increased influence of the rulings of the Court of Justice on Member States tax systems. The significant and consistent increase in the level of litigation confirms the need to ensure that the tax systems respond to developments in business practice and commercial structures. The Fiscalis

programme offers the framework to ensure that officials of the 25 administrations are informed and trained to implement the rulings consistently.

It is planned to develop the first common training material in the second half of the 2007 programme. The 2013 programme will further enhance the development common training material in promising areas like the mutual assistance information exchange systems, how to fill in the form to exchange information, how to use control software, the application of risk analysis or how to execute a Multilateral Audit. The experience acquired with e-learning in the Customs 2007 programme will certainly be taken into account.

### 6.3.5 *Establishment of information sharing infrastructure*

The mid-term evaluation report has identified that considerable improvement is still possible in the dissemination of information on programme outputs within the national administrations. The knowledge shared and generated during 2007 programme activities is only directly accessible to a limited number of people, mainly the participants in an event. There is currently no structured support by the 2007 programme management framework that makes this information available in a systematic way to the officials concerned. Without the 2013 programme, it will not be possible to organise the **information and knowledge sharing** between all tax administrations and in all tax policy areas of the programme in a systematic way.

### 6.3.6. *Extending cooperation to third countries*

The 2013 programme will provide the possibility to develop cooperation with third countries which is required to tackle the increasing international dimension of tax fraud and which will include activities to modernise the tax administrations of third countries and to exchange information.

### 6.3. *Other areas*

Option 3 will be able to implement those initiatives for which option 2 will fall short of resources.

## 7. COMPARING THE OPTIONS?

| Impact   | <b>Option 1</b><br>No programme | <b>Option 2</b><br>Extension without means for new policy and changed circumstances | <b>Option 3</b><br>Extension with means for new policy and changed circumstances |
|--|---------------------------------|---|--|
| Knowledge of Community tax law                     | ---                             | ++  | +++  |
| Administrative cooperation and fight against fraud | ---                             | +   | +++  |
| Administrative burden on taxable persons           | --                              | +   | ++   |
| Reinforce existing trans                           | --                              | -   | ++   |

|   |     |   |     |
|---|-----|---|-----|
| European IT systems                       |     |   |     |
| Develop a computerised tax administration | --  | - | ++  |
| Secure network between Member States      | --- | + | +++ |
| The common information basis              | --- | + | +++ |
| Common training facilities                | --  | - | ++  |
| Information sharing infrastructure        | 0   | + | ++  |
| Promotion of knowledge sharing            | --- | + | +++ |

### Impact scale

- highly negative
- very negative
- slightly negative
- 0 neutral
- + slightly positive
- ++ very positive
- +++ highly positive

Considering the highly to very negative impact of pursuing options 1 and 2, it is recommended to choose option 3 as best policy option.

The screening within paragraph 6 does not amount to an analysis of impacts on the economy, the environment and the society. This is considered legitimate as the Fiscalis programme, by its specific nature, cannot have a direct, measurable and quantifiable impact on the functioning of the internal market, the competitiveness of enterprises or the fight against fraud. The programme is rather an instrument to achieve these objectives by promoting administrative cooperation, exchange of best practices, staff training as well as supporting the functioning of IT systems to enhance information exchange between tax officials. Therefore it would be not proportionate to identify and measure economic, social and environmental direct impacts.

## 7.1 The budget of the 2013 programme<sup>37</sup>

The 2013 programme as described under option 3 has a forecasted budget of **156,9** MLN EUR and lasts for six years. In comparison, the 2007 programme has a budget of 65,7 MLN EUR and covers 5 years, of which one year, 2003, concerned the European Union with 15 Member States. If the budget of the EMCS project for the period 2003-2007 is added (29,5 MLN EUR) the total amount available in the 2003-2007 period is 96,75 MLN EUR.

