European Commission

Annual Activity Report 2023

DG TAXATION AND CUSTOMS UNION

Contents

DG TAXATION AND CUSTOMS UNION IN BRIEF

DG TAXUD has a critical role in supporting a swift economic recovery and the transition to a greener, digitalised and fairer economy in the EU. We work to ensure that taxation and customs deliver on the Union's priorities and provide the revenues needed to fund European investment and growth.

We uphold the principle of fair taxation and strive for a simpler tax environment, in which businesses can innovate and grow. Modernising our tax policies and fighting tax abuse is a key way to boost public finances and stimulate investment, in an equitable manner.

We are committed to harnessing the potential of green and digital taxation, to provide new resources for Europe's recovery and support the Green Deal and Digital Union. We also ensure that EU tax policy actively supports other high-priority policy objectives, given the impact of taxation on behaviours and consumption.

The Customs Union is essential to EU prosperity, with its dual role of facilitating smooth trade and protecting our citizens and businesses. We are committed to substantially modernising customs, in line with today's realities, so that it is better equipped to protect our Single Market and budgetary resources. Exploiting the full potential of data analytics and innovative technologies and strengthening our cooperation with third countries is key to meeting the challenges of a globalised and digitalised world.

DG TAXUD works in partnership with EU Member States and businesses in delivering on all of our policies and priorities. We also work with third countries and international organisations to make our above-mentioned objectives a reality, influence international standards and reinforce the implementation of EU trade policy. We support the ambitious reform of the World Customs Organisation, with a view to improving the green and digital nature of customs. We promote better and closer cooperation between Member States through our funding programmes. DG TAXUD manages the Customs and Fiscalis programmes, as well as the Customs Control Equipment Instrument, through direct management.

In 2023, DG TAXUD reported to Paolo Gentiloni, Commissioner for Economy, and the Director-General was Gerassimos Thomas.

EXECUTIVE SUMMARY

This annual activity report is a management report of the Director-General of department Taxation and Customs Union to the College of Commissioners. Annual activity reports are the main instrument of management accountability within the Commission and constitute the basis on which the College takes political responsibility for the decisions it takes as well as for the coordinating, executive and management functions it exercises, as laid down in the Treaties ([1]).

([1]) Article 17(1) of the Treaty on European Union.

A. Key results and progress towards achieving the Commission’s general objectives and department's specific objectives

In 2023, DG Taxation and Customs (TAXUD) realised important progress in our policy area, as agreements were reached on key initiatives of high political priority. We advanced on our ambitious tax and customs agendas, while also providing active support to the Commission’s crisis response, in the face of Russia’s aggression in Ukraine.

DG TAXUD has put the reform of taxation at the heart of its agenda in this mandate. DG TAXUD continued to ensure that tax policy was properly integrated into the EU economic governance processes, through the **Recovery and Resilience Facility** (RRF), and the **European Semester.** We followed and assisted Member States with their national reform processes, given that more growth-friendly tax systems and more efficient revenue collection are critical to the EU’s long-term competitive sustainability.

The EU agenda for **corporate tax reform** is built on the twin pillars of fairness and simplicity, to ensure that taxation supports Europe’s economic recovery and long-term growth. In 2023, DG TAXUD’s focussed primarily on supporting Member States with the effective transposition and implementation of the **Pillar 2 Directive** by 1 January 2024. On 12 September 2023, the European Commission adopted three proposals to simplify tax rules for European businesses. Firstly, the **‘Business in Europe: Framework for Income’** Taxation (BEFIT) proposal lays down a new, common set of rules to determine the tax base of groups of companies in the EU. Secondly, the **proposal for harmonised transfer pricing rules** within the EU should ensure a common approach to transfer pricing problems. Thirdly, as part of the ‘SME Relief Package’, the Commission proposed its initiative to simplify tax rules for businesses, namely the **“Head Office Tax System for SMEs”** giving SMEs operating cross-border through permanent establishments the option to apply only one set of national tax rules and interact with only one tax administration.

In June 2023, the Commission proposed **new rules to make withholding tax procedures in the EU more efficient and secure** for investors, financial intermediaries (e.g. banks) and Member State tax administrations. The new reporting obligations will establish for tax authorities the full visibility of the financial chain to check that investors are eligible for reduced rates and to ensure that a withholding tax refund is correctly granted.

In 2023, DG TAXUD continued its efforts to improve the functioning of the VAT system. It continued the interinstitutional negotiations for the **VAT in the Digital Age package** and finalised the work on the development of the **Central Electronic System of Payment data** which entered into force in January 2024. DG TAXUD also enhanced the work with Member States to explore how the fight against VAT fraud could be further improved, beyond the proposed new measures.

While, as from 13 February 2023 commercial excise movements across the EU were fully digitalised and became paperless, the work on the **distance selling of excise goods** advanced and is expected to be completed in 2024 together with experts from Member States, DG TAXUD elaborated solutions to simplify the current procedures for the distance sales of alcoholic beverages.

The EU's **Carbon Border Adjustment Mechanism** (CBAM) is the EU's tool to put a fair price on the carbon emitted during the production of carbon intensive goods that are entering the EU, and to encourage cleaner industrial production in non-EU countries. On **1 October 2023**, the CBAM entered into application in its transitional phase. The CBAM will initially apply to imports of certain goods and selected precursors whose production is carbon intensive and at most significant risk of carbon leakage: cement, iron and steel, aluminium, fertilisers, electricity and hydrogen.

Progress was also made in negotiations on the revision of the **Energy Tax Directive** in the Council in 2023 but a unanimous agreement has not been reached by Member States yet. DG TAXUD supported the work in other policy areas to advance the EU's green agenda. Following the adoption of the Regulation on an emergency intervention to address high energy prices in 2022, TAXUD monitored the application and enforcement of the measures supporting final energy customers through a temporary solidarity contribution).

DG TAXUD continued the interinstitutional negotiations on the **Customs Union Reform** proposal responding to the current pressures under which EU Customs operates, including a huge increase in trade volumes, especially in e-commerce, a fast-growing number of EU standards that must be checked at the border, and shifting geopolitical realities and crises. The reform of the EU Customs Union aims amongst others for one true common border with central supervision and **common EU risk management** to reinforce the protection of the Single Market. The reform also envisages to strengthen the cooperation between customs and other authorities for a better enforcement of prohibitions and restrictions. The **EU Single Window Environment for Customs** is a key pillar of the EU Customs Reform, establishing a bridge between customs and numerous non-customs policy domains. Its goal is to enhance cooperation and ensure interoperability between these domains in streamlining the electronic exchange, processing and verification of documents and information required for the goods clearance process. The proposal also foresees an EU Customs Data Hub that would allow more efficient provision of data by private companies and better data sharing between customs authorities, and between customs and other authorities to facilitate trade.

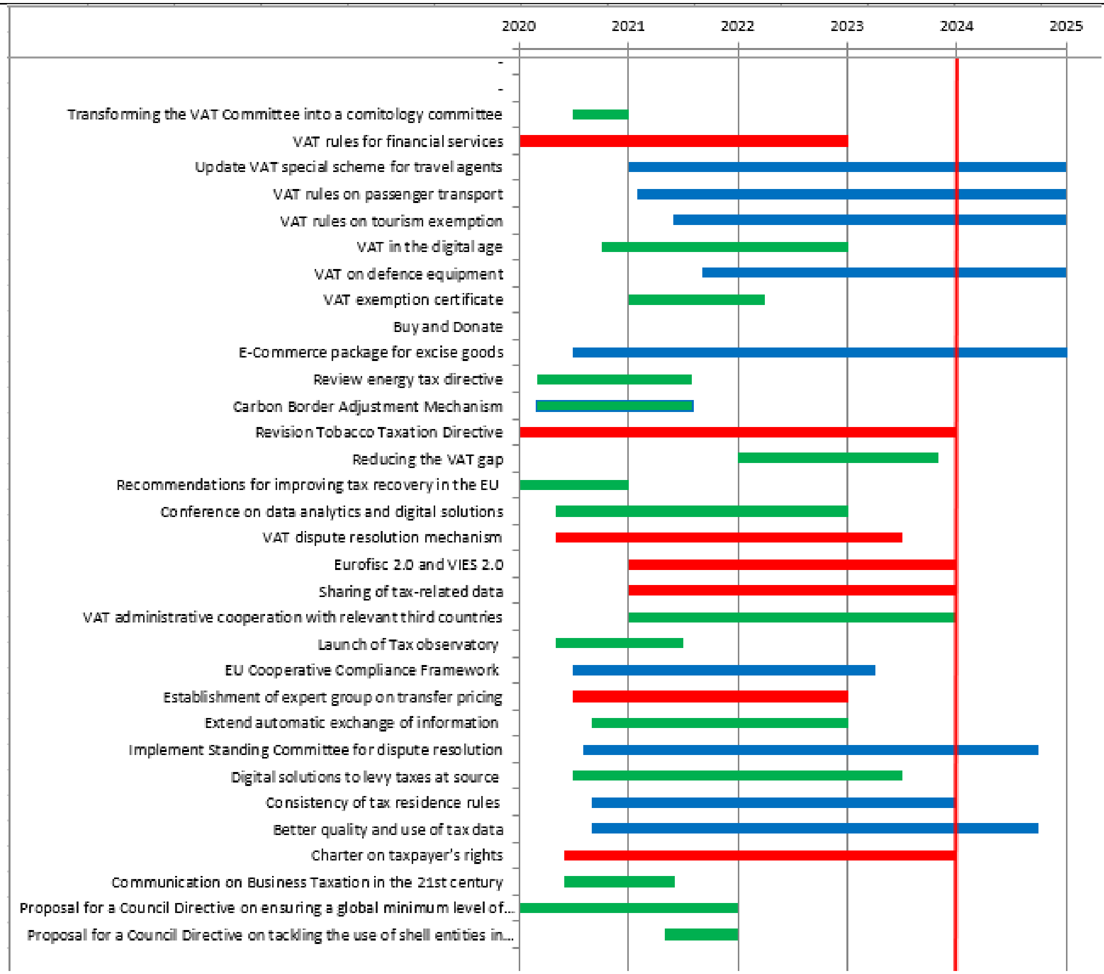
A **Work Programme** determines when the different **Customs IT systems** will be deployed. In 2023, DG TAXUD delivered the second release of the Import Control System (ICS2) and continued its activities for the other projects such as the Guarantee Management system, the Proof of Union Status System, the Automated Export System, Transit and the Centralised Clearance at Import system. The 2023 progress report revealed that Member States have different degrees of implementation impacting the delivery of the national components for the trans-European systems, and as such impacting other Member States and Economic Operators.

The **Common Customs Tariff (CCT)** applies uniformly to goods imported into the EU, regardless of the Member State they are imported into. DG TAXUD continued to work closely with customs administrations to ensure that the CCT was uniformly applied at every entry point into the Union. We also regularly updated the **Integrated Tariff database (TARIC)**, which ensures that businesses and traders have a reliable and comprehensive overview of all tariffs and other measures (e.g. prohibitions and restrictions) that apply to EU imports and exports. **TARIC**, also played a particularly important role supporting the enforcement of EU sanctions against Russia and Belarus at customs.

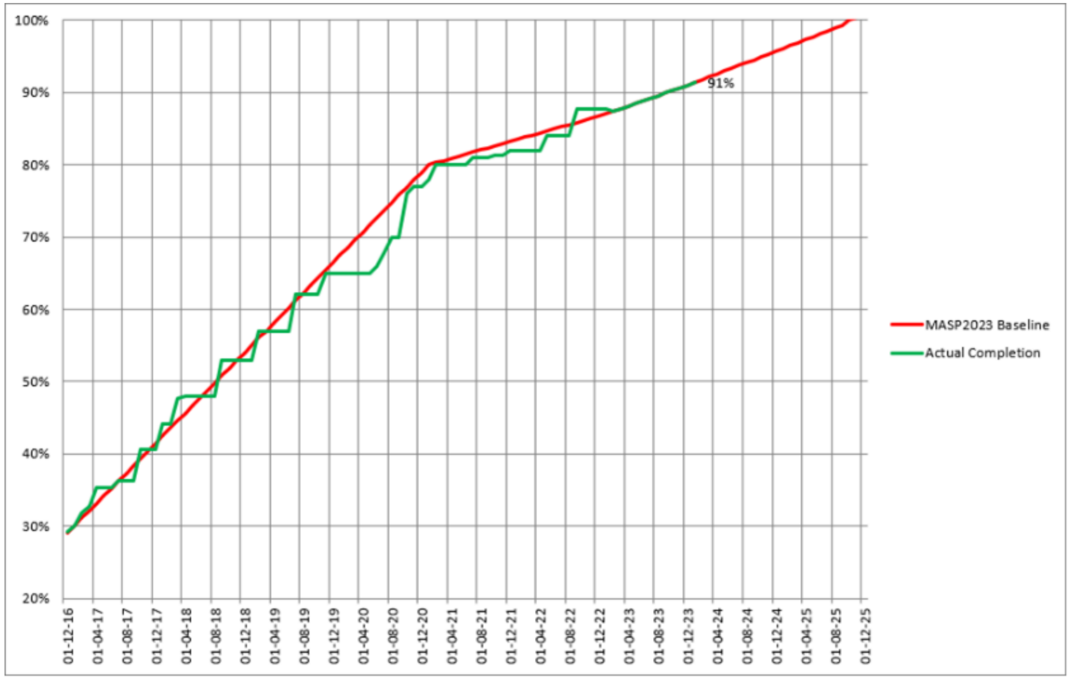
Customs played a central role in ensuring that the sanctions' packages against Russia and Belarus were properly enforced. With each new sanctions package, DG TAXUD worked to ensure that customs could effectively **implement and enforce the EU sanctions**. We facilitated quick and regular information exchange between Member States (via TARIC and CRMS2) on sanctions and related risks, responded to Member States' and traders' questions on the implementation of the sanctions via the TAXUD crisis response mailbox, and held regular meetings with the heads of EU customs administrations to coordinate proper crisis management.

