



EUROPEAN COMMISSION

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Facilitating tax compliance, Tackling non-compliance

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Ladies and Gentlemen,

In 2010, I had the honour to attend the General Assembly of IOTA in Belgium. It is a pleasure to have this opportunity again today.

The Commission places great value in our relations with IOTA, and the fact that our mutual cooperation has grown and strengthened over the years.

Since signing our Memorandum of Understanding with IOTA in May 2006, we have been able to maximise our resources, expertise and knowledge, organising several joint events, exchanging publications and sharing information with each other on our work programmes.

As a result of our cooperation, we have been able to complement each other's activities and find synergies in our respective work.

IOTA offers an excellent platform to discuss new developments and share experiences in tax administration.

Moving now to the topic of today's General Assembly.

The theme of engaging with tax-payers to improve compliance is an extremely pertinent one.

There have been many developments at national, EU and international level which should help improve tax compliance substantially over the coming years.

Yet, at the same time, many countries are still facing difficulties in finding the tax revenues to finance their public policies, and compliance (or lack of it) remains a central challenge for tax administrations.

Recent studies showed that the size of this challenge – both in the EU and beyond – is still extraordinary.

Losses due to tax fraud and evasion are estimated at several hundred billion euro a year in the EU alone.

The shadow economy accounts for nearly 15% of EU Gross Domestic Product.

And the VAT gap amounted up to 18% in 2011.

To address these problems we have to take a dual approach.

On one hand, enhancing voluntary compliance to safeguard tax revenues must be at the core of every tax administration's mission.

We must make it easier for those who want to respect their tax obligations to do so.

On the other hand, we need to come down hard on those who deliberately seek to evade taxes, or who engage in aggressive tax planning to minimise their contributions.

This is important not only from a revenue point of view, but also to ensure fairness in taxation.

And, in line with your theme today, this fairness is essential to engage with honest taxpayers and ensure their continued compliance too.

Turning first to voluntary compliance, allow me to give you a few examples of what we are doing at EU level, which should help improve the situation for every Member State.

Last year, I proposed a Standard VAT return, which would harmonise the information required for declaring VAT, and the timelines to do it, across Europe.

Essentially, there will be little difference between filing a VAT return abroad and filing one at home.

This Standard declaration would have benefits for both businesses and tax administrations.

For cross-border businesses, it would bring major simplifications and maybe even incentivise smaller companies to expand cross-border.

We estimate, in fact, that this proposal alone can save businesses €15 billion a year by reducing their administrative burdens.

For tax authorities, the benefits will come from increased tax compliance, as taxpayers better understand what's required.

Overly-complicated tax systems are clearly linked to lower levels of tax compliance, even amongst those who wish to play by the rules.

So the standard VAT return is an important initiative in facilitating taxpayers, and I believe that it will help to bring increased revenues to Member States as a result.

This proposal is currently discussed by EU Finance Ministers and the Italian Presidency has assured me that it intends to secure agreement on this file by the end of the year.

Another important initiative, which we are currently working intensively on, is the European Taxpayers' Code.

This will be a blueprint for relations between taxpayers and their tax administrations.

While most Member States have national taxpayers' codes to define tax rights and obligations, these vary considerably from one country to another.

This can make it extremely difficult for citizens and companies to understand their rights in different Member States and comply with their tax obligations in cross border situations.

Therefore, a pan-EU Code would be an assistance to companies operating in our Single Market, and an asset to Member States in improving compliance.

As part of the preparation of this Code, we launched a public consultation to get an overview of best practice in Member States.

The aim is to have a Code which promotes best practices in building cooperation, trust and confidence between tax administration and taxpayers; in ensuring greater transparency on rights and obligations for taxpayers; and in encouraging a service-oriented approach.

By reducing the risk of mistakes and encouraging tax compliance, the European Taxpayers' Code will help to contribute to more effective tax collection.

In the same vein, work is also underway to design a European Taxpayer Identification Number (TIN).

The increased mobility of people and economic activity is making it more and more difficult for authorities to identify taxpayers properly.

This can undermine national efforts to collect taxes properly, lead to situations of double non-taxation and even facilitate tax fraud and evasion.

Therefore, our aim is to create a new web portal that would allow tax officials and businesses involved in cross-border transactions, to check the structure of unique taxpayer identification numbers.

The portal will also provide useful samples of official identity documents containing national tax identification numbers.

In addition, the Commission would like to go even further and explore whether a single European Taxpayer Identification Number might prove feasible. We have launched a consultation to this end, and the results of this will help direct our next moves.

In addition to these EU-level initiatives, the Commission also works closely with Member States to help them find the right path to increased voluntary compliance at home.

In this respect, the European Semester – through which we issue country specific recommendations to Member States on economic reforms – has been an important tool.