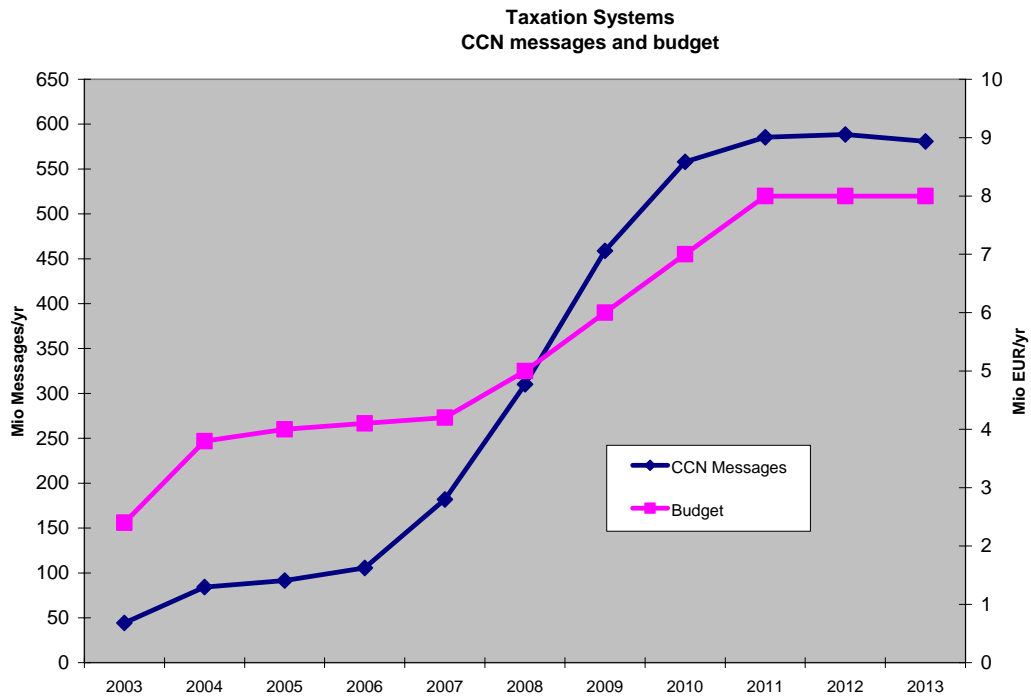
The 2013 programme budget grows especially during the first three years of the programme. This increase is justified by:

- Duration of the programme, 6 years compared to 5
- The full EMCS financing as from 2009. It should be noted that the annual budget requested for EMCS is, on an annual basis, much smaller than the one in the EMCS projects
- Need for upgrading the CCN network
- In order to absorb the increase in the exchange of information related to the connection of 10 new Member States, the budget for the CCN network gradually increases as from 2005. The CCN network needs further upgrading under the 2013 programme to absorb the expected increase in the number of messages exchanged by tax administrations and to ensure the interconnectivity, interoperability and permanent availability requirements (24 hours a day and 7 days a week) which involves setting up fall-back architectures and associated services. Currently most of the services offered through these applications have no real time dependencies and can be interrupted between 1 and 8 hour without major damage. However, the EMCS and one stop shop options will require the upgrade to a continuous service 24 hours a day 365 days a year. Through the 2013 programme, it will be ensured that the applications and network is available on a continuous basis.

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Annex 1 provides an overview of the budget of the Fiscalis 2007 and the Fiscalis 2013 programmes specified per year and per topic.



**Graph 3:** Expected increase in messages between tax administrations and increase of CCN budget

A third factor justifying the higher budget request is the development of **new trans European IT systems** to support the exchange of information. This will include extension of VIES to Business to Business and Business to customer services, absorbing VIES links to other systems, the One-stop shop as well as the upgrading of VIES II in the second half of the programme and new systems for direct taxations.

The budget to maintain up to date the **VIES system**, which is a **daily working instrument for all tax officials within the EU who deal with tax audits**, will remain stable around 5 MLN EUR.

The **Joint Actions** part of the budget starts with 5,2 MLN EUR in 2008 which is lower than the budget initially foreseen in the final year of the 2007 programme, but reflects the actual spending on Joint Actions. A modest budget is foreseen for the development of **common training tools** (3,6 MLN EUR) as a new header in the 2013 programme budget. The common training tools budget increases gradually from 400.000 EUR in 2008 to 950.000 EUR in 2013.