In 2023, the **Customs programme** continued supporting the Customs Union and notably addressed the challenges the EU is facing as a result of Russia's aggression to Ukraine. The programme also contributed to the delivery of the Union's priorities through its support to the functioning of key customs IT systems and to enhanced collaboration among Member States. The **Fiscalis programme** was instrumental in guaranteeing business continuity of the European Electronic Systems for taxation and, more broadly, in supporting developments in the field of digitalisation. It also served to foster cooperation among the tax authorities. In 2023, Member States were invited to submit proposals for financing equipment following the adoption of the 2023-2024 CCEI Multi-Annual Work Programme which includes funding priorities like the EU Customs Reform proposal and the European Ports Alliance.

B. Key performance indicators

KPI 1 Tax Action Plan Implementation Indicators	

The projects are Ongoing, Finalised or Delayed on 31 December 2023.

KPI 2 **Customs Action Plan Implementation Indicators**	

** This concerns only actions that are to be realised by the Commission.*

C. Key conclusions on internal control and financial management

In line with the Commission's Internal Control Framework DG TAXUD has assessed its internal control systems during the reporting year and has concluded that it is effective and the components and principles are present and functioning as intend. Please refer to annual activity report section 2.3 for further details.

In addition, DG TAXUD has systematically examined the available control results and indicators, as well as the observations and recommendations issued by the internal auditor and the European Court of Auditors. These elements have been assessed to determine their impact on management's assurance about the achievement of the control objectives. Please refer to section 2 for further details.

In conclusion, management has reasonable assurance that, overall, suitable controls are in place and working as intended; risks are being appropriately monitored and mitigated. The Director-General, in his capacity as Authorising Officer by Delegation, has signed the Declaration of Assurance.

D. Provision of information to the Commissioner

In the context of the regular meetings during the year between the department Taxation and Customs Union and the Commissioner for Economy on management matters, the main elements of this report and assurance declaration have been brought to the attention of Commissioner Gentiloni, responsible for Economy.

1. KEY RESULTS AND PROGRESS TOWARDS ACHIEVING THE COMMISSION'S GENERAL OBJECTIVES AND SPECIFIC OBJECTIVES OF THE DEPARTMENT

General Objective 1: European Green Deal

Specific Objective 1.1: Design EU tax policy actions that contributes to a carbon neutral continent by 2050

The EU's Carbon Border Adjustment Mechanism (CBAM) is the EU's tool to put a fair price on the carbon emitted during the production of carbon intensive goods that are entering the EU, and to encourage cleaner industrial production in non-EU countries. The gradual introduction of the CBAM is aligned with the phase-out of the allocation of free allowances under the EU Emissions Trading System (ETS) to support the decarbonisation of EU industry. In May 2023, the European Council and Parliament reached agreement on the Carbon Border Adjustment Mechanism. In August 2023, the Commission laid down the implementing rules for CBAM after having consulted stakeholders and after a positive vote in the CBAM Committee. On 1 October 2023, the CBAM entered into application in its transitional phase, with the first reporting period for importers ending 31 January 2024.

The CBAM will initially apply to imports of certain goods and selected precursors whose production is carbon intensive and at most significant risk of carbon leakage: cement, iron and steel, aluminium, fertilisers, electricity and hydrogen. With this enlarged scope, CBAM will eventually – when fully phased in – capture more than 50% of the emissions in ETS covered sectors. The objective of the transitional period is to serve as a pilot and learning period for all stakeholders (importers, producers and authorities) and to collect useful information on embedded emissions to refine the methodology for the definitive period.

The gradual phasing in of CBAM over time will also allow for a careful, predictable and proportionate transition for EU and non-EU businesses, as well as for public authorities. During this period, importers of goods in the scope of the new rules will only have to report greenhouse gas emissions (GHG) embedded in their imports (direct and indirect emissions), without making any financial payments or adjustments. Indirect emissions will be covered in the scope after the transitional period for some sectors (cement and fertilisers). To help importers in the EU but also operators in third countries, the Commission published extensive guidance to facilitate the reporting for importers during the transitional period and organised events with stakeholders of the different sectors and uploaded learning modules on a dedicated website online. Feedback from stakeholders has been important to prepare the launch of the transitional period and the Commission will continue working on how to further simplify the reporting procedures.

DG TAXUD worked actively with global partners on the issues of carbon mitigation and carbon pricing instruments last year, as well as engaging with stakeholders in third countries to explain the impact of CBAM. DG TAXUD also promoted international discussions on carbon pricing and carbon mitigation policies in all relevant fora, including the OECD, G7/G20 and WTO. In November 2023, DG TAXUD participated in a **panel at COP28** on carbon pricing and the role of carbon border adjustment mechanisms, which was one of the most attended Commission events at the conference.

Progress was also made in negotiations on the revision of the **Energy Tax Directive** in the Council in 2023 but a unanimous agreement has not been reached by Member States yet. The technical discussions allowed to focus on the most political issues where an agreement could be envisaged in 2024. The revised Directive will update the EU's framework for taxing energy products, by taxing polluting fuels more heavily, while encouraging the use of cleaner fuels. In addition to supporting the climate agenda, the revised Energy Tax Directive should support the EU's goal of reducing dependence on foreign fossil fuels. DG TAXUD will continue to push for quick agreement on this file in Council and the European Parliament in the year ahead.

In addition, DG TAXUD supported the work in other policy areas to advance the EU's green agenda. To that end, and following the adoption of the Regulation on an emergency intervention to address high energy prices (EU 2022/1854) in October 2022, TAXUD worked diligently to monitor the application and enforcement of the measures to support final energy customers through a temporary solidarity contribution (Chapter III of the Regulation). A stocktaking report was published on the nationally enacted equivalent measures in November 2023. We furthermore closely followed negotiations on the other climate files, given the inextricable link between the different initiatives in the "Fit for 55" package. We also liaised with other DGs on new environmental measures, such as deforestation-free products, to ensure the rules could be properly enforced at customs.

General Objective 3: An economy that works for the people

Specific Objective 3.1: Develop tax policy actions for a stronger, fairer and more efficient Single Market[2]

DG TAXUD has put the reform of taxation at the heart of its agenda in this mandate, given its importance in delivering sustainable revenues, supporting businesses, and promoting economic growth. In our work for tax reforms – at international, EU and national level – DG TAXUD has focussed on policies and processes that will boost the fairness, effectiveness and transparency of taxation, while making it as easy as possible for taxpayers to comply. We are pushing for the digitalisation of systems and administrations, and the full exploitation of data, as critical components in delivering these results.

I. Implementing corporate tax reform for a fairer system that supports business and investment

The EU agenda for corporate tax reform is built on the twin pillars of fairness and simplicity, to ensure that taxation supports Europe's economic recovery and long-term growth.

In 2023, following the adoption of the Pillar 2 Directive in December 2022, DG TAXUD's focussed primarily on supporting Member States with the effective transposition and implementation of the Directive by 1 January 2024. In this regard, DG TAXUD organised multiple working party meetings with Member States (WPIV) and continued to follow the discussions of the OECD working party (WP11). These led to agreements in February and July 2023 on additional guidance for

- the transitional Undertaxed Profits Rule and Qualified Domestic Minimum Top up Tax Safe Harbours,
- Transferable Tax Credits,
- the transitional Country-by-Country Reporting Safe Harbour and
- the GloBE Information Return.

In November 2023, the Commission confirmed in a political statement its support for the ongoing work at OECD and welcomed the compatibility of the agreements on administrative guidance with the Pillar 2 Directive.

[2] This chapter includes the activities that were described in the Strategic Plan and the 2020 Management Plan under the headings 3.1 and 3.2 except for the taxation activities (notably excise) supporting other EU policies which are to be found in chapter 3.3 of the 2023 Activity Report

In 2023, DG TAXUD followed closely the technical work lead by the OECD on the finalisation of the Multilateral Convention (MLC) for the implementation of Amount A and the technical discussion on Amount B in the context of Pillar One. At the ECOFIN Council of 9 November 2023, Member States welcomed the progress made by the OECD/G20 Inclusive Framework so far and reiterated their continued support to the ongoing work in the Pillar One area. The Commission at the same time welcomed the release of the Multilateral Convention on Amount A and stressed the importance of signing it in a timely manner. It also underlined the importance of Amount B as a key component of the ongoing reform of international taxation since it would be simplifying transfer pricing and enhancing legal certainty.

In parallel to the international reform process, DG TAXUD prepared important reforms to the EU's rules for business taxation in line with President Von der Leyen's pledge to create a favourable business environment in our Single Market to boost EU competitiveness.

In June 2023, the Commission proposed **new rules to make withholding tax procedures in the EU more efficient and secure** for investors, financial intermediaries (e.g. banks) and Member State tax administrations. Currently, for cross-border investments, many Member States levy withholding taxes on dividends on holdings of equities and on the interest on holdings of bonds paid to investors who live abroad. However, investors also have to pay income tax in their country of residence on the same income. To avoid double taxation, many countries have agreed to share taxing rights between the source and the residence countries by signing double tax treaties. These treaties may entitle non-resident investors to a lower rate of withholding taxes or to an exemption in the country they are levied. The problem is that these refund procedures are often lengthy, costly and cumbersome, causing frustration for investors and discouraging cross-border investment within and into the EU.

The new reporting obligations will mean that tax authorities have full visibility of the financial chain to check that investors are eligible for reduced rates and to ensure that a withholding tax refund is correctly granted, therefore fighting tax abuse. The digitalisation of the tax residence certificate and the standardisation of the reporting obligations and of the refund requests would allow financial intermediaries to automate their processes, saving time and money. This would speed up the refund process as well as making withholding tax procedures more secure.

On 12 September 2023, the European Commission adopted three proposals to simplify tax rules for European businesses. Firstly, the '**Business in Europe: Framework for Income' Taxation (BEFIT) proposal** lays down a new, common set of rules to determine the tax base of groups of companies in the EU starting from their consolidated financial accounts. Groups applying BEFIT will no longer have to apply up to 27 different corporate tax systems for their activities across the internal market, and they will be able to file a centralised information return with the so-called 'preliminary tax results' of all the EU members of the group with the tax administration of one Member State. As such BEFIT can significantly reduce compliance costs for European businesses. In addition, as these tax results will follow the same rules across the EU, they can

be aggregated into a single ‘BEFIT tax base’ at EU group level. This enables cross-border loss offsetting and effectively eliminates double taxation in the EU, thereby supporting the competitiveness of European businesses worldwide. Finally, to maintain the different tax rate policies of Member States, the tax base is then allocated back for taxation at the level of each group member. On these allocated shares, Member States will be able to apply additional adjustments and their own tax rates.

The new rules will be mandatory for groups operating in the EU with an annual combined revenue of at least €750 million. For groups headquartered in third countries, their EU group members would need to have raised at least €50 million of annual combined revenues in at least two of the last four fiscal years or at least 5% of the total revenues of the group. Smaller groups may choose to opt in as long as they prepare consolidated financial statements. This optional scope could be of particular interest to SME groups that operate cross-border, as they may have less resources to dedicate to compliance with multiple national corporate tax systems. in 2023, the proposal has been presented and discussions started in Council. It must be agreed unanimously by all EU Member States in the Council before it can become law.

Transfer pricing is a mechanism to determine the pricing of transactions between companies that are part of the same group. A significant volume of global trade consists of international transfers of goods and services, capital and intangibles, such as intellectual property, within a multinational group. These are called intra-group transactions. According to the current international standards - the OECD's arm's length principle - transactions between related entities of a multinational group must be priced on the same basis as transactions between third parties under comparable circumstances. In this respect, the Commission introduced on 12 September its second **proposal for harmonised transfer pricing rules** within the EU and ensuring a common approach to transfer pricing problems. It incorporates the arm's length principle and key transfer pricing rules into EU law, clarifies the role and status of the OECD Transfer Pricing Guidelines and creates the possibility to establish common binding rules on specific aspects of the rules within the Union. The proposal will increase tax certainty and mitigate the risk of litigation and double taxation. Moreover, it will also reduce the opportunities for companies to use transfer pricing for aggressive tax planning purposes. The Commission’s proposal must be agreed unanimously by all EU Member States in the Council before it can become law.

