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## **Taxation: the Commission proposes strengthening cooperation to combat VAT-related fraud**

(see also MEMO/01/230)

*The European Commission has proposed a regulation to strengthen cooperation between Member State tax authorities to combat fraud relating to value added tax (VAT), by removing outstanding obstacles to the exchange of information. The proposed regulation has three main objectives: to lay down clearer and binding rules governing the exchange of information, to provide for more direct contact between national anti-fraud agencies, and to facilitate more intensive exchange of information. The proposal thus aims to remedy the weaknesses identified in the Commission report on VAT fraud (see IP/00/115), as part of the new VAT strategy (see IP/00/615). In addition, the Commission is proposing to amend Directive 77/799/EEC concerning mutual assistance in the field of direct taxation so that Member States can exchange information concerning certain taxes levied on insurance premiums.*

“Thanks to this proposal, tax authorities will be better equipped to combat the massive frauds which are perpetrated through abuse of the VAT system”, said Frits Bolkestein, European Commissioner for Taxation. “The proposal will make it easier for national administrations to exchange information, and in particular they will have to respond to requests for information more rapidly”.

The proposal was drawn up in response to a Recommendation contained in the Council’s June 2000 report on how tax fraud might be combated more effectively. It will establish a single legal framework with clear and binding rules to replace the two legal instruments currently governing administrative cooperation and mutual assistance in the field of indirect taxation. These instruments have proved inadequate to meet the challenges posed by the internal market, being too general, too centralised and not sufficiently intensive to cope with the requirements created by VAT.

### **Binding rules for the exchange of information**

The proposed regulation will establish a framework which will define the rights and obligations of all parties involved, along with the procedures they are to follow, concerning matters such as:

- requests for information between Member States;
- time-limits for responding to requests for assistance;
- the presence of foreign officials in inspections and the organisation of multilateral controls;
- use of information provided by another Member State.

### **More direct contact between anti-fraud agencies**

The new legal framework provides for more direct contact between national authorities, with a view to making cooperation faster and more efficient. As things stand, there is too little direct contact between anti-fraud agencies at either local or national level. Instead, communication is generally through central liaison offices. This leads to inefficiency, under-use by officials and delays. Direct communication between inspectors and anti-fraud units would represent a major step forward, ensuring faster exchange of information and better mutual understanding of the nature of requests. It would also help raise motivation levels among inspectors, while reducing the number of pointless requests which represent a waste of limited resources.

### **Intensifying the exchange of information between administrations**

The proposal aims to intensify the exchange of information between administrations themselves, and with the Commission, so as to combat fraud more effectively. At present, there is not enough cooperation. Apart from the VIES system (the VAT Information Exchange System, which provides detailed information on intra-Community supplies through a computerised database built on declarations made by traders), there is little automatic or spontaneous exchange of information between Member States. Under the proposal, there will be an obligation to pass on information, including information received from third countries, wherever this may help another Member State combat fraud.

### **Taxing insurance premiums**

In addition, the Commission is proposing an amendment to Directive 77/799/EEC concerning mutual assistance in the field of direct taxation which will exclude VAT from that Directive's field of application, since VAT will now fall under the new Regulation. As a result, Member States will also be able to exchange information concerning certain taxes imposed on insurance premiums. Under the internal market, insurance companies established in one Member State can sell their products in all the others. At present, however, tax authorities have no means by which to recover taxes due on insurance premiums paid to foreign companies. As a result, the scope of application of Community law on mutual assistance has to be extended to the taxation of insurance premiums, so as better to protect the financial interests of the Member States and the neutrality of the internal market.

### **Essential information**

Both the report presented to the Commission on 28 January 2000 on VAT fraud, and the work of the Council's ad hoc group on tax fraud as summarised in their June 2000 report to the Council, clearly point to the need for Member States to commit themselves to strengthening control and administrative cooperation. Under the transitional VAT arrangements introduced on 1 January 1993, sales of goods by taxable persons established in one Member States to traders registered for VAT in other Member States are exempt from VAT. Tax is payable by the purchasers in their own country, and the revenue generated goes to the country of final consumption. However, since goods circulate between Member States without being taxed, this system may encourage fraud, unless national tax authorities cooperate fully with one another.

The Commission report therefore concluded that the existing Community legal instruments for administrative cooperation and mutual assistance must be strengthened.

The full text of the proposal can be found on the Europa web site at the following address:

[http://europa.eu.int/comm/taxation\\_customs/whatsnew.htm](http://europa.eu.int/comm/taxation_customs/whatsnew.htm)