**Summarised**, the total budget of the 2013 programme is higher than the budget of the 2007 programme and EMCS project together. The new programme runs over 6 years compared to the previous one and the increase is induced by the new EMCS system and the subsequent upgrade of the CCN/CSI network.

## **8. HOW TO MONITOR AND EVALUATE THE PROPOSAL AFTER IMPLEMENTATION**

### **8.1 Monitoring**

The Fiscalis 2013 programme shall be subject to continuous monitoring managed jointly by the participating countries and the Commission.

### **8.2 Evaluation**

The mid-term and final evaluation of the programme shall be carried out under the Commission's responsibility using the follow-up reports and the reports drawn up by the participating countries and, if necessary, the assistance of external experts. The evaluation will examine, inter alia, the relevance, effectiveness and efficiency of the programme with regard to the objectives set out in Article 3 of the Fiscalis 2013 decision.

The Commission shall submit to the European Parliament and the Council as well as to the Economic and Social Committee and the Committee of the Regions:

- (a) By 30 September 2011 at the latest a mid-term evaluation report. The aim of this report is to provide a first evaluation of the results obtained from mid-realisation of the programme in terms of effectiveness and efficiency. The relevance of the programme's initial objectives will also be evaluated in order to check if changes or adjustments for the second phase of carrying out of the programme must be envisaged. The mid-term evaluation report will be based on the reports sent to the Commission by the participating countries by 31 March 2011.
- (b) By 30 September 2014 at the latest a final evaluation report. This report will provide a final evaluation on the programme's effectiveness and efficiency by comparing the results obtained with the objectives of the programme. Other evaluation criteria, such as utility and sustainability may be envisaged. The final evaluation report will be based on the reports sent to the Commission by the participating countries by 31 March 2014.

### **8.3 Indicators**

The Fiscalis 2013 programme has no direct impact on the functioning of the internal market, fight against fraud or competitiveness of taxable persons. The activities of the programme are only one element contributing to the streamlined organisation of the tax policy objectives. This has been confirmed by the findings of the mid-term evaluation of Fiscalis 2007 Programme. Therefore, the proposed indicators will be focused on those areas where the programme has a direct impact, in particular the administrative cooperation between the tax authorities of the participating countries. The proposed approach is to develop a number of output and outcome indicators in order to measure the achievement of the specific objectives of the programme. These indicators will be measured at different time intervals with the cooperation of national tax administrations, officials and other involved bodies. Annex 3 provides an overview of a number of these indicators which will be further developed.