The Commission presented the ‘SME Relief Package’ in September 2023. This is a series of initiatives to address the needs of Europe's small and medium-sized enterprises (SMEs). Representing 99% of Europe's businesses, SMEs are key to the European economy and essential drivers of Europe's green and digital transitions, but often struggle to expand across borders and to fully participate in the internal market. Tax compliance costs disproportionately affect SMEs and represent an important regulatory barrier for expanding abroad. As part of the ‘SME Relief Package’, the Commission proposed its third initiative to simplify tax rules for businesses, namely the **“Head Office Tax System for SMEs”** giving SMEs operating cross-border through permanent establishments the option to apply only one set of national tax rules and interact with only one tax administration – that of the Head Office – instead of having to comply with multiple tax systems. This proposal will reduce compliance costs to support SMEs to expand cross-border in the EU. SMEs operating in different Member States will be able to fully maximise the freedom of establishment without being hindered by unnecessary tax related obstacles. In 2023, the proposal has been presented and discussions started in Council. It must be agreed unanimously by all EU Member States in the Council before it can become law.

To ensure the principles of fair taxation apply beyond EU borders, DG TAXUD continued to support the work on the **EU list of non-cooperative jurisdictions**. In addition to assisting Member States in their outreach to and assessment of third countries, DG TAXUD sought to strengthen the criteria of the listing process and enhance their effectiveness.

The Commission finally assisted the Swedish and Spanish Presidencies with the negotiations at Council on the UNSHELL file. While significant progress was made towards a compromise, further work is needed to reach agreement and the Belgian Presidency is expected to continue discussions on this proposal.

In the context of the fight against tax evasion, the Commission has achieved its objective of including information held by crypto-asset service providers among the data exchanged automatically. This proposal amending the Directive on Administrative Cooperation (DAC) was adopted in October 2023. On 1 January 2023, the reporting by Platform Operators on behalf of seller's resident in the European Union or renting out immovable property in the European Union entered into force with the first exchange of information taking place in February 2024.

II. Upgrading VAT rules, for revenues and growth

Throughout 2023, DG TAXUD continued the interinstitutional negotiations for the **VAT in the Digital Age package** of measures. The aim of the package is to bring the VAT system into line with the digital economy, making it easier for businesses to comply with and more fraud-proof. It consists of three elements:

- Introducing transaction-based digital (real-time) reporting obligations for cross border trade (Digital Reporting Requirements – DRR). This would be built on the mandatory use of e-invoicing for cross-border trade, alongside compatible reporting requirements for domestic supplies;
- New rules on supplies of short-term accommodation rental and passenger transport via a platform. This involves the introduction of the 'deemed supplier' measure, by which platforms involved in the supply of short-term accommodation rental and passenger transport would be required to account for the VAT instead of the underlying suppliers, when these suppliers do not account for VAT themselves;
- Reducing the remaining obligations for businesses to be required to register in another Member State (Single VAT Registration – SVR). This builds on the success of the e-commerce measures introduced in 2021.

The negotiations spanned several meetings on each of the three elements across the two Presidencies in 2023. The ECOFIN of 8 December 2023 took note of the progress report prepared by the Spanish Presidency on the VAT in the Digital Age package that highlighted a broad consensus reached on the SVR part of the package, with some further work to be done to reconcile the positions of the Member States in the platforms' element of the package and the DRR part.

Specifically, on the platforms' element, Member States could not yet agree on the application of the deemed supplier measure. On the DRR element, while Member States could support the main principles, some important technical features on electronic invoicing will still require further analysis. Finally, the entry into force of the various elements of the package will also require further discussion.

The ViDA package is a top priority file for the BE Presidency, and it is likely to be adopted under its term, with work on implementation starting immediately after adoption of the package. In the Parliament, the proposal was approved, with some amendments.

VAT is an important source of revenue for public budgets. However, as outlined in DG TAXUD's **VAT Gap report**, Member States lost almost €61 billion in VAT revenues in 2021, partly as a result of weaknesses in the overall VAT system. In 2023, DG TAXUD continued its efforts to improve the functioning of the VAT system. It finalised the work on the development of the **Central Electronic System of Payment data** which entered into force in January 2024. DG TAXUD worked closely together with experts from Member States and payment service providers to draft the CESOP guidelines and frequently asked questions.

DG TAXUD deepened the work with Member States to explore how the fight against VAT fraud could be further improved, beyond the proposed new measures. The **TADEUS group**, comprised of the heads of national tax administrations and the Commission, worked in 2023 amongst other on projects on digital security and artificial intelligence. Progress was made notably on identifying **common methodologies** to be tested for estimating the tax gap, with a particular focus on the gap due to e-commerce fraud and to VAT Missing Traders fraud.

DG TAXUD also worked on the evaluation of the current EU rules on VAT administrative cooperation assessing the current tools for cooperation between tax authorities in fighting VAT fraud. The results will feed into a report on the application of the Regulation on administrative cooperation and fight against fraud in the field of VAT, and likely a proposal in 2024.

III. Upgrading Excise rules, for revenues and growth

A new legal framework consisting of several legislative acts governing the general arrangements of excise duty became applicable in 2023. As from 13 February 2023 commercial excise movements across the EU were fully digitalised and became paperless. As from that day, the Excise Movement Control System (EMCS) ensured commercial duty paid movements are treated in the same way as movements under excise duty suspension. Moreover, the EU central register of excise economic operators (SEED) was updated to include the new registration of economic operators involved in commercial duty paid movements. In parallel to the above, DG TAXUD undertook the preparatory work to align the EMCS and the customs Automated Export (AES) systems. This represents another major milestone of the excise system requiring extensive discussion with Member States and work on the legal acts throughout 2023.

In 2023, the work on the **distance selling of excise goods** advanced. Together with experts from Member States DG TAXUD elaborated solutions to simplify the current procedures for the distance sales of alcoholic beverages with the work expected to be completed in 2024.

Proper Enforcement for Better Results in EU tax policy

In 2023, DG TAXUD intensively monitored the correct and timely implementation of EU law and prioritised its enforcement actions. Despite still being the fifth most burdened DG in terms of number of incoming complaints and having a heavy load of new/updated legislative initiatives to assess/monitor, TAXUD has become one of the better performing DGs in terms of number of complaints handled (as a % of total) and in terms of eradicating the backlog (more than 2 years outstanding). TAXUD also greatly improved in terms of its enforcement action speed and agility (speed with which we treat EUPs and infringements). Results in 2023 demonstrate that TAXUD is making progress in an area that is increasingly being identified as a priority area – implementation – for the future Commission; further emphasis and support on this front will be key to continuing the upwards trend and positive results for citizens and businesses.

In this context, DG TAXUD actively supported the Member States' efforts in transposing and implementing the revised common framework for excise products, revised rules for excise duties on alcohol, rules on the VAT and excise duty treatment of defence efforts undertaken within the EU, and new DAC7 rules amending the Directive on administrative cooperation in the field of taxation in relation to transactions on digital platforms. TAXUD continued to work on monitoring how Member States had implemented the so-called Solidarity Contribution; and on securing the final conform implementation in a number of limited cases as regards provisions of the Anti-Tax Avoidance Directive (ATAD) and previously adopted Directives on administrative cooperation (DAC).

DG TAXUD took enforcement actions against those EU countries, which failed to transpose and implement the required legislation on time, as well as those that had not transposed national measures in a manner fully conform with the relevant EU legislation. To that end, TAXUD followed through with a referral to the Court of Justice for Belgium and Luxembourg for having failed – now years after the fact – the fully properly transpose the ATAD into national law; while at the same time closing three open infringements in other Member States after the necessary legal amendments were put in place. It should also be noted that, through active engagement with the Member States concerned, TAXUD managed to close 9 of the 14 infringements open for non-communication of the DAC7 transposing legislation, and to mark 17 Member States fully complete and conform in their transposition.

Through infringement procedures, DG TAXUD also targeted national fiscal measures creating distortions of competition in the Single Market. These included issues such as the definition of wine for excise duty purposes, withholding taxes for royalties or capital gains paid to non-resident taxpayers, provisions introducing an obligation to appoint a local (national) tax representative, provisions regarding work-related allowances affecting the free movement of workers, on the tax-deductibility of nursing care in cross-border cases, and action against unjustified restrictions to the freedom to provide services or that negatively impact the free movement of capital. Enforcement actions resulted in 1 new infringement procedure being launched in 2023 in the field of indirect taxation and 17 in the field of direct taxation.

During the year, working together with Member States to ensure compliance with EU law led to the closure of 45 indirect taxation and 21 direct taxation related infringement cases. Most importantly, the **enforcement actions yielded tangible results for citizens and businesses**. For example:

- **Romania** refunded the registration taxes that it had wrongly levied on used cars acquired from other Member States.
- **Greece** removed the VAT exemption on commercial postal services supplied by the national universal service provider, ensuring that businesses can now compete fairly with each other and offer a wide choice of commercial postal services to consumers.
- Furthermore, following enforcement action by the Commission, the Court of Justice ruled in 2023 that the **UK** has not taken steps to comply with its earlier judgment concerning incorrect marking of fuel. The Court obliged the UK to pay a financial sanction of EUR 32.000.000, which the UK paid in 2023.
- **Spain** abolished the obligation imposed on non-resident taxpayers from the EU or EEA to appoint a tax representative. The latter imposed additional costs on non-resident taxpayers which discouraged them from taking up activities or investment in Spain.
- **Romania** remedied the situation of the hotel, restaurant and cafés (HoReCa) sector, which was being deprived of the benefits under the Parent-Subsidiary Directive providing for an exemption of withholding taxes between associated companies.

IV. Looking ahead to a more prosperous and resilient future

Mega-trends such as ageing populations, changing labour markets, digitalisation and globalisation pose existential questions with regard to the sustainability of our current tax systems. The green and digital transitions, together with the need for fair and stable revenues for recovery and growth, have accentuated the need to re-think the role of taxation in delivering on the EU's highest goals. As tax reforms are rolled out at national, EU and international level, it has become increasing clear that the basic assumptions that have applied to tax policy for over a century may no longer be sustainable.

Therefore, in 2023, DG TAXUD continued with its ambitious and broad reflection process on pressing questions related to the future of taxation. The second **EU Tax Symposium** event was held in October, with the theme "The future of taxation in the EU: Challenges ahead & changes needed". The event, held over two days, was co-hosted with the European Parliament and brought together more than 1,000 participants online and onsite, including high-level politicians, policymakers, academics and stakeholders, who discussed thematic challenges, opportunities and possible approaches for taxation in the years and decades ahead.

Also, DG TAXUD completed and published the annual update of **data on taxation trends** in March while an **event** in July marked the publication of the **Annual Report on Taxation**, with panel sessions on the role of labour taxation in promoting fairness and equality and on estimating tax abuse and optimising revenue collection. Both publications provided valuable input for reflections, including those at the EU Tax Symposium as these provide important information and analysis of Member States' tax systems.

DG TAXUD continued working with Member States to explore existing and emerging challenges facing our tax systems. TAXUD exchanged experiences with Member States on the taxation of crypto-assets and with the support of the TADEUS group, TAXUD worked with Member States on the estimation of the tax gap in personal income tax and corporate income tax. To ensure better quality and use of DAC data, DG TAXUD together with the TADEUS group supported several FISCALIS programme projects in this regard. The Working Group on the Structures of Taxation Systems discussed various important analytical issues, including launching an exchange of experiences on the measurement of tax expenditures.

Meanwhile, DG TAXUD continued to ensure that tax policy was properly integrated into the EU economic governance processes, through the **Recovery and Resilience Facility** (RRF), and the **European Semester.** We followed and assisted with Member States' national reform processes, given that more growth-friendly tax systems and more efficient revenue collection are critical to the EU's long-term competitive sustainability. The Commission has now adopted all national recovery plans, including various tax-related measures. DG TAXUD also assisted in the assessment of payment requests. We supported DG REFORM in assessing Member States' requests for support with their reforms under the **Technical Support Instrument**.

An important flagship on supporting the digital transformation of tax and customs authorities was proposed for the 2024 cycle.

Specific Objective 3.2: Implement the EU Programmes supporting EU tax and customs policy

The **Customs and Fiscalis programmes** provide financial support to a range of actions aimed at achieving the programme' general and specific objectives. The eligible actions can be divided into the following main categories:

a) European electronic systems (EES);
b) Collaborative actions (including expert teams);
c) Human competency building and trainings;
d) Other actions (such as studies and communication actions);
e) Innovation (Customs programme only).

In 2023, the Customs programme continued supporting the Customs Union and notably addressed the challenges the EU is facing as a result of Russia's aggression to Ukraine. The programme also contributed to the delivery of the Union's priorities through its support to the functioning of key customs IT systems and to enhanced collaboration among Member States. The Fiscalis programme was instrumental in guaranteeing business continuity of the European Electronic Systems for taxation and, more broadly, in supporting developments in the field of digitalisation. It also served to foster cooperation among the tax authorities.

Both programmes continued supporting EU level training activities, such as eLearning courses on EU customs and tax legislation, as well as offering a platform to participating countries for the organisation of common learning events. Overall, the collaboration generated by the Customs and Fiscalis programmes remained strong in 2023.

In 2023, the Financing Decision with the next Multi-Annual Work Programme (2023-2025) for the Customs programme was adopted, whereas the one for the Fiscalis programme, covering 2024-2025, was prepared and adopted in January 2024.

Significant efforts were dedicated during the year to negotiating and adopting agreements with third countries, enabling their participation to the new Customs and Fiscalis programmes. In March 2023 the Commission rolled out a new version of the online collaboration platform (Programme Information and Collaboration Space – PICS) supporting cooperation and knowledge sharing amongst the customs and taxation communities.

