Coordinated strategy to improve the fight against fiscal fraud

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The Committee on Economic and Monetary Affairs adopted an own initiative report by Sharon **BOWLES** (ALDE, UK), in response to the Commission’s communication on a co-ordinated strategy to improve the fight against fiscal fraud.

MEPs regret that, in spite of repeated analyses, demands, and objections, the Council has not yet adopted an effective strategy for the fight against fiscal fraud. They call on the Member States to finally take the fight against fiscal fraud seriously.

The report notes that the purpose of the EU fiscal fraud strategy must be to tackle tax losses due to fiscal fraud by identifying the areas in which improvements to both EC legislation and administrative cooperation between Member States can be made, without creating unnecessary burdens both for tax administrations and tax payers.

MEPs consider that the **current VAT system** (established in 1993 as a transitional system) is outdated and requires radical reform. They support the Commission in its efforts to bring about a fundamental change to the current VAT system and call on Member States to be prepared to take substantive measures in this context.

The committee recalls that the establishment of a **VAT system based on the ‘origin principle’** (which implies that transactions between Member States liable to VAT would bear the tax charged in the country of origin instead of being zero-rated) remains a long-term solution for combating tax fraud effectively. The report stresses that such a system requires tax approximation between countries to avoid tax competition, as well as the establishment of a clearing system, as originally proposed by the Commission in 1987.

Noting that estimates of overall (direct and indirect) tax losses due to fiscal fraud range from EUR 200 to 250 billion, which is equal to between 2 and 2.25% of GDP in the European Union, MEPs call on the Commission to consider a harmonised European system for collecting data and producing statistics on fiscal fraud, so as to reach an assessment of the full extent of the phenomenon that is as accurate as possible.

Alternative systems to the current VAT system: the report acknowledges that the reverse-charge system has the advantage of removing the opportunity to engage in missing-trader fraud, by designating the taxable person to whom the goods are supplied as the person liable to pay the VAT. However, the reverse-charge system has some criticisms: the system does not allow for fractionated payment, removing the self-policing control mechanism of VAT. Furthermore, the report warns that new forms of fraud may appear including increased tax losses at the retail level and the misuse of VAT identification numbers. MEPs therefore urge caution and serious consideration before the introduction of a reverse-charge system.

MEPs accept that a pilot project may help Member States better understand the inherent risks of the reverse-charge mechanism. They urge the Commission and the Member States to lay down appropriate guarantees to ensure that neither the Member State participating nor any other Member State is exposed to major risks during the operation of the pilot project.

Taxation of intra-Community supplies: MEPs consider that the best solution to tackle VAT fraud related to cross-border supplies is to introduce a system in which the VAT exemption for intra-Community supplies is replaced by taxation at the rate of 15%.

The committee recognises that, because of differential VAT rates, the taxation of intra-Community supplies would require rebalancing payments between Member States. It considers that such rebalancing should be made through a **clearing house** that would facilitate the passing of revenue between Member States.

Lastly, the report stresses that it should be the responsibility of the tax administration of the Member State of supply to collect the VAT from its supplier and to make a transfer via the clearing system to the tax administration where the intra-Community acquisition has taken place.

Administrative cooperation and mutual assistance: the report stresses that, in order to protect fiscal revenue of all the Member States in relation to the internal market, Member States should take comparable measures against fraudsters, in particular in terms of sanctions and criminal proceedings, regardless of where losses of revenue take place. The Commission is called upon to propose possible mechanisms to promote such cooperation between Member States.

MEPs welcome the Commission's proposals for the amendment of the VAT Directive and the VAT Administrative Cooperation Regulation to speed up the collection and exchange of information on intra-Community transactions from 2010 onwards. They urge the Council to adopt proposed measures quickly and invite the Commission to submit further proposals on: (i) the automated access by all other Member States to certain non-sensitive data held by Member States on their own taxable persons; (ii) the harmonisation of the procedures for the registration and de-registration of persons liable for VAT.

Tax Evasion: MEPs call on the European Union to make the elimination of tax havens at a worldwide level a priority. According to MEPs, the elimination of tax havens requires a three-pronged strategy: tackling tax avoidance, widening the scope of the Savings Tax Directive and requesting that the OECD, through its members, sanction non-cooperative tax havens.