**ANNEX 1: OVERVIEW BUDGET EMCS, FISCALIS 2007 AND FISCALIS 2013 PROGRAMMES (MILLION EUR)**

| Topic / Year                 | 2003          | 2004          | 2005          | 2006          | 2007          | 2008          | 2009          | 2010          | 2011          | 2012          | 2013          | 2003-2007     | 2008-2013      |
|------------------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|----------------|
| <b>IT Systems</b>            |               |               |               |               |               |               |               |               |               |               |               |               |                |
| CCN Network                  | 2,400         | 3,800         | 4,000         | 4,100         | 4,200         | 6,000         | 6,600         | 7,700         | 8,000         | 8,000         | 9,000         | 18,500        | 45,300         |
| Taxation systems (VIES)      | 3,000         | 4,200         | 5,750         | 5,050         | 4,800         | 6,000         | 5,000         | 5,000         | 5,000         | 5,000         | 5,000         | 22,800        | 31,000         |
| Excise systems               | -             | -             | -             | -             | -             | -             | 3,000         | 4,500         | 4,000         | 4,000         | 4,000         | 0,000         | 19,500         |
| New systems                  | -             | -             | -             | -             | -             | 3,000         | 1,550         | 2,250         | 3,200         | 4,800         | 4,000         | 0,000         | 18,800         |
| Enlargement                  | 1,200         | 0,350         | -             | -             | -             | -             | -             | -             | -             | -             | -             | 1,550         | -              |
| <b>Total IT Systems</b>      | <b>6,600</b>  | <b>8,350</b>  | <b>9,750</b>  | <b>9,150</b>  | <b>9,000</b>  | <b>15,000</b> | <b>16,150</b> | <b>19,450</b> | <b>20,200</b> | <b>21,800</b> | <b>22,000</b> | <b>42,850</b> | <b>114,600</b> |
| <b>Joint Actions</b>         |               |               |               |               |               |               |               |               |               |               |               |               |                |
| Joint Actions                | 2,750         | 4,600         | 4,850         | 5,850         | 6,350         | 5,200         | 5,500         | 6,000         | 7,000         | 7,000         | 8,000         | 24,400        | 38,700         |
| Common Training Tools        | -             | -             | -             | -             | -             | 0,400         | 0,450         | 0,600         | 0,600         | 0,600         | 0,950         | 0,000         | 3,600          |
| <b>Total Joint Actions</b>   | <b>2,750</b>  | <b>4,600</b>  | <b>4,850</b>  | <b>5,850</b>  | <b>6,350</b>  | <b>5,600</b>  | <b>5,950</b>  | <b>6,600</b>  | <b>7,600</b>  | <b>7,600</b>  | <b>8,950</b>  | <b>24,400</b> | <b>42,300</b>  |
| <b>Total Fiscalis</b>        | <b>9,350</b>  | <b>12,950</b> | <b>14,600</b> | <b>15,000</b> | <b>15,350</b> | <b>20,600</b> | <b>22,100</b> | <b>26,050</b> | <b>27,800</b> | <b>29,400</b> | <b>30,950</b> | <b>67,250</b> | <b>156,900</b> |
| EMCS                         | 3,000         | 5,500         | 5,400         | 8,300         | 7,300         | 5,500         | -             | -             | -             | -             | -             | 29,500        | 5,500          |
| <b>Total Fiscalis + EMCS</b> | <b>12,350</b> | <b>18,450</b> | <b>20,000</b> | <b>23,300</b> | <b>22,650</b> | <b>26,100</b> | <b>22,100</b> | <b>26,050</b> | <b>27,800</b> | <b>29,400</b> | <b>30,950</b> | <b>96,750</b> | <b>162,400</b> |

## **OPERATIONAL SYSTEMS**

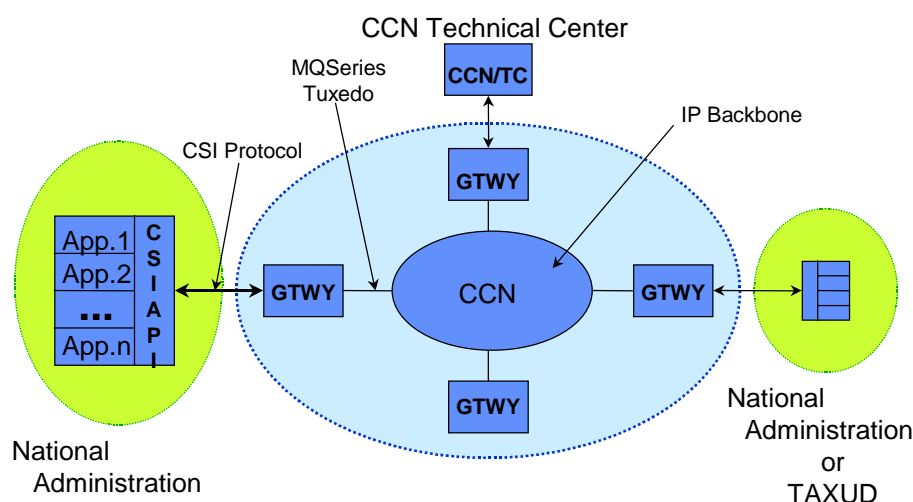
### **I. Common Communications Network / Common Systems Interface (CCN/CSI)**

The Common Communications Network (CCN) and the Common Systems Interface (CSI) have been in production since 1999 and rely on:

- The Common Communications Network (CCN), which is composed of a series of physical gateways located either in the National Administration or in DG Taxation and Customs Union premises. These gateways are interconnected in a secure way through communications services and locally connected to the application platforms provided by the local site within the national administration;
- The Common Systems Interface (CSI), which is a set of protocol and application programming interfaces allowing the above mentioned application platforms to exchange information through the CCN backbone. It ensures the interoperability between the relevant heterogeneous systems in the National Administration.