In preparation for the interim evaluation of the Customs and Fiscalis programmes, due in 2024, the Commission examined several aspects of the Programmes' operational implementation. This included for example the use of the "expert team" cooperation mechanism and the proportionality between online and physical meetings organised under the Programmes.

The **Customs Control Equipment Instrument (CCEI)** provides financial support for the purchase, maintenance, and upgrade of state-of-the-art customs control equipment thereby helping the national customs authorities to act as one in protecting the interests of the Union. In 2023, Member States were invited to submit proposal for financing equipment following the adoption of the 2023-2024 CCEI Multi-Annual Work Programme which includes funding priorities like the EU Customs Reform proposal and the European Ports Alliance.

The CCEI Coordination Group, involving Member States' customs authorities continued to provide a platform to inform and discuss on policy, grant implementation, the interim evaluation of the programme, due in 2024.

Specific Objective 3.3: Support other EU policy priorities through taxation

DG TAXUD is committed to ensuring that tax and customs policies play their full part in delivering on the EU's highest political priorities and in supporting key initiatives in other policy areas. Taxation and customs have also been pivotal components of EU crisis response in recent years, helping the Commission to react in a decisive, agile and effective way to each crisis as it arose (see box below).

As outlined above (*see General Objective 1*), EU tax policy is central to the **Green Deal** and to the EU's quest for greater energy autonomy. Taxation is also highly integrated in the EU's **recovery and growth agenda**, while the ongoing tax and customs reforms are fully in line with the EU's **digital agenda**.

In 2022, in the face of war on European soil, the importance of the EU's **Security Union** and EU defence agenda rose to the fore. TAXUD contributed to the ongoing work in this area, collaborating with lead DGs to prepare proposals for 2023 to boost EU defence capabilities. DG TAXUD provided advisory support to the new Action Plan on **Military Mobility** 2.0, in view of the automated exchange of information between customs and military forces.

DG TAXUD actively participated in the inter-service work to the prepare the proposals on **firearms** and against **goods produced by forced labour**, which the Commission proposed last year. Particular attention was given to ensuring that, once adopted, these rules can be properly implemented and enforced by customs at the EU's borders. Customs also contributed to the Security Union by tackling a wide range of risks at the external border, from drug precursors to illicit cash, to looting of cultural goods. In addition, customs remained at the frontline in ensuring that imports comply with EU product requirements and rules, to protect our citizens and the environment and to ensure a level playing field for EU businesses with third countries imports [*see p. 32*].

In 2023, DG TAXUD also worked on concrete contributions to support the **EU Health Union** and the Commission's Beating Cancer plan. In particular, DG TAXUD commissioned a study focusing on taxes on products high in fat, sugar and salt (HFSS), based on the current practice in EU Member States. This study will provide the basis for further discussion with Member States and other relevant stakeholders on the taxation of HFSS products.

CRISIS RESPONSE: UKRAINE

In 2023, Russia's brutal aggression in Ukraine continued to dominate the agenda. It called for a swift, decisive and determined reaction from the European Commission, both in tackling Russia and its allies and in supporting Ukraine. DG TAXUD was heavily involved in this crisis response, identifying and implementing actions in the fields of tax and customs to reinforce the EU stance.

From the adoption of the sanctions' packages against Russia and Belarus, customs played a central role in ensuring they were properly enforced. With each new sanctions package, DG TAXUD worked to ensure that customs could effectively **implement and enforce the EU sanctions**. We facilitated quick and regular information exchange between Member States (via TARIC and CRMS2) on sanctions and related risks, responded to Member States' and traders' questions on the implementation of the sanctions via the TAXUD crisis response mailbox, and held regular meetings with the heads of EU customs administrations to coordinate proper crisis management. We also assisted in setting up mechanisms to detect possible sanctions circumvention and compiled a weekly survey to monitor the situation on the ground. We provided regular support and guidance to customs authorities in dealing with this new challenge, including by visiting the Member States bordering Russia and/or Ukraine. In the summer of 2023 to respond to growing concerns on the circumvention of sanctions TAXUD initiated a project to develop Guidance on a common approach to risk management and customs controls in tackling the risks of circumvention related to sanctions against Russia and Belarus. The Guidance aims to strengthen risk management and improve coordination among EU customs authorities in tackling circumvention risks.

DG TAXUD liaised closely with third countries and stakeholders, to communicate and explain the sanction measures, to prevent circumvention and to ensure compliance. Within the World Customs Organisation, we took an active lead role in establishing a coordinated support scheme for Ukraine.

On the taxation side, DG TAXUD continued the **Tax Enforcement Plan**, to ensure effective tax enforcement action against sanctioned Russians and Belarussians, their companies and their associates. These actions include tax audits, screening refunds and information exchange between and by Member States tax authorities. A tax subgroup functions within the EU's "Freeze and Seize" Task Force coordinating the work on this plan and ensure its proper implementation.

At the same time, we stepped up our cooperation with Ukraine and Moldova. We **accelerated the pre-accession work**, both countries are participating in the **Customs and Fiscalis** programmes and they were included in the enlargement package analysis which were crowned by the opening of the **accession negotiations with Ukraine and Moldova in December 2023.** The opinion on the state of play of Ukraine customs alignment with the EU acquis was one of the highest among all the negotiations chapters.

With Ukraine were deepened the use of the Common Transit System and Moldova making the last preparatory steps to join the Common Transit Convention (CTC). Both countries membership in CTC is crucial for the future of the Solidarity Lanes and therefore to ensure the smooth and safe trade of goods between Ukraine and EU Member States, despite the ongoing war. Work is ongoing for

- establishing a green corridor from Ukraine via Moldova towards EU (RO) in Giurgiulesti;
- funding for new border crossing point at the EU Ukraine border and
- exploring feasibility and establishment of Joint Controls where infrastructure allows it.

On the humanitarian side, DG TAXUD extended the Decision granting **VAT and customs duty relief** to goods imported by Member States' state organisations for humanitarian assistance to Ukrainians.

General Objective 5: Promoting our European Way of Life

Specific Objective 5.1: Develop a more modern Customs Union, to facilitate trade, safeguard revenues and protect citizens and businesses[3]

In her political guidelines at the start of her mandate, President von der Leyen announced that it was *"time to take the Customs Union to the next level, equipping it with a stronger framework that will allow us to better protect our citizens and our single market"*. On 17 May 2023, the Commission put forward proposals for the most ambitious and comprehensive reform of the EU Customs Union since its establishment in 1968.

I. Reforming the Customs Union, to make it fit for the Future

The reform responds to the current pressures under which EU Customs operates, including a huge increase in trade volumes, especially in e-commerce, a fast-growing number of EU standards that must be checked at the border, and shifting geopolitical realities and crises.

The measures proposed present a world-leading, data-driven vision for EU Customs, which will massively simplify customs processes for business, especially for the most trustworthy traders. Embracing the digital transformation, the reform will cut down on cumbersome customs procedures, replacing traditional declarations with a smarter, data-led approach to customs supervision. At the same time, customs authorities will have the tools and resources they need to properly assess and stop imports which pose real risks to the EU, its citizens and its economy.

A new EU Customs Authority will oversee an EU Customs Data Hub which will act as the engine of the new system. Over time, the Data Hub will replace the existing customs IT infrastructure in EU Member States, saving them up to €2 billion a year in operating costs. The new Authority will also help deliver on an improved EU approach to risk management and customs checks.

Overall, the new framework will make EU Customs fit for a greener, more digital era and contribute to a safer and more competitive Single Market. It simplifies and rationalises customs reporting requirements for traders, for example by reducing the time needed to complete import processes and by providing one single EU interface and facilitating data re-use. In this way, it helps deliver on President von der Leyen's aim to reduce such burdens by 25%, without undermining the related policy objectives.

[3] This chapter includes the activities that were described in the Strategic Plan and the 2020 Management Plan under the headings 3.4, 3.5 and 5.1 except for the international activities which are to be found in chapter 5.2 of the 2023 Activity Report

A new partnership with business

In the reformed EU Customs Union, businesses that want to bring goods into the EU will be able to log all the information on their products and supply chains into a single online environment: the new EU Customs Data Hub. This cutting-edge technology will compile the data provided by business and – via machine learning, artificial intelligence and human intervention – provide authorities with a 360-degree overview of supply chains and the movement of goods.

At the same time, businesses will only need to interact with one single portal when submitting their customs information and will only have to submit data once for multiple consignments. In some cases where business processes and supply chains are completely transparent, the most trusted traders ('Trust and Check' traders) will be able to release their goods into circulation into the EU without any active customs intervention at all. The Trust & Check category strengthens the already existing Authorised Economic Operators (AEO) programme for trusted traders.

A smarter approach to Customs Checks

The proposed new system will give customs authorities a bird's-eye view of the supply chains and production processes of goods entering the EU. All Member States will have access to real-time data and will be able to pool information to respond more quickly, consistently and effectively to risks.

Artificial intelligence will be used to analyse and monitor the data and to predict problems

before the goods have even started their journey to the EU. This will allow EU customs authorities to focus their efforts and resources where they are needed most: to stop unsafe or illegal goods from entering the Union and to uphold the growing number of EU laws that ban certain goods that go against common EU values – for example in the field of climate change, deforestation, forced labour, to give just a few examples. It will also help to ensure proper collection of duties and taxes, to the benefit of national and EU budgets.

A more modern approach to e-commerce

The reform will make online platforms key actors in ensuring that goods sold online into the EU comply with all customs obligations. This is a major departure from the current customs system, which puts the responsibility on the individual consumer and carriers. Platforms will be responsible for ensuring that customs duties and VAT are paid at purchase, so consumers will no longer be hit with hidden charges or unexpected paperwork when the parcel arrives. With online platforms as the official importers, EU consumers can be reassured that all duties have been paid and that their purchases are safe and in line with EU environmental, safety and ethical standards.

At the same time, the reform abolishes the current threshold whereby goods valued at less than €150 are exempt from customs duty, which is heavily abused. Up to 65% of such parcels entering the EU are currently undervalued, to avoid customs duties on import.

Reaping the fruits from the ongoing digitalisation of customs processes and bringing it up to the next level in terms of efficiency and effectiveness will be a key part of the reform. As such, this work also contributes to the **General Objective of creating a Europe fit for the Digital Age**.

The **UCC Work Programme** lays down when the different **UCC IT systems** will be deployed. In 2023, DG TAXUD deliver the second release of ICS2 and continued its activities for the other projects such as the Guarantee Management system, the Proof of Union Status System, the Automated Export System, NCTS-Phase 5 and 6, and the Centralised Clearance at Import system. The 2023 progress report provides a detailed picture of this implementation. This report revealed that progress on the side of the Member States has not been so smooth with different degrees of implementation within the Member States. There were clear spill-over effects from the delays in the national systems on the delivery of the national components for the trans-European systems, as such impacting directly other Member States and Economic Operators.

To take account of the latest developments in the implementation, the Commission has initiated in 2023 the revision of the UCC Work Programme and of the MASP-C. The endorsement of the new MASP-C 2023 by the Directors-General in the Customs Policy Group and the adoption of the new UCC Work Programme by the Commission on 15 December 2023 provides for a revised legal and operational framework which is used to steer Member States towards a common and feasible implementation of the pending projects, leaving more flexibility to meet the final deadlines but nevertheless keeping the necessary pressure on all stakeholders to finalise the UCC transition and ensure a full implementation by 31 December 2025.

II. Protecting EU citizens and businesses against non-financial risks

In addition to its traditional roles, today EU customs has to uphold EU rules in a wide array of different policy areas. In fact, customs is currently responsible for enforcing more than 350 EU laws at the external EU borders. EU customs controls range from intellectual property rights to drug precursors, product compliance to firearms. These controls will only increase in the years ahead, as customs is called on to implement key initiatives linked to the green and digital transitions, including the Carbon Border Adjustment Mechanism (CBAM).

The reform of the EU Customs Union also aims for one true common border with central supervision and common EU risk management to reinforce the protection of the Single Market. The reform envisages to strengthen the cooperation between customs and other authorities for a better enforcement of prohibitions and restrictions. The EU Customs Data Hub would allow more efficient provision of data by private companies and better data sharing between customs authorities, and between customs and other authorities. The EU Customs Authority would perform EU level risk management activities to complement national risk management and therefore allow more harmonized and effective targeting to tackle non-financial risks.

DG TAXUD also works on offering integrated and standardized customs enforcement solutions to various sectoral EU laws like:

- Deforestation,
- Forced Labour,
- End-of-Life Vehicles,
- Toy Safety,
- Packaging and Packaging Waste, or
- Ecodesign for Sustainable Products.

Risk Management is another key element in the protection of the Single Market. In 2023 more than 5000 Risk Information Forms (RIF) were registered in the Customs Risk Management System (CRMS2), compared to 3112 in 2022. Also, concrete actions have been initiated to strengthen customs risk management and control in EU ports to fight against drugs trafficking in the context of the European Ports Alliance.

In 2023, DG TAXUD undertook several initiatives both at the legislative and IT level to reinforce Customs Risk Management. For instance, as from 1 March 2023, the new release of the Import Control System (ICS2) allowed to file advance cargo information for all goods brought into the EU by air. This innovation allows the Member States' customs authorities, alongside the customs authorities of Norway and Switzerland based on relevant agreements on customs security, to perform a collaborative security and safety risk assessment, better target the illicit shipments and perform customs controls at the most appropriate place.

