European Court of Auditors' Special Report No 8 /2007 concerning administrative cooperation in the field of VAT

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SPECIAL REPORT No 8/2007 of the Court of Auditors concerning administrative cooperation in the field of value added tax, together with the Commission's replies.

The report recalls that in 2004, new Community legislation came into force to speed up and strengthen cross-border cooperation between Member State authorities, mainly through clearer procedures, more comprehensive exchange of information and increased direct contacts between local tax offices.

The audit of the Court aimed to assess whether information exchanges between Member States take place in a timely and effective manner and are supported by sound procedures and adequate administrative structures. It showed that information exchanges between Member States can help Member States to assess taxation correctly and to prevent and detect fraud.

However, the Court found that, despite new arrangements introduced in 2004, **administrative cooperation between Member States in the field of VAT is still not intensive enough to cope with intra-Community VAT evasion and fraud**.

The Court found in particular that:

- insufficient use is made of the new possibilities to enhance and speed up cooperation and not all Member States have set up adequate administrative structures and/or operational procedures for ensuring efficient cooperation;

- half of the information exchange upon request does not take place within the timescales required by the legislation and notifications of late replies or interim replies are rarely given;

- late replies occur in all Member States but their frequency varies considerably between Member States. There are sometimes significant differences between the number of requests which a Member State claims to have received and the number of requests other Member States claim to have sent it;

- the framework for exchanges of information without prior request is not well defined and the information which is provided spontaneously is not always systematically exploited;

- the late availability and lack of reliability of data in the current Value Added Information Exchange System (VIES) increase the risk of evasion and fraud not being detected.

According to the Court, there is a need for more intensive and rapid cooperation, more direct contacts between local tax offices and better monitoring to ensure that Member States provide efficient assistance to each other. The weaknesses of VIES should be urgently addressed, for example by radically shortening the timescale for collecting and capturing data and by granting broader direct access to data to enable multilateral consultations.

To combat intra-Community VAT fraud successfully, the Court sets out the following recommendations:

- Member States should encourage more direct communication between local inspection staff as an effective way to speed up the exchange of information. It would at the same time help to increase the intensity of cooperation and the quality of the information exchanged;
- more efficient monitoring of exchanges of information between Member States is necessary to ensure that problems are swiftly identified and tackled;
- the procedures for exchanges of information without prior request need to be clarified. Information which is provided spontaneously should be systematically exploited by Member States;
- the introduction of harmonised rules for withdrawing VAT numbers from traders involved in fraudulent activities should be considered;
- a common approach needs to be developed by the Commission together with the Member States to quantifying and analysing VAT evasion;
- to improve cross-border prosecution of intra-Community VAT fraud in the Member States.

The Court recalls that it recommended that the Commission should make an effort to propose a simplification and consolidation of Community anti-fraud legislation with a view to avoiding duplications and overlapping or contradictory provisions. Existing weaknesses in cooperation between the Commission and the Member States could be addressed in the framework of such an overhaul.