The main characteristic of CCN/CSI is that it provides a network which is:

- *Confidential and Secure:*
- *Accessible:*
- *Reliable:*



The main technical objectives of the CCN/CSI system can be summarised as follows:

- Ensure the interconnectivity between the CCN/CSI sites,
- Ensure the interoperability in a heterogeneous environment, and
- Ensure the continuity of the services.

As of today, the CCN/CSI network interconnects national Customs and Taxation Administrations at 39 sites in 29 countries (all the Member States plus Romania, Bulgaria,



Switzerland and Norway). It allows national administrations to exchange data in a large number of Customs and Taxation domains .

## **II. CCN Mail**

CCN Mail is a tool that allows tax administrations to exchange information. It functions like a traditional e-Mail system, but operates in the secured CCN network. The exchange of forms through the CCN Mail has increased in importance after the adoption of Regulation No 1798/2003 on administrative cooperation.

CCN Mail has been added end 2001 and is a completely decentralised system. All messages and files are stored on the local CCN gateway. CCN Mail is organized by application domains, each of them corresponding to a functional mailbox:

- CLO for VIES (exchange of forms in the field of VAT);
- MVS for ELO (exchange of forms in the field of excise);
- Recovery (exchange of recovery forms in the field of VAT, excise duties, Customs duties, Agriculture levies);
- E-Services (exchange of forms in the field of VAT relating the special scheme of e-Services);
- EWSE: (exchange of forms in the field of excise);
- Services: to handle IT related messages;
- Fraud: to handle all urgent anti-fraud related issues;
- Automatic: to handle the automatic and structured automatic exchange of data.

A new version of CCN Mail (CCN Mail 2) with added facilities has entered in operation in 2005.

## **III. VAT information exchange system (VIES)**

With the completion of the single market in 1993, fiscal controls at frontiers have been replaced by VIES (VAT information exchange system) which allows Member State administrations to consult "on line" information on traders registered for VAT in the EU and on the transactions (intra-Community operations) between them.

VAT Information Exchange System is a system for telematic exchange of data between Member State Administrations via the CCN/CSI network (Common Communication Network/Common System Interface). It allows the MS tax administrations to verify:

- the validity of the VAT identification number of EU traders as well as the name, address and the historical data on their registration;
- if domestic traders have declared their intra-Community supplies and/or acquisitions.

VIES is one of the largest trans-European systems in operation with, in 2005, more than 8.000.000 data exchanges per month between the Member States.

Since October 2001, traders have the opportunity to verify, on the web, the validity of VAT numbers of other traders registered for VAT in the EU via "VIES on the web" ([http://europa.eu.int/comm/taxation\\_customs/vies](http://europa.eu.int/comm/taxation_customs/vies)).

In 2005, Member States providing additional information when the VAT identification number entered by traders in VIES on the web is "valid" are the following:

- Belgium, Estonia, Finland, Ireland, Latvia, Lithuania, Sweden, Slovakia and Slovenia: name and address of a taxable person;

- Hungary, Cyprus and the Czech Republic: name of a taxable person.

A VIES 2 feasibility study (submitted to the Standing Committee on Administrative Cooperation) was launched to modernize the VIES system and adapt it to the needs resulting from the changing legislative VAT environment and in the field of administrative cooperation between Member States. The study covers 4 main aspects: improvement of the Quality of Data; B2B Services, One Stop Shop and Exchange of Forms.

In the context of accession of new Member States, VIES will have to be extended to Bulgaria, Romania.

