Fight against tax fraud, tax evasion and tax havens

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The Commission presented a Communication on **concrete ways to reinforce the fight against tax fraud and tax evasion** including in relation to third countries.

Estimates of the size of the shadow economy in the EU of **nearly one fifth of GDP**, gives a first indication of the extent of the problem. Also, tens of billions of euro remain offshore, often unreported and untaxed, reducing national tax revenues.

In recent years, the challenge posed by tax fraud and evasion has increased considerably. The globalisation of the economy, technological developments, the internationalisation of fraud, and the resulting interdependence of Member States' tax authorities reveal the **limits of strictly national approaches** and reinforce the need for joint action.

On 2 March 2012, the European Council therefore called on the Council and the Commission to rapidly develop concrete ways to improve the fight against tax fraud and tax evasion, including in relation to third countries and to report by June 2012. In April the European Parliament adopted a resolution echoing the urgent need for action in this area.

This Communication **outlines how tax compliance can be improved and fraud and evasion reduced**, through a better use of existing instruments and the adoption of pending Commission proposals. It also identifies areas where further legislative action or coordination would benefit the EU and Member States.

The main suggestions proposed by the Commission are as follows :

(1) More effective tax collection within Member States : fair and ambitious fiscal consolidation is impaired by inefficient and ineffective tax collection.

The broad analysis carried out by the Commission in the context of the European Semester and translated into recommendations both to individual Member States and the Eurozone has revealed that **for many Member States there are real and substantial problems of tax evasion** sometimes linked to poor administrative capacity. Country-specific recommendations regarding these issues were addressed to 10 Member States. In this context, specific technical assistance programmes are already available and the Commission invites Member States to rely on them when designing programmes to improve the functioning of their tax administrations, enhancing administrative capacity and tax compliance. For the future, there is a need for an effective successor to the FISCALIS programme, to improve the proper functioning of the taxation systems in the internal market. The Commission also believes it important to continue to **assist Member States** in identifying inherent weaknesses in their tax administrations and assist them in tackling specific problems.

(2) Better cross-border cooperation between EU tax administrations : the experience of the Savings Directive demonstrates the benefits of such cooperation. On average more than 4 million records are sent each year from source countries to residence countries representing on average EUR 20 billion of savings income.

A series of important legal instruments for administrative cooperation have been adopted in recent years for both direct and indirect taxes. However, **their effective and comprehensive**

use by Member States is still to be attained. The Commission will closely monitor the correct application by all Member States of the **commonly agreed rules and procedures**. A swift adoption of the revision of the Savings directive is essential.

In addition, there exists further concrete ways to enhance cooperation :

- **Enhancing exchange of information** : the EU has a key role to play in promoting its standard of automatic exchange of information so as to give support to developing international standards of transparency and exchange of information in tax matters. The Commission will therefore carry out an impact assessment with a view to proposing, where appropriate, a **European Tax Identification Number (TIN)** assigned to each taxpayer engaged in crossborder activity. Giving Member States' tax administrations direct access to relevant areas of each other's national data bases together with an extension of the scope of automated access in the VAT area should also be envisaged.
- **Tackling trends and schemes of tax fraud and tax evasion** : the Commission proposes : (i) a Quick Reaction Mechanism on VAT fraud cases ; (ii) a strategy for tackling **aggressive tax planning** ; (iii) ways to improve **access to information on money flows** ; (iv) the creation, within the EU, of teams of auditors dedicated to cross-border tax fraud ; (v) more regular **joint audits** should be promoted through extensive use of the existing legal provisions on simultaneous controls and the presence of officials of a Member State in another Member State.
- **Ensuring high levels of taxpayers' compliance** : tools such as a single **TAX WEBPORTAL** for all taxes and taxpayers and a **one-stop shop** for non-resident taxpayers in Member States would make it easier for the taxpayers concerned to meet their tax obligations. In the field of VAT the Commission is setting up a dialogue platform, the socalled "**EU VAT Forum**", involving Tax Authorities and business representatives.
- **Enhancing tax governance** : in the medium term, the Commission will consider a **single legal instrument** for administrative cooperation for all types of taxes to ensure full integration and consistency of the mechanisms for cooperation. As tax fraud is often linked with other forms of criminal activity it is important to **strengthen cooperation** between tax administrations and other authorities, in particular anti-money laundering, social security and judicial authorities, both at national and international level.

(3) Leading a coherent policy vis-à-vis third countries : the EU has a clear and coherent policy on good governance principles in the tax area but needs to ensure that this is promoted in a more consistent manner, not just within the EU but with third countries as well. Accordingly, the Council should swiftly give a mandate to the Commission and provide support to it in **negotiating amendments to the existing EU savings agreements** with Switzerland, Andorra, Monaco, Liechtenstein and San Marino. It is important to ensure better coherence between EU policies in general, so that EU partners under international trade and cooperation agreements will commit to **good governance** principles in the tax area. These principles should continue to be included in all relevant EU-level agreements with third countries as well as promoted through development cooperation incentives. Before the end of 2012, the Commission intends to come forward with an **action plan.** The presentation of this plan is foreseen together with the initiative on **tax havens** and aggressive tax planning.