On 14 November 2023, new Common Risk Criteria (CRC) and standards for the pre-arrival analysis of security and safety risks related to goods brought into the customs territory of the Union were established. These Common Risk Criteria should ensure a uniform and effective application of customs controls and will be implemented gradually for goods carried by air, sea, inland waterways, road or rail transportation.

In addition, at the end of 2023, DG TAXUD proposed a revision of the financial risk criteria following an analysis of the gaps and weaknesses of the existing framework. In recent years, particular focus has been put on strengthening financial risk management, optimising the use of available data sources at EU level. This included developing the Joint Analytics Capability, together with DG BUDG, OLAF and JRC.

Concerning customs enforcement of **Intellectual Property Rights** (IPR), DG TAXUD has actively collaborated with the European Intellectual Property Right Office (EUIPO). The digitalization of the procedures to make the electronic submission of applications by right holders mandatory for customs to act and to enforce their IPR, is nearly completed.

In addition to conducting the preparatory work for a possible revision of the **drug precursors** regulations, the Commission initiated actions to pave the way for a faster and broader scheduling within the limitations of the current legal framework under the European Ports Alliance.

EU Single Window Environment for Customs

The EU Single Window Environment for Customs is a key pillar of the EU Customs Reform, establishing a bridge between customs and numerous non-customs policy domains. Its goal is to enhance cooperation and ensure interoperability between these domains in streamlining the electronic exchange, processing and verification of documents and information required for the goods clearance process. The main component of this environment is the European Union Customs Single Window Certificates Exchange System (EU CSW-CERTEX), designed to enable customs administrations and non-customs authorities to automatically exchange and verify information on non-customs formalities submitted by economic operators with the customs declaration as proof of compliance.

The EU Single Window Environment for Customs will be implemented in two phases. The first phase, set to be operational by 2025, aims to improve government-to-government (G2G) exchanges at EU borders. This will enable customs authorities to automatically check the compliance of imported and exported goods across more than 20 policy domains, such as product safety and compliance, environmental protection, health and safety and agriculture. The second phase, anticipated for 2031, will introduce business-to-government exchanges (B2G). In 2023, DG TAXUD continued the legislative and IT preparations to roll out the first phase of the Single Window.

III. Securing revenues and supporting compliant trade

In 2023, DG TAXUD continued to support customs in the daily task of revenue collection and tariff application – which is essential in securing public funds, including for the EU budget.

The **Common Customs Tariff (CCT)** applies uniformly to goods imported into the EU, regardless of the Member State they are imported into. This uniform application of the CCT is essential to ensure a level playing field and to prevent fraud. DG TAXUD continued to work closely with customs administrations to ensure that the CCT was uniformly applied at every entry point to the Union. We also regularly updated the **Integrated Tariff database (TARIC)**, which ensures that businesses and traders have a reliable and comprehensive overview of all tariffs and other measures (e.g. prohibitions and restrictions) that apply to EU imports and exports. **TARIC**, also played a particularly important role in helping with the enforcement of EU sanctions against Russia and Belarus at customs.

The daily management of the **European Binding Tariff Information (EBTI)** system, which issues tens of thousands Binding Tariff Information (BTI) decisions every year, remained a core part of DG TAXUD's work in 2023. In parallel, we nearly completed the preparatory work on establishing the **legal framework** for **Binding Valuation Information (BVI) decisions** and for developing the **IT support systems** for **Binding Origin Information** (BOI) and **Binding Valuation Information** (BVI) decisions, within the context of the customs reform.

Specific Objective 5.2: Promote the EU's customs agenda internationally

In 2023, the work to support the **Western Balkan countries** as well as **Ukraine, Moldova and Georgia** in their path towards EU accession remained a primary focus. The progress in the areas of customs and taxation was well noted by the EC in its "Enlargement Package" country reports. Customs cooperation with Ukraine, Moldova and Georgia was significantly stepped up and many concrete achievements have been reached on ensuring safe and smooth trade-flows (including the Solidarity Lanes initiative), tackling security risks and facilitating humanitarian passage. For example, after visiting the border crossing points between Ukraine and neighbouring countries, detailed guidance was published on all customs issues for operators and customs, which starts producing results, i.e. increased use of the Common Transit Convention by Ukrainian operators. At the same time, DG TAXUD continued cooperation with these countries on the customs and taxation chapters of the Association Agreements, to ensure closer alignment to the acquis.

Customs cooperation with some of **Central Asia countries** (Kazakhstan, Uzbekistan, Kyrgyzstan) and **Armenia,** continued to be well established and active. The main focus was on customs experience sharing and mitigating the risk of the EU circumvention of restrictive measures. DG TAXUD also coordinated with the US, UK and other like-minded countries in relation to the sanctions applied to Russia to avoid their circumvention through third countries and actively contributed to the drafting of the provisions applying sanctions as well as providing guidance from the perspective of customs, for example on sanctions applied on Russian steel and diamonds (*see page 24*).

With regard to relations with the United Kingdom, the proper implementation of the **EU-UK Trade and Cooperation Agreement** (TCA) continued at full pace in 2023. This covered intense work on the rules of origin applicable to electric batteries and vehicles. With regard to the Protocol on Ireland and Northern Ireland, DG TAXUD maintained a core presence in the region with the Northern Ireland Liaison Team, which monitors the practical implementation of the Protocol and seeks to identify the compliance risks. The work in this area was particularly successful with the agreement on the Windsor Framework with regard to the establishment of new arrangements based on a expanded trusted trader scheme implying simplified procedures, including freight and parcels. This was possible by new data sharing arrangements and supported by additional safeguards. New flexibilities were also found for certain VAT and excise rules. DG TAXUD was also actively involved in the negotiations on the future EU-UK agreement on Gibraltar in relation to customs and taxation issues.

In 2023, the good cooperation with Norway and Switzerland continued as regards the customs security measures. Norway and Switzerland deployed successfully the ICS2 - Release 2 and contributed to the CRMS2 cooperation, including information exchange under the Ukraine crisis alert. Moreover, consultations were launched in 2023 between DG TAXUD and the Norwegian Customs on amendment of the EEA Protocol 10, Chapter IIa based on relevant changes of the EU legislation in the security area. The equivalent approach for amending the EU-Switzerland agreement on security will follow in 2024 in line with the progress in the overall EU-Switzerland relations. Norway and Switzerland also successfully entered into operation of the NCTS – Phase 5.

DG TAXUD led the negotiations on the Chapter on customs cooperation and trade facilitation of the EU-**Thailand**, EU-**India** FTA, EU-**Indonesia** and EU-**Chile** FTAs and also of the **Eastern and Southern Africa** EPA. TAXUD also worked actively to put in place the needed tools to apply AEO mutual recognition with **Canada** and **Singapore,** and continued the preparatory work with **Türkiye, Ukraine, and Georgia**.

In its relations with the World Customs Organisation (WCO), the EU (represented by DG TAXUD) promoted worldwide cooperation and global standards in customs. In 2023, the EU provided specific support for the large-scale WCO modernisation and reform project, resulting mid 2023 in the adoption of

- a new WCO 'Green Customs Action Plan (GCAP)'
- significant progress made in the global reflection process towards a sound WCO Governance Modernization

Core WCO initiatives like the Customs role optimisation regarding e-Commerce and the WCO Data strategy were pro-actively supported by DG TAXUD throughout 2023. Support for Ukraine in the WCO, regarding the disruption of the Customs Cooperation in that remained also one of the DG TAXUD attention points throughout 2023.

The **Pan-Euro-Mediterranean** (PEM) Convention on rules of origin establishes common rules of origin among the EU and partners in the PEM area (EFTA, Türkiye, Western Balkans, Eastern Partnership countries and Mediterranean countries). In 2023 TAXUD successfully reached an agreement with the PEM partners on the technical elements needed for a revision of the PEM Convention. On 7 December, all PEM Contracting Parties voted in favour of the revised PEM Convention, which will enter into force on 1 January 2025. The EU will continue the implementation of the revised rules of origin with a number of PEM Contracting Parties in the course of 2024 by bilateral agreement.

In June, the rules of origin under the EU-**Central America** Association Agreement were updated to reflect the 2022 Harmonised System 2022.

2. INTERNAL CONTROL AND FINANCIAL MANAGEMENT

Assurance is provided based on information on the efficiency and effectiveness of internal control systems and governance processes. The management monitors the functioning of the internal control systems on a continuous basis and carries out an objective examination with internal and external auditors. The results are explicitly documented and reported to the Director-General. The following reports / documentation have been considered:

- the reports from all DG TAXUD Authorising Officers by Sub-Delegation;
- the reports from Authorising Officers in other departments managing budget appropriations in cross-delegation;
- the contribution by the Director in charge of Risk Management and Internal Control, including the results of internal control monitoring at DG level;
- the reports on recorded exceptions, non-compliance events and any cases of 'confirmation of instructions' (Art 92.3 of the Financial Regulation);
- the reports on ex-post supervision;
- the limited conclusion of the Internal Auditor on the state of internal control, and the observations and recommendations reported by the Internal Audit Service (IAS);
- the observations and the recommendations reported by the European Court of Auditors (ECA).

The systematic analysis of the available evidence provides sufficient guarantees as to the completeness and reliability of the information reported and results in the full coverage of the budget delegated to the Director-General of DG TAXUD.

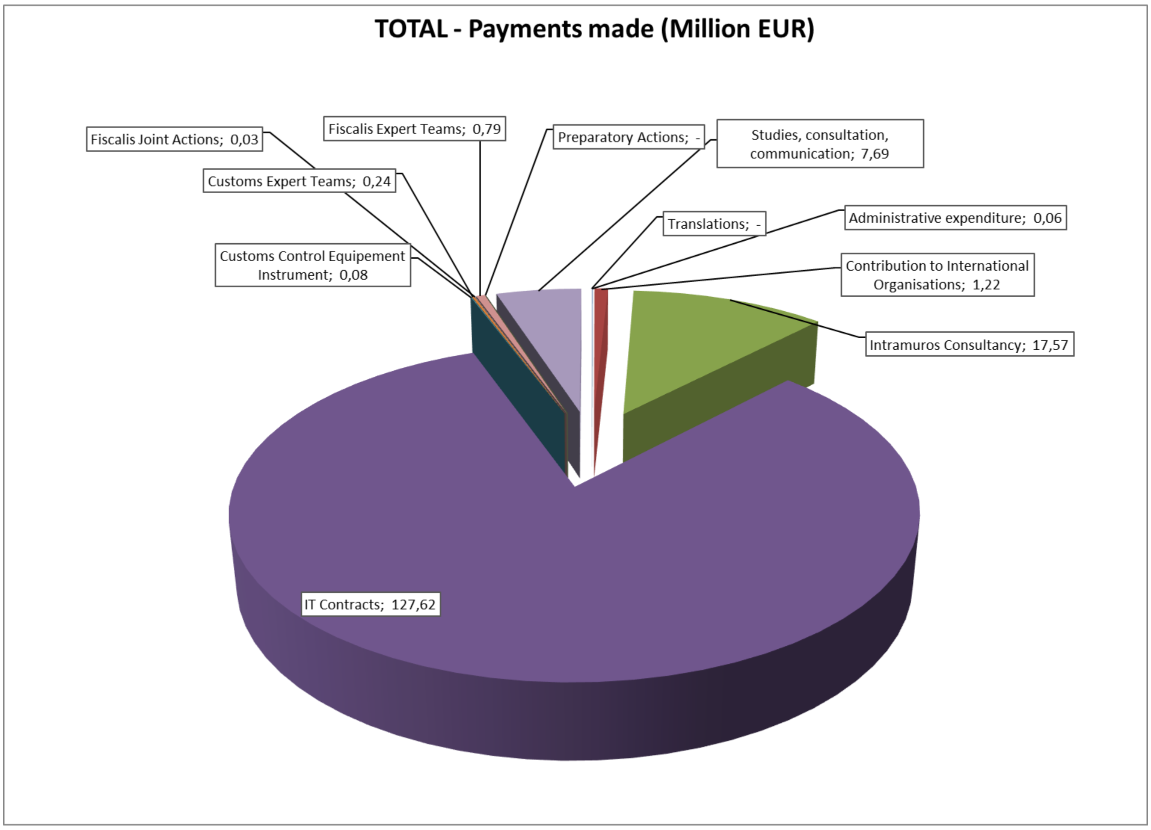
This section covers the control results and other relevant elements that support management's assurance. It is structured into:

2.1. Control results
2.2. Audit observations and recommendations,
2.3. Effectiveness of internal control systems and resulting in
2.4. Conclusions on the assurance.

2.1. Control results

This section reports on the control results used by management to support the assurance on the achievement of the internal control objectives (ICO) **(4)**. The DG TAXUD's assurance building and materiality criteria are outlined in annual activity report annex 5. The annual activity report annex 6 outlines the main risks together with the control processes to mitigate them and the indicators used to measure the performance of the relevant control systems.

DG TAXUD is a policy DG with a relatively small budget, exclusively implemented in direct management mode. DG TAXUD paid EUR 155,66 million in 2023.