#### **IV. VAT on e-Services (VoeS)**

VAT on e-Services (VoeS), applying for a period of three years starting from 1 July 2003, is a special scheme which rules the VAT legislation and procedure applicable for traders who are not established in the EU but who provide electronically supplied services to non-taxable persons established within the EU. This special scheme has led to the implementation of the dedicated system "VoeS" for exchange of information between MS.

This simplified system allows the non-established taxable person to use a Member State of identification dedicated website to access an automated system for registering and declaring VAT on-line. The data for the three above-mentioned VAT obligations is then submitted via Internet or e-Mail or any other electronic means to this Member State of identification by the non-established taxable person.

Although the systems are under national responsibility, the Commission has defined quality standards and integrity checking mechanisms, in order to ensure a minimum level of quality throughout the Community.

The exchange of information between Member State administrations takes place through the CCN-Mail system (CCN-Mail 2 from June 2005) and the application domain "E-Services".

#### **V. Excise Movement Control System (EMCS)**

The EMCS Computerisation Project (ECP) aims to set up the Excise Movement and Control System (EMCS), which is an integrated computer system concerning the movement and control of the products subject to excise duties under suspension arrangement of excise duties.

The project consists in replacing the current system based on the circulation of the paper version of the AAD (Administrative Accompanying Document) by an electronic system relying on a secure workflow of electronic messages between all parties involved. The main users of the system will be the Economic Operators.

Three groups of functionality to be developed are explained in the feasibility study:

- the first group concerns the prerequisites for the electronic circuit of the AAD (Accompanying Administrative Document) i.e. all the reference elements which affect the exchange of information between Administrations, and in particular SEED;
- the second group comprises all the specifications pertaining to all the aspects of the electronic circuit of the AAD, from its submission to its discharge, including the changes occurring during its journey;
- the third group includes the remaining functionality, such as, for example, the use of risk evaluation, or the management of the complaints the mutual assistance functions.

EMCS will incorporate the functionality of the excise systems SEED, EWSE and MVS which are described in more detail below.

## **VI. System for exchange of excise data (SEED)**

Member State Administrations exchange registers of authorised warehousekeepers and registered traders and of premises authorised as tax warehouses. The information is exchanged by means of a file (SEED file) that allows a predefined file specification. The creation of a SEED file is the responsibility of the Member State Administration. Every administration uses its own application to create this file, making sure that the file produced follows the predefined SEED file specification.

Taking into account the various technical, procedural, and operational issues encountered in the current SEED system, and considering the entry into operation of the EMCS in 2008, the Commission planned to specify, develop, operate and support an update of the current SEED system called SEED v.0. This system will provide the following central services:

- Consolidation by the Commission of the SEED files sent by all countries in a central repository, hosted and operated by the Commission on a restricted and secured website;
- Consultation by the MSAs of the SEED central repository via several possible interfaces: Web on-line consultation of the data, extraction of the content of the SEED repository on request, or automatic dissemination of the content of the SEED repository whenever the data from any of the Member States has been updated;
- The list of Excise Offices (EOL) deployed in the Member States will be maintained by the NCTS CS/RD application in charge of the Customs Office List (COL). MSA will have access to the NCTS CS/RD for consultation and maintenance of the customs and excise offices. SEED v.0 will interconnect with the NCTS CS/RD application in order to collect the information related to the EOL.

- Economic Operators will have limited access to the information in SEED v.0, accessible via the public Europa website of the Commission (the so called “SEED on Europa”) regarding:
- Simple verification queries of certain information regarding Economic Operators (e.g. the Excise Numbers);

## **VII. Early Warning System for Excises (EWSE)**

EWSE enables central liaison offices in Member States to exchange information or warning messages as soon as they are in possession of the AAD (Administrative Accompanying Document) information, and at the latest when the products are dispatched. As part of this exchange of information, a risk analysis based on the AAD information is carried out before a message is sent.

EWSE was one of the recommendations (in the short term and awaiting EMCS) in the High Level Group Report in the excise field, published in 1998. EWSE was introduced for movements concerning spirits and tobacco products.