Two consistent recommendations have been for Member States to improve tax governance domestically, and also to broaden their tax base and simplify their tax system for improved efficiency.

As already outlined, the simpler the rules and the system, the more taxpayers are likely to comply with them.

So we have encouraged national governments to re-look at the reductions and exemptions they give in VAT, for example, which both reduce the revenue efficiency of the tax and over-complicate the system for businesses.

An interesting source of support to our Member States has come through the work on behavioural economics at the EU's research centre in Ispra.

Behavioural economics studies how people actually make choices, by drawing insights from both psychology and economics.

It may, therefore, hold answers on how to better encourage taxpayer compliance.

One recent example of work carried out by our research centre was a workshop to look at the influence of tax lotteries on the behaviour of taxpayers.

This, and other similar studies, can be useful to Member States in deciding the best measures to take at national level.

Turning now to the other side of the compliance coin: How to tackle those who do not want to comply at all?

You are of course aware that the fight against tax evasion has risen to the very top of the political agenda in Europe and internationally these past years.

It has been a great time to be EU Tax Commissioner, given the unprecedented momentum and willingness to engage amongst Member States.

As a result, not only have we managed to push forward many crucial initiatives against tax evasion within the EU, but we are also at the centre of what is set to be a substantial makeover of international tax law.

At EU level, our ambitious Action Plan against evasion, and our measures to shut-down tax avoidance opportunities, implement the widest scope of automatic exchange of information, and fight VAT fraud more quickly, show that we can continue to set the global pace in tax good governance.

In the past few months alone, Member States have agreed on a stronger Savings Tax Directive, which will increase transparency and administrative cooperation, and a revision to the Parent-Subsidiary Directive, which remove the possibility for companies to use hybrid loan arrangements to avoid taxes.

Before the end of the year, I believe they will adopt the Administrative Cooperation Directive, ensuring the widest scope of automatic information exchange within the EU, and a further revision to the Parent-Subsidiary Directive, to apply a general anti-abuse rule.

Meanwhile, the Commission continues to use every tool at its disposal – whether state aid rules or the Code of Conduct on Business Taxation – to ensure that Member States play fair amongst themselves.

To give some very recent examples, we have opened state aid investigations into certain Member States' tax rulings, while we are undertaking a profound assessment of all Patent Boxes under the Code of Conduct.

Member States need to work together in fighting evasion and facilitating compliance, rather than clinging to secrecy and engaging in harmful tax competition.

Through our actions, this message is coming through loud and clear.

All this progress, and our many other achievements over the past two years, have also helped the EU retain its weight on the international scene.

Given the cross-border nature of tax evasion, we are keenly aware of the importance of working with international partners in this campaign.

Locally, we are in negotiations with our closest neighbours – notably Switzerland – on stronger savings tax agreements, based on automatic information exchange.

We have also just successfully concluded our corporate tax discussions with the Swiss, resulting in them eliminating a number of harmful tax regimes that the EU objected to.

I have personally visited major financial centres further afield, including Hong Kong, Macau and Singapore, to encourage them to join the international shift towards open and fair tax regimes.

In fact, when negotiating wider agreements with third countries, the EU now insists that tax good governance clauses are included.

Moreover, the Commission has asked Member States for a mandate to begin negotiations with certain third countries on the exchange of information on Value Added Tax.

In parallel to all of this, we are in the midst of a fundamental overhaul of the global tax environment, thanks to the work of the OECD.

Automatic exchange of information has now been accepted as the new global standard, which will bring unprecedented transparency to taxation worldwide.

And before the end of the year, the Base Erosion and Profit Shifting (or, BEPS) project should be finalised, creating a global approach to curbing corporate tax avoidance and ensuring that taxation better reflects where economic activity takes place.

So I think it is fair to say that the work to improve our fight against tax evasion and avoidance, so far, has been a resounding success.

The challenge now is to ensure that momentum is sustained, and that what is agreed by leaders is fully implemented on the ground.

If that is done, then I think we will have succeeded in creating a much more hostile environment for tax evaders, a much healthier picture in terms of effective revenue collection, and a much brighter future for those seeking fair taxation.

Let me now conclude.

In a context where progress can only come from a combination of actions at different level of governance (EU and national), I see IOTA as a promising forum for co-operation. Within the framework offered by your organisation, there is scope to identify and share best practices within the EU and, equally importantly with neighbour non-EU countries.

The broadness of your membership is an important asset for any organization, as it allows a great variety of viewpoints and backgrounds to feed into discussions and best practice exchanges.

The outcome of your discussions over the next two days will for sure contribute to further developments of the European tax agenda towards improved tax compliance and fairer tax systems.

I would like to thank you for your attention and I wish you all a successful General Assembly.