(4) 1) Effectiveness, efficiency and economy of operations; 2) reliability of reporting; 3) safeguarding of assets and information; 4) prevention, detection, correction and follow-up of fraud and irregularities; and 5) adequate management of the risks relating to the legality and regularity of the underlying transactions, taking into account the multiannual character of programmes as well as the nature of the payments (FR Art 36.2). The 2nd and/or 3rd Internal Control Objective(s) (ICO) only when applicable, given the DG's activities.

- **Contracts (procurement and intra-muros)**

Overall, the value of signed contracts represents EUR 152,87 million (about 98,21% of payments made in 2023).

One of the largest parts of DG TAXUD's operational budget is dedicated to IT expenses/Intramuros consultancy (EUR 145,18 million or 93,27% of payments made in 2023), through several framework contracts concluded between the Commission and IT suppliers. These contracts provide for the development and operation of the trans-European systems, networks and related databases, as well as the IT training tools, in line with the work programmes of the Customs and Fiscalis programmes.

Other contracts related to procurement of different tools or services such as studies, databases, consultations and communication activities (EUR 7,69 million paid in 2023, i.e. 4,94 %).

- **Customs Control Equipment Instrument (CCEI) programme**

The Customs Control Equipment Instrument aims to help Member States by providing financial support for the purchase of customs control equipment, with a view to the long-term aim of harmonised application of customs controls by the Member States. The Instrument has the general objective to support the customs union and customs authorities to protect the financial and economic interests of the Union and its Member States, to ensure security and safety within the Union and to protect it from illegal trade while facilitating legitimate business activity.

The expenditure in the framework of CCEI consists of grants awarded to the customs authorities of the Member States.

The payments made in 2023 are related to the first prefinancing and represent EUR 0,08 million (about 0,05% of payments made in 2023).

- **Collaborative activities and Expert Teams under Customs and Fiscalis programmes**

Overall, the expenditure related to Collaborative Activities and Expert Teams represents EUR 1,43 million (about 0,92% of payments made in 2023). In 2023, payments have only been made on Expert Teams.

The expenditure in the framework of the Collaborative Activities and Expert Teams consists of grants awarded to the participating National Administrations and reimbursement of costs incurred by experts[1]. The beneficiaries of these grants are the national customs and tax administrations of the 27 Member States, and some (potential) candidate countries.

- **Contributions to international organisations**

This expenditure relates to the membership of the Union to the World Customs Organisation, and represents about 0,79% of payments made (EUR 1,22 million).

Administrative expenditure

The administrative expenditure managed by DG TAXUD (training, conferences, representation expenses and other miscellaneous expenditure) represents 0,04 % of the total paid budget (EUR 0,06 million).

- **Cross sub-delegation**

None this year

In line with the 2018 Financial Regulation, DG TAXUD's assessment for the new reporting requirement is as follows:

- Cases of "confirmation of instructions" (FR art 92.3)
- Cases of financing not linked to costs (FR art 125.3)
- Financial Framework Partnerships >4 years (FR art 130.4)
- Cases of flat-rates >7% for indirect costs (FR art 181.6)
- Derogations from the principle of non-retroactivity pursuant to Article 193 of the Financial Regulation.

2.1.1. Effectiveness of controls

a) Legality and regularity of the transactions

DG TAXUD uses internal control processes to ensure sound management of risks relating to the legality and regularity of the underlying transactions it is responsible for, taking into account the multiannual character of programmes and the nature of the payments concerned.

1) Control objective

The control objective is to ensure that the residual error rate is low as possible and does not exceed 2% of annual budget implementation, as determined in the materiality criteria in annex 5. The amount of payments made is used as a basis for calculation. The control system is designed to prevent, detect, and correct errors, irregularities and fraud by ex ante and ex post controls covering all types of financial operations and procurement and grant procedures.

The principle of effectiveness set out by the Financial Regulation concerns the attainment of the specific objectives set and the achievement of the intended results. In terms of financial management and control, the main objective remains ensuring that transactions are legal and regular.

2) Assessment of the control results

Procurement

For procurement, the control objective is to ensure that the DG has reasonable assurance that the amount of financial operations authorised during the reporting year and which would not be in conformity with the applicable contractual or regulatory provisions, does not exceed 2% of the total expenditure for the reporting year.

DG TAXUD calculates this number on the basis of the reported exceptions and non-compliance events, defined as control overrides or deviations from policies and procedures.

- During the reporting year, one exception and four non-compliance instances were recorded. All concerned instances related to formal compliance issues which do not have a negative impact on the budget.
- All errors and irregularities have been discovered before the actual payment, which is why no recovery order for unduly paid amount has been issued in 2023. Considering that all corrections take place before the actual payment is made (ex-ante), there are no errors left at the moment of payment. Nonetheless, to calculate the error rate for procurement, DG TAXUD has taken a most conservative approach and estimates the error rate for procurement at 0,5%.

In conclusion, the analysis of the available control results, the assessment of the weaknesses identified and that of their relative impact on legality and regularity has not unveiled any significant weakness, which could have a material impact as regards the legality and regularity of the financial operations. It is therefore possible to conclude that the control objective as regards legality and regularity has been achieved.

Grants

DG TAXUD has set up internal control processes aimed to ensure the adequate management of the risks relating to the legality and regularity of the underlying transactions, taking into account the multiannual character of programmes as well as the nature of the payments concerned.

The control process and strategy for grants takes into account the specificities of the DG TAXUD grants. A distinction is made between the Customs and Fiscalis grants under the 2014-2020 Multi-Annual Financial Framework (MFF), the Customs and Fiscalis grants and the Customs Control Equipment Instrument grants under the 2021-2027 MFF.

As far as the Customs and Fiscalis grants under the 2014-2020 MFF are concerned:

- the beneficiaries are identified directly in the legal base, i.e. the Member States' customs and tax administrations, Candidate and potential Candidate Countries' customs and tax administrations - there are no calls for proposals;
- expenditure is mostly linked to numerous individual actions with relatively small amounts involved for each action (mostly reimbursements of travel and subsistence expenditures);
- obligatory use of ART2 (the IT system for managing joint actions) for recording the actions and to compile the Financial Reports - this system embeds certain controls;
- the beneficiaries of the grants are clearly defined by the programmes and all projects and actions are ex-ante approved by DG TAXUD; the controls related to the selection and contracting phases ensure the legality and regularity of the grants commitments;
- the analysis of the most common errors detected during past ex-post verifications or ex-post on-the-spot audits confirms that it is not necessary to question the assurance as regards legality and regularity of transactions.

The control process and strategy have been optimised and streamlined throughout the years. All payments/recovery orders are verified by the usual ex-ante controls embedded in the financial circuits.

Since 2015, above controls are underpinned by ex-post on –the-spot audits or ex-post desk reviews. It should however be noted that no ex post controls took place in 2023.

The total estimated error rate for grants is an average weighted error rate of the results of the audited countries since 2015 and results in **a best possible estimated error rate for grants under 2014-2020 MFF in 2023 of 1,45%**.

The benefits of controls have been quantified where possible: e.g. amounts recovered, irregularities prevented, detected and corrected by these controls (as per Annex 3, table 8). Most benefits however are non-quantifiable covering non-financial gains like better value for money, deterrent effects, efficiency gains, system improvements, protection from reputational damage and, above all, compliance with regulatory provisions.

As far as the Customs and Fiscalis grants under the 2021-2027 MFF are concerned:

- the new Customs and Fiscalis programmes have the same characteristics and controls as for the 2014-2020 MFF grants described above;
- the preparation and implementation of the grants is done using the eGrants platform which embeds the necessary controls and checks;
- the new programmes however use unit cost for personnel cost, for travels, accommodation and subsistence cost and apply a 7% flat rate indirect costs which will reduce the complexity of controls and, at the same time, reduce the potential error rate.

As only prefinancing payments were made, **the error rate for grants under the 2021-2027 MFF in 2023 is therefore not applicable for the time being**.

As far as the Customs Control Equipment Instrument (CCEI) is concerned:

- CCEI is considered to represent a higher risk of fraud than the Customs and Fiscalis programmes, although the beneficiaries are also public administrations.
- Its budget is higher compared to the other two programmes, and funding co-finances the purchase of equipment through public procurement carried out by the national authorities.
- the preparation and implementation of the CCEI grants is done using the eGrants platform which embeds the necessary controls and checks;
- Due to the higher risk level, requests for final payments shall be accompanied by a certificate on the financial statements – produced by a certified external auditor or, in the case of public bodies (which is the case for CCEI), by a competent and independent public officer - when the cumulative amounts of payment requests is at least EUR 0,33 million.

As only prefinancing payments were done, **the error rate for grants under the CCEI in 2023 is therefore not applicable for the time being**. The first final payments will be processed in 2024.

Based on the above information, we can conclude that the control objective as regards legality and regularity for grants has been achieved.

Through recoveries and financial corrections, DG TAXUD has in place an effective mechanism for correcting errors. During the reporting year the executed corrective capacity amounted in total to EUR 103.813,05 representing 0,1 % of the relevant expenditure.

DG TAXUD's relevant expenditure, its estimated overall risk at payment, estimated future corrections and risk at closure are set out in Table X: Estimated risk at payment and at closure.

3) Overview of DG TAXUD risk profile

DG TAXUD's portfolio consists of segments with a relatively low error rate, ie 0,5% globally.

This is, respectively, thanks to the inherent risk profile of the programme/beneficiaries and the performance of the related control systems.

Based on all the above, DG TAXUD presents in the following Table X an estimation of the risk at payment and risk at closure for the expenditure managed during the reporting year:

Table (X): Estimated risk at payment and at closure (amounts in EUR million)

The full detailed version of the table is provided in annex 9.

DG TAXUD	Payments made	Relevant expenditure	Estimated risk (error rate %) at payment		Estimated future corrections and deductions		Estimated risk (error rate %) at closure	
	m EUR	m EUR	m EUR	%	m EUR	%	m EUR	%
Procurement	154.15	154.15	0,77	0,50%	0,29	0,19%	0,48	0,31%
Grants MFF 2014-2020	0,29	0,00	0,00	1,45%	0,00	0,19%	0,00	1,26%
Grants MFF 2021-2027	1,14	-0,90	0,00	0%	0,00	0%	0,00	0%
CCEI	0,08	0,18	0,00	0%	0,00	0%	0,00	0%
DG TAXUD total	**155,66 m EUR**	**153,43 m EUR**	**0,77 m EUR**	**0,50%**	**0,29 m EUR**	**0,19%**	**0,48 m EUR**	**0,31%**

The estimated overall risk at payment for 2023 expenditure, 0,5%, is the AOD's best conservative estimate of the amount of relevant expenditure during the year, not in conformity with the contractual and regulatory provisions applicable at the time the payment was made. This expenditure will subsequently be subject to ex-post controls and a proportion of the underlying errors will be detected and corrected in subsequent years, corresponding to the conservatively estimated future corrections for 2023 expenditure, amount to EUR 0,29 million.

The difference between those two estimations results in an estimated overall risk at closure **(5)** of 0,31% and no change has been noticed since 2022.

4) Preventive and corrective measures

As regards the corrections carried out in 2023, DG TAXUD has in place an effective mechanism for correcting errors, mainly through ex-ante controls, resulting in preventive and corrective measures, amounting to EUR 2,4 million. This represents a decrease of EUR 4,8 million compared to 2022.

(5) This is the AOD's best, conservative estimation of the expenditure authorised during the year that would remain not in conformity of applicable regulatory and contractual provisions by the end of implementation of the programme.

	Preventive Measures (m EUR)	Corrective measures (m EUR)
Implemented by the Member States		
of which from Member States controls	n/a	n/a
of which from EU controls [6]	n/a	n/a
Implemented by the Commission		
of which from Member States controls	n/a	n/a
of which from EU controls	2,4	n/a
[DG TAXUD total	**2,4**	**0**

b) Fraud prevention, detection and correction

DG TAXUD has developed and implemented its own anti-fraud strategy since 2013, based on the methodology provided by OLAF. It is updated every three years and was last updated on 22 July 2022 following a fraud risk assessment. Its implementation is being monitored and reported to the management on yearly basis. **The implementation of the actions is in line with the proposed action plan (22 out of 24 actions already implemented (18) or progressed (4)).**

DG TAXUD also contributed to the revised Commission anti-fraud strategy Action Plan of July 2023, notably to actions to reinforce the EU's capacity to fight customs fraud and protect EU revenue.

DG TAXUD does not have any OLAF's financial recommendations to follow-up.

The roll out in DG TAXUD of the Event Management Tool took place in 2022. Users have been trained and the correct use of EMT is monitored (twice a year). The last statistic report on the use of EMT show a good registration in EMT of lobbyists meetings by all relevant TAXUD services.

The results achieved during the year thanks to the anti-fraud measures in place can be summarised as follows**: in all its work TAXUD constantly considers anti-fraud actions and strives to implement them with diligence.**

On the basis of the available information, DG TAXUD has reasonable assurance that the anti-fraud measures in place are effective overall.

(6) As a result of Commission controls and audits (including additional corrections to ensure a risk at closure below 2% in case of EMPL, REGIO and MARE), OLAF investigations or ECA audits.

c) Safeguarding of assets and information

DG TAXUD manages a fair number of intangible assets (EUR 55,03 million in 2023 – see Annex 3, Table 4).

These assets are mainly IT assets and include off-the-shelf software (commercial software purchased from various suppliers) and internally generated intangible assets (IGIA, in-house developed Information Systems).