After a pilot operation using the AFIS message handling system (provided by OLAF), EWSE was eventually extended to all Member States for use on a voluntary basis. Because of the absence of a legal basis, an administrative arrangement has been approved by the Excise Committee on the procedures to be used for EWSE.

EWSE is introduced officially in Council Regulation (EC) No 2073/2004 – Article 23. The same article specifies that EWSE is an electronic system between Central Liaison Offices.

## **VIII. Movement Verification System for Excise (MVS)**

The Movement Verification System is one of the components of administrative assistance between MS's in the excise field. MVS allows the services responsible for monitoring movements to verify individual movements of goods between two traders. The details of the traders are mentioned in Administrative Accompanying Document (AAD) / Simplified Administrative Accompanying Document (SAAD) movement documents. MVS is applied after goods have been consigned and involves simple exchanges of information based on specific queries for the verification of the movements. The information necessary to carry out spot checks under MVS is exchanged by means of a uniform control document.

The MVS has been paper-based (using post or fax) since its introduction in 1993 using a specific MVS form for the requests. Electronic MVS has been under a pilot operation in 2002 by eight MS's (BE, DE, ES, FR, IT, NL, SE, UK) using a totally revised form (in MS Word format) exchanged via CCN Mail. The use of the new form and CCN Mail has been extended to all Member States from the beginning of 2003.

## **FUTURE SYSTEMS**

### **I. VIES 2**

A VIES 2 feasibility study has been launched to modernize the VIES system and adapt it to the needs resulting from the changing legislative VAT environment and in the field of administrative cooperation between Member States.

The study covers 4 main aspects:

- **Quality of Data:** improvement of the quality of VIES data to have validation of data on line and improved functionalities;
- **B2B Services:** currently, only the amount of supplies of goods made by taxable persons can be consulted by national administrations through VIES to check the truthfulness of intra-Community transactions declared. In the future, the amount of supplies of services will also be included into VIES and be consulted by national administrations;
- **One-stop shop:** scheme allowing a taxable person established in one EU Member State but carrying out taxable transactions in different Member States to fulfil its VAT declaration obligations in this single Member State rather than in each of the Member States where he supplies goods and/or services;
- **Exchange of Forms:** an integrated infrastructure is to be set up for the exchanges of forms between the Member States.

## II. CCN Mail 2

CCN Mail 2 offers an inter-personal messaging system relying upon the CCN/CSI network infrastructure and upon a collection of SMTP<sup>38</sup>-based LCMS<sup>39</sup> servers deployed in each country accessing the system. CCN Mail 2 has an architecture built upon a collection of SMTP-based LCMS servers deployed in each country and relying upon the CCN network infrastructure.

The CCN Mail 2 service will be set up in two phases:

- In the first phase, mails will be sent from one LCMS to another via the secure CCN/CSI network infrastructure and will be stored in the mailbox on the receiving LCMS. End users will connect to CCN Mail 2 via their own web browser.
- The second phase, scheduled from quarter 4 of 2005 onwards, will involve the connection of the LCMS servers with the national administration existing network infrastructure and more precisely the National E-mail servers.

## III. Taxation on savings exchange system

In the field of direct taxation and more precisely the exchange of information on savings income of interest payments, a deployment of a specific information exchange system will be required as follows the adoption on 3 June 2003 of Council Directive 2003/48/EC by the

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<sup>38</sup> Simple Mail Transport Protocol

<sup>39</sup> Local CCN Mail Server

Council. In particular, the design of a technical format for the exchange of information, as well as of an electronic system of exchange of the information, will have to be set up.

After a transitional period till 2007, a specific information exchange system and format of the information exchanged reflecting the legal and technical requirements involved will be set up from 2008.

#### **IV. Tax Inventory**

The electronic Inventory of Taxes will provide administrations and taxable persons with detailed comparable descriptions of all taxes levied in each of the Member States. It would be available on the internet on the Europa website of the Commission. In the future, this system will become an important instrument for the dissemination of information on taxes throughout Europe and be an incentive towards an harmonised implementation of tax legislation.

Extended search functionalities would be provided to allow comparison of taxes levied in the different Member States on a particular topic.