Ever since the 2013 audit on intangible assets, DG TAXUD observes a rigorous methodology to record and to keep track of these intangible assets. A comprehensive manual, with clear responsibilities between the IT Units and the Financial Unit has been elaborated and is followed ever since. For in-house developed Information Systems, the accounting correspondent and IT Units yearly scrutinise all IT projects according to the procedures laid down in the internal Accounting Manual of DG TAXUD and update the SAP accounting system accordingly.

Hardware and Software purchases are recorded in ABAC Assets and declassifications are thoroughly documented. As required, the state of play regarding the inventory is reported on a yearly basis to the Office for Infrastructures and Logistics in Brussels.

Within the scope of the Statement of assurance (SoA), the ECA regularly audit the value of DG TAXUD's intangible assets and had no specific comments so far.

At the moment of writing, there are no known elements or weaknesses in the control system in place that would deserve making a reservation.

2.1.2. Efficiency of controls

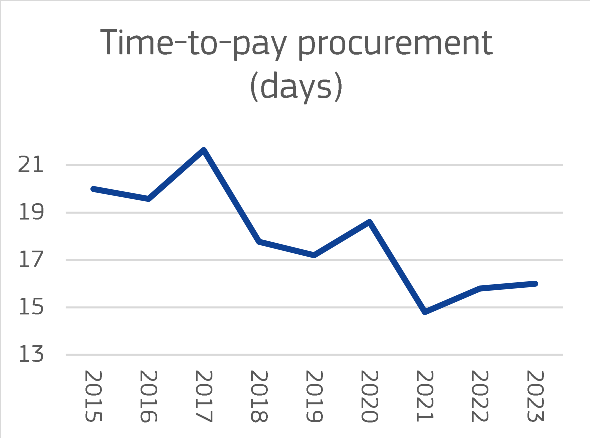
Throughout the reporting period, DG TAXUD made 1.168 payments (EUR 155,66 million), established 355 contracts (and/or amendments thereto) and two grant agreements, processed 46 commercial credit notes, issued 1 recovery order, committed EUR 306,47 million appropriations. DG TAXUD prepared 3 high value procurement procedures and awarded 5 contracts resulting from these procedures.

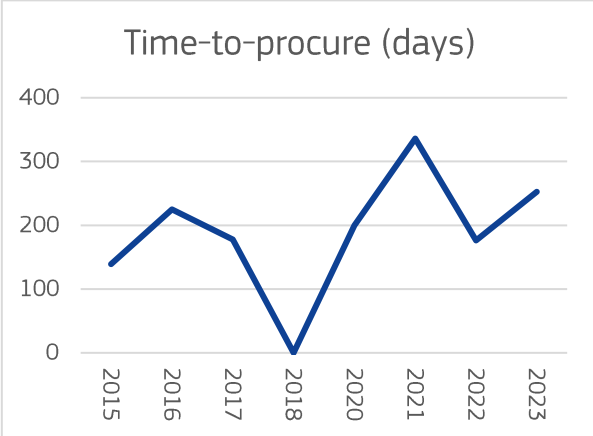
- **Procurement related indicators**

Against this workload, the control efficiency of procurement transactions can be witnessed by the "time-to-pay" and the "time-to-procure" indicators.

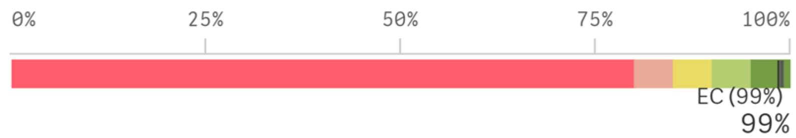
Procurement control efficiency indicators	Result 2023 (days)
Time-to-pay (days)	16,2
Time-to-procure (days)	252

As it can be seen from the below historical overview, the "time-to-pay" indicator has only slightly increased in 2023 from 15,8 days to 16,2 days. The "time-to-procure" increased from 176 to 252 days in 2023. The peaks in the 2016-2021 period were equally due to the awarding of complex and large-scale IT framework contracts.





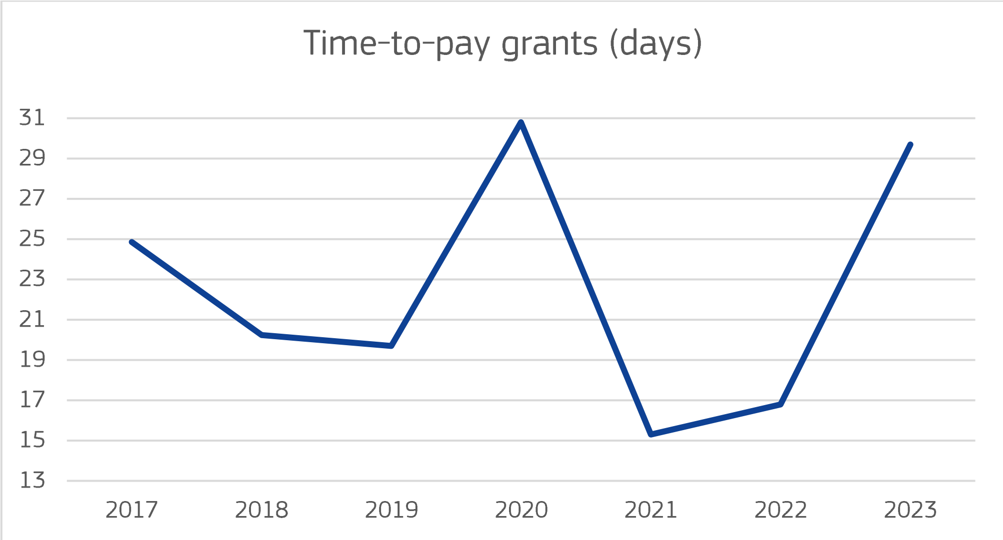
Throughout the reporting period, DG TAXUD made 99 % of all payments on time which is in line with the Commission average:

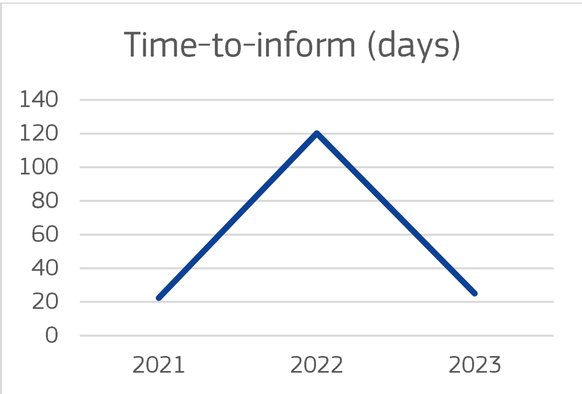
Timely Payments	TAXUD Score	EC Score
	**99%**	**99%**

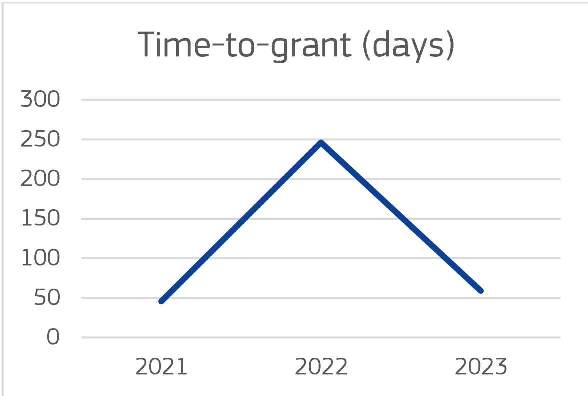
- **Grants related indicators**

Grants control efficiency indicators	**Result 2023** (days)
Time-to-pay (days)	29,7
Time-to-inform (days)	25
Time-to-grant (days)	59

The "time-to-pay" for grants increased from 16,8 to 29,7 days.


Time-to-pay grants (days)
31
29
27
25
23
21
19
17
15
13
2017
2018
2019
2020
2021
2022
2023


Time-to-inform (days)
140
120
100
80
60
40
20
0
2021
2022
2023


Time-to-grant (days)
300
250
200
150
100
50
0
2021
2022
2023

2.1.3. Economy of controls

Table Y – Overview of TAXUD's estimated cost of controls at Commission [EC] level

TAXUD	Ex ante controls***			Ex post controls		
	(a)	(b)	(c)	(d)	(e)	(f)
Relevant Control System (RCS) / Other as defined in Annex 6 of the AAR*	EC total costs	related payments Made	Ratio (%)** *(a)/(b)*	EC total costs	total value verified and/or audited	Ratio (%) *(d)/(e)*
Procurement	1,736,239.00 €	154,152,755.81 €	1.13%	- €	- €	0.00%
Grants MFF 2014-2020	5,689.54 €	286,404.00 €	1.99%	- €	- €	0.00%
Grants MFF 2021-2027	6,057.74 €	1,139,797.50 €	0.53%	- €	- €	0.00%
CCEI	6,931.38 €	78,817.55 €	8.79%	- €	- €	0.00%
	- €	- €	0.00%	- €	- €	0.00%
OVERALL total estimated cost of control at EC level for expenditure	**1,754,917.66 €**	**155,657,774.86 €**	**1.13%**	**- €**	**- €**	**0.00%**

In 2023, the total control costs for procurement increased to EUR 1,73 million, indicating a moderate increase from EUR 1,60 million in 2022. Despite this rise, the ratio of procurement total control costs to payments made decreased slightly from 1,18% in 2022 to 1,13% in 2023. Although the allocation of resources for procurement control remained consistent overall, and despite a 13% increase in the number of payments made since 2022, the efficiency in managing procurement-related payments improved. This improvement can be attributed primarily to the reinforcement of internal procedures and the further development of IT tools, resulting in a slightly lower relative cost of control.

Regarding grants, the total control costs decreased significantly to EUR 18,67 million in 2023, compared to EUR 35,16 million in 2022. This decrease in control costs was accompanied by a substantial reduction in grant-related payments, from EUR 139,20 million in 2022 to EUR 1,50 million in 2023. Notably, in 2022, payments included pre-financing of the CCEI grants, which was not the case in 2023 as the grants were in the implementation phase. Consequently, the ratio of grants total control costs to payments made rose from 0,03% in 2022 to 1,24% in 2023.

Throughout 2023, the overall cost of control (procurement and grants) was EUR 1,75 million, representing 1,13% of all payments made. This level of efficiency and cost-effectiveness is considered efficient and cost-effective.

2.1.4. Conclusion on the cost-effectiveness of controls

Based on the most relevant key indicators and control results, DG TAXUD has assessed the effectiveness, efficiency and economy of its control system and reached a positive conclusion on the cost-effectiveness of the controls for which it is responsible.

2.2. Audit observations and recommendations

This section sets out the observations, opinions and conclusions reported by auditors – including the limited conclusion of the Internal Auditor on the state of internal control. Summaries of the management measures taken in response to the audit recommendations are also included, together with an assessment of the likely material impact of the findings on the achievement of the internal control objectives, and therefore on management's assurance.

In 2023, the following audits and implementation of action plans took place in DG TAXUD:

EUROPEAN COURT OF AUDITORS (ECA)

Financial year 2023

The section below summarises the ECA closed and ongoing audits with recommendations addressed to DG TAXUD. For more details, please refer to Annex 7.

In 2023, three audits, in which DG TAXUD has been involved, were closed by the European Court of Auditors.

European Court of Auditors' Special Report n° 13/2023 *"Authorised Economic Operators - Solid customs programme with untapped potential and uneven implementation".* The performance audit assessed whether the EU AEO programme facilitates legitimate trade and supply chain security. More specifically it assessed whether the Commission provided a sound regulatory and monitoring framework and whether the Member States implemented the programme properly.

DG TAXUD is responsible for implementing the three audit recommendations (none of them are very important or critical), together with DG BUDG and OLAF. Recommendations aim at improving the regulatory framework, the current performance measurement framework as well as the management of the AEO programme. Overall timeframe: Q4 2025.

European Court of Auditors' Special Report n° 13/2023 *"EU climate and energy targets – 2020 targets achieved, but little indication that actions to reach the 2030 targets will be sufficient".* The performance audit assessed whether the EU has built on successful actions to reach its 2030 energy and climate targets and whether the EU had learned lessons from the achievement of 2020 targets which would help it to reach the more ambitious 2030 targets.1

DG TAXUD was associated to DG CLIMA for implementing part of one of the three audit recommendations the ECA formulated, namely related to the possibility of using the data through the Carbon Border Adjustment Mechanism to complement reporting on EU progress towards the EU's 2030 greenhouse gas emission reduction target with reporting on emissions associated with imported goods to the EU. Overall timeframe: Q4 2026.

DG TAXUD had a limited contribution to the European Court of Auditors' Special Report n° 13/2023 *"The EU's support for sustainable biofuels in transport – An unclear route ahead".* No recommendations have been formulated towards DG TAXUD.

The Court of Auditors issued an Opinion n°04/2023 *concerning the Commission's amended proposal for a Council Regulation on the methods and procedure for making available own resources based on the Emission Trading System, the Carbon Border Adjustment Mechanism, reallocated profits and the statistical own resource based on company profits and on the measures to meet cash requirements COM/2023/333, 2022/0071 (NLE).* The general context of this opinion is that it is mandatory to consult the ECA, about the (amendment to) proposals for a Regulation on the arrangements for making the Union's own resources available.

In 2023, DG TAXUD has been involved in four performance audits which are still ongoing:

DG TAXUD as lead DG:

1/ "*Harmful tax competition in the EU*" having as subject whether the EU framework is adequate to fight harmful tax competition;

2/ *"VAT fraud on imports*" aiming at assessing whether import procedures (customs procedure 42 and the import one shop stop) are effective in protecting the EU budget and the Single Market against VAT fraud and to examine the implementation of the regulatory framework for these procedures in a number of Member States;

DG TAXUD as associated DG:

3/ *"Infringement procedures and enforcing EU law"* aiming to examine whether the Commission's procedures to detect, correct, monitor, and report on infringements are efficient, as well as to examine the approach to enforcement of EU law taken by the Commission;

4/ "*Military mobility"* aiming to assess whether the Action Plan on Military Mobility 2.0 is set up on solid foundations and is on track to reach its objectives.

ECA also started an annual finance and compliance audit on 2023 budget execution – statement of assurance. The audit was on-going at the time of writing. DG TAXUD provided replies to request in relation to the Statement of Assurance 2023.

DISCHARGE for budgetary year 2022

The discharge on 2022 budget is on-going; DG TAXUD reviewed the Parliament's and the Council's draft resolutions.

FOLLOW-UP of recommendations

DG TAXUD has systematically examined the observations and the recommendations issued by the European Court of Auditors, the European Council and the European Parliament, following them up in the dedicated RAD IT-tool.

DG TAXUD closely followed up recommendations formulated in 2023 or before. This effort allowed reducing the number of open recommendations. By the end of 2023, DG TAXUD reported 15 recommendations as implemented and closed them. At end 2023, there were 17 open recommendations as lead DG and 8 open recommendations as associated DG with good implementation progress. For five recommendations, DG TAXUD requested an extension of the original deadlines providing valid arguments and reporting on what actions had been implemented so far: five open recommendations in relation to years 2021 and 2022 formulated by the ECA. None of the open recommendations of the Court of Auditors is graded as “Critical”.

INTERNAL AUDIT SERVICE (IAS)

DG TAXUD has **no open critical or very important recommendations from IAS.**

In 2023, IAS closed two audits in DG TAXUD: DG TAXUD received the closing letter from IAS on the audit on the effectiveness of DG TAXUD cooperation with external stakeholders and the closing letter from IAS on the audit on human resource management in DG TAXUD.

in 2023, DG TAXUD supported a preliminary scoping exercise for an IAS audit on financial management in DG TAXUD.

In addition, DG TAXUD contributed in 2023 to a multiple DG audit on a limited review on data protection with INTPA, NEAR, FPI, ECHO and TRADE. The final report issued (in 2024) no critical or very important recommendations for TAXUD.

More in general, DG TAXUD has **no open critical or very important recommendations from IAS**. There were only two open important recommendations from the audit on performance management (2022) that are being addressed according to schedule.

DG TAXUD implements recommendations of the IAS, ECA and Discharge Authority according to the agreed planning, requesting extension of the expected completion date only when factors outside DG TAXUD require a change of date or of action. From the assessment of audit observations and recommendations, there is neither indication of a significant weakness in the control system nor impact on the declaration of assurance. None of the IAS or ECA open recommendations are critical.

2.3. Assessment of the effectiveness of internal control systems

The Commission has adopted an Internal Control Framework based on international good practice, to ensure the achievement of its policy and management objectives. Compliance with the internal control framework is a compulsory requirement.

DG TAXUD uses the organisational structure and the internal control systems suited to achieving its policy and internal control objectives in accordance with the internal control principles and has due regard to the risks associated with the environment in which it operates.

DG TAXUD annually assesses the effectiveness of its key internal control systems and relies on a number of monitoring measures and sources of information including internal control monitoring criteria (ICMC), AOSD management reports, reported instances of exceptions and non-compliance events; relevant audit findings; and the risk assessment process. In addition, it introduced at the beginning of 2024 a new tool, the Internal Control Assessment Tool (ICAT) survey for DG TAXUD managers. This allows obtaining further information from managers on key aspects of internal controls, reinforce an assessment of effectiveness of internal controls in the Directorate-General.

DG TAXUD has assessed its internal control system during the reporting year and has concluded that it is effective and the components and principles are present and functioning as intended, with minor improvements necessary in some areas.

2.4. Conclusions on the assurance

In conclusion, based on the elements reported above, management has reasonable assurance that, overall, suitable controls are in place and working as intended; risks are being appropriately monitored and mitigated; and necessary improvements and reinforcements are being implemented. The Director-General, in his capacity as Authorising Officer by Delegation has signed the Declaration of Assurance.

2.5. Declaration of Assurance

Declaration of Assurance

I, the undersigned, Thomas Gerassimos

Director-General of Directorate-General Taxation and Customs Union

In my capacity as authorising officer by delegation.

Declare that the information contained in this report gives a true and fair view ([7]).

State that I have reasonable assurance that the resources assigned to the activities described in this report have been used for their intended purpose and in accordance with the principles of sound financial management, and that the control procedures put in place give the necessary guarantees concerning the legality and regularity of the underlying transactions.

This reasonable assurance is based on my own judgement and on the information at my disposal, such as the results of the self-assessment, ex ante controls, the work of the Internal Audit Service and the lessons learnt from the reports of the Court of Auditors for years prior to the year of this declaration.

Confirm that I am not aware of anything not reported here which could harm the interests of the Commission.

Place ***Brussels*** *date* ***31 March 2024***

eSigned

Gerassimos THOMAS

([7]) True and fair in this context means a reliable, complete and correct view on the state of affairs in the DG/Executive Agency.

3. MODERNISING THE ADMINISTRATION

3.1. Human resource management

In 2023, DG TAXUD maintained its commitment to fostering a culture of competence, engagement, **diversity and inclusion** among its staff. Through collaborative efforts and open communication channels, DG TAXUD prioritised initiatives aimed at optimising staff well-being and career development, such as in-house talent development programmes, well being policy and workshops.

Building upon the 2021 staff survey, DG TAXUD updated its mission statement, reviewed its values, and adopted a **management charter** through inclusive processes involving input from all levels of staff, particularly middle and senior managers. This reaffirmed the DG's commitment to an open-door policy and accessibility to Senior Management, facilitating **innovation and collaboration**. DG TAXUD's organisation has been adapted via several reorganisations to deliver its objectives more efficiently. Furthermore, DG TAXUD continued to support project groups, task forces, and networks. It set up a new, informal task force on Data Hub and organised a co-development pilot project on **empowerment, leadership and breaking silos**.

DG TAXUD launched internal campaigns on career guidance and mobility, increased visibility of internal job openings and facilitated knowledge exchange with other Directorates-General. Learning and development remained a priority, with a thorough review of **learning paths within the TAXUD training map**.

In line with corporate and local HR strategies, DG TAXUD progressed on the implementation of its **Equality mainstreaming work plan** (with a crucial support of TAXUD Equality network), promoting a diverse and inclusive workplace through internal communication strategies (video by Senior Managers, workshops, and info-sessions), inclusive selection processes and monitoring statistical data on gender and geographical balance. DG TAXUD was successful in opening the possibilities for female candidates for the **first Middle Management appointments**. In 2023, an in-house programme for **female talent development** was continued. While having met the target already, DG TAXUD would like to support further female talent to improve the gender balance in the management of the DG.

These initiatives have been underpinned by **reinforced human resource management**. Under the corporate guidance, DG TAXUD has conducted a comprehensive review of staff capabilities and staffing needs, including succession planning, by **mapping existing skills** across the DG and by revising the **workload assessment process.**

Additionally, DG TAXUD put a strong focus on mental wellbeing of its staff. In 2023, it prepared and widely communicated a **mental well-being plan** for all staff to create a safe and healthy work environment. This action was complemented by supporting physical well-being activities and awareness campaigns on mental health risks. All TAXUD managers were obliged to follow dedicated sessions on psychosocial risks.

3.2. Digital transformation and information management

Digital Transformation

In 2023, significant strides were made in the IT modernisation efforts, with key advancements in governance, security, cloud infrastructure, consolidation of TAXUD and DIGIT's data centres, architectural evolutions, business continuity, Security and the implementation of DevSecOps practices. Each achievement marks a step towards more efficient, secure, and resilient IT services, aligned with the Commission's standards, policy priorities and strategies. Key accomplishments can be summarised as follows:

<u>New Digital Policies</u>

DG TAXUD is actively involved in the elaboration of significant Digital Policies such as AI, Digital Identities, CyberSecurity, future of telecommunications, Interoperability etc. Furthermore, DG TAXUD is developing all its new Policy initiatives to be Digitally ready by Design. DG TAXUD is a member for ITCB, the main IT Governance Committee and multiple interservice groups and forums on Digital Policies.

<u>IT Delivery on Key policy files</u>

DG TAXUD has delivered in operations on all its commitments on key policy initiatives in the area of Customs, Taxation and Green Deal such as UCC deployments, EU Customs SW,CESOP and CBAM.

<u>Governance and Digital Strategy</u>

IT governance has been enhanced resulting in the establishment of a data protection dashboard and a new IT costs accounting framework. Regarding Information Security Management, all critical systems are covered by a security plan and Information security dashboard has been implemented. **CCN and Data Exchange platforms.** To reinforce CCN and data exchange platform sustainability and High Availability and confirm business of MS Customs and Taxations operations the overall HW and Network Infrastructure has been upgraded and is now future proof in alignment with the latest technological standards. **Hybrid cloud.** TAXUD applications can now benefit from corporate cloud capabilities for development and testing as well as for operation, ensuring cost-efficiency and scalability; a cloud-based application for EU-UK data exchange is set to go live soon. **Containers and Infrastructure-as-a-Service.** A "silver" service level containers infrastructure is operational, with several proofs of concept (PoCs) demonstrating successful migrations. A corporate monitoring platform is now in use for enhanced monitoring; in the coming years, it will ensure "observability" i.e., adequate performance of applications and platforms through anticipation of issues and finer identification of their root causes. **Local data centres consolidation.** TAXUD's data centre management was successfully handed over to DIGIT, with plans laid out for a subsequent network handover. **IT architecture evolutions.** An architectural framework to support increasing exchange volumes and new required capabilities for Customs and Taxation applications until 2035 is underway, with new standards for containerisation, involvement of Member States and active engagement in the Corporate Digital Stakeholders Forum.

Business and IT Service Continuity

Automation of application availability checks and enhancements to Platforms and Systems High availability and disaster recovery have been implemented. Work has started on separation of production and non-production environments to improve stability and testing.

Agile and DevSecOps

The DevSecOps platform is now operational, with a competence centre handling support tickets and fostering collaboration between development and operations. Discussions on DevSecOps adoption are ongoing with various stakeholders, including a working group exploring collaboration with Member States.

Security

In the year 2023, the overall security posture of TAXUD IT Asset made significant progress thanks to several security key actions: Deployed security monitoring on the critical IT Assets via the Security Operation Centre of DIGIT. Deployed protection of the internet facing application via a Web Application Firewall. Implemented a coherent and consistent Vulnerability Management process. Enhance Security Governance and compliance developing dedicated Security Plans for the different IT assets

Data Protection

DG TAXUD continues to ensure compliance with relevant legal framework on personal data protection. In 2023, DG TAXUD DPC provided general awareness-rising activities in DG TAXUD, reaching 84% of DG TAXUD staff. Following topics were covered:

- the fundamental concepts, rules and principles of personal data protection, various procedures in data protection compliance;
- the handling of data subjects' requests and
- the handling of personal data breaches.

The DG TAXUD personal data records are regularly updated and published.

The Data Protection expert group, which brings together Member States and the Commission finalised the discussion on the joint controllership arrangement for the systems were Member States and the Commission are joint controller on 19th January 2023. Due to organisational challenges related to the signature at national level, the signing has been postponed to Q1 2024.

Document Management

DG TAXUD continued to ensure that appropriate processes and procedures are in place for secure and efficient document management, compliant with the e-Domec principles. In line with the corporate policy, DG TAXUD makes, by default, all its documents available to all colleagues in the corporate management system Hermes-Ares-NomCom. As such, in 2023, 54,78 % of the TAXUD files were visible in the Institution. The other documents remained internal to TAXUD for work-specific reasons.

The DG TAXUD document management team regularly reminded colleagues in 2023 on their open tasks and non-filed documents. The team also provided on-demand trainings on the registration and filing of documents.

In 2023 DG TAXUD replied to 169 requests for access of documents, releasing 483 documents.

Information Management

In the context of **knowledge and information management**, DG TAXUD's M365 project team continued to promote the use of the M365 collaborative platform within DG TAXUD and aligned this process with the migration to Sharepoint online. The DG TAXUD M365 project team cooperated closely with the corporate M365 project team sharing best practices and new insights.

3.3. Sound environmental management

DG TAXUD applied the sound environmental management strategy wherever relevant. For a more detailed reporting on the outputs, see the annexes.

3.4. Examples of economy and efficiency

Throughout 2024, DG TAXUD will prepare for the roll-out of SUMMA and the various eProcurement modules which will – once fully deployed and operational – allow an end-to-end electronic and paperless management of all financial transactions. Until such time, all procurement contracts will continue to be electronically signed using the **Qualified Electronic Signature** capabilities, thus avoiding both contractors and DG TAXUD to handle and to maintain (store, archive, etc.) paper copies of contracts.