European
Commission

2019

Annual Activity Report

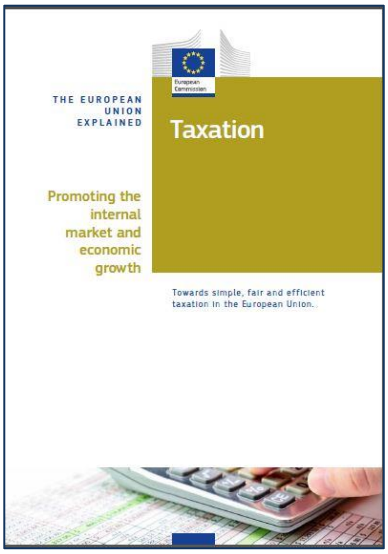
DG TAXATION AND CUSTOMS UNION

Table of Contents

THE DG IN BRIEF

The Directorate General Taxation and Customs Union's (DG TAXUD) mission is twofold: to develop and implement tax policy across the EU and to develop and manage the Customs Union.

EU Taxation Policy



Tax policy in the EU resides in a complex political environment. Member States are responsible to ensure that taxes are actually collected and paid to the state budget, and they also have the power to introduce or remove certain taxes, as well as increasing and reducing them. However, there are areas of taxation where there is added value in having EU-wide intervention, for example to improve the functioning of the Internal Market, make taxes fairer or help Member States in tackling cross-border tax fraud, tax evasion and avoidance. Today, VAT and excise duties on energy, tobacco and alcohol are EU harmonised taxes. Where it considers EU-wide action is needed for the Internal Market to work better, the European Commission presents proposals for tax legislation. It can also make recommendations and issue policy guidance in specific areas. Often an EU-wide approach is preferable to a series of uncoordinated individual national approaches. Taxation is one of the last EU policy areas where legislation is adopted by unanimity, although the EU Treaty allows for the possibility to use passerelle clauses to move from unanimity to a decision-making procedure in which the European Parliament and the Council co-decide on the basis of a qualified majority vote in the Council.

National governments design their tax laws according to their national preferences, provided they respect fundamental principles, such as non-discrimination and respect for free movement in the Internal Market. However, where EU harmonised legislation exists, Member States have to comply with it. This common framework should minimize the risk of tax-induced relocation of economic activities while providing the tools for administrative cooperation supporting revenue collection for the EU and Member States' budgets and fighting tax fraud. In addition, the common framework could be key to fulfilling other European Union objectives, such as climate and environmental goals or public health considerations.

The tax debate at the European level has significantly changed over recent years. In the past, the focus of EU action was primarily on removing distortions to competition or preventing double taxation, arising from the interaction of diverse national tax systems. Triggered by press scandals and the European Parliament investigations related to fraud and tax crime, including anti-money laundering, wider fairness or efficiency considerations from an EU perspective have received much more attention recently. Although procedurally, the European Parliament has a mere consultative role in the tax legislation process, politically, it has become a powerful voice in tax discussions.

The digitalisation of the global economy and the subsequent diversity in business models, such as e-commerce or the sharing economy but also the opportunities stemming from the exploitation of large amounts of data confronts the tax administrations with new challenges. This needs to be addressed as a priority as already close to a third of the growth of Europe's overall industrial output is due to the uptake of digital technologies.

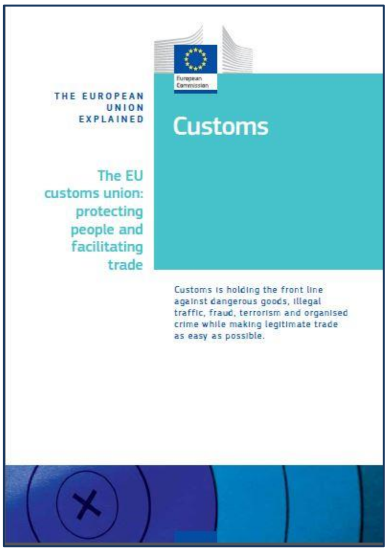
The realisation of the urgent need to reform tax rules has not been confined to Europe – it has been a global movement. In recent years, the G20 and the OECD have played a crucial role in the fight against tax fraud and evasion, notably by setting the action plan against base erosion and profit shifting (BEPS). This, in turn, prompted a number of legislative actions taken at EU level.

Infringement policy aims to enforce a proper application of European tax legislation in all Member States as well as to remove illegal distortions with negative impact on EU citizens and business and to support efforts to eliminate tax obstacles to the proper functioning of the Internal Market.

The Fiscalis 2020 funding programme has a key role by enhancing cooperation (including through the creation of IT systems) between participating countries, their tax authorities and their officials to improve the functioning of the taxation systems in the Internal Market. Building trust between Member States' tax authorities is crucial to achieve results in the fight against fraud.

In the framework of the European Semester, DG TAXUD has responsibility for the economic analysis of national tax policies and preparing the country-specific recommendations in the field of tax policy and supporting reforms to improve the fairness and efficiency of national tax systems.

EU Customs Policy



The Customs Union is a basic pillar of the European Union (EU) and is considered one of the EU's main success stories. It is a single trading area, comprised of the EU Member States, within which all goods circulate freely, whether they are made in the EU or imported from beyond its borders. Duty on goods from outside the EU is generally paid when the goods first enter the EU. The EU's Internal Market, which allows any business established in the EU to sell its goods and invest throughout the EU, would be impossible without the tariff-free environment provided by the Customs Union and the role the latter plays in overseeing imports and exports. The Customs Union has also enabled the EU to compete with the rest of the world with a far stronger position in trade negotiations than would any Member State negotiating alone.

The Treaty on the Functioning of the EU (TFEU) provides that the Customs Union is an exclusive competence of the European Union. Article 32 of the TFEU also requires the Commission, in carrying out Customs Union-related tasks, to be "guided by the need to promote trade between Member States and third countries".

Around the clock, more than 114,000 national customs officers in all EU countries work together as one to manage the day-to-day operations of the Customs Union at airports, border crossings, ports, inland customs offices and customs laboratories. Nevertheless, the working of the EU Customs Union has been under pressure over the past decade from multiple sides: rapidly changing technologies and business models, increased volumes of world trade and the increasing number of tasks to be performed by customs.

The 2016 Union Customs Code (UCC) package, which constitutes the main body of legal rules applicable in the EU customs territory, aims to adapt the customs rules to these modern realities. It provides, in particular, a full digitalisation of customs formalities including 17 up-to date, interconnected electronic systems. The Commission ensures through the Customs 2020 funding programme that Member States' customs administrations are able to complete their elements of the work on the UCC's electronic systems, all of which must be deployed by 2025.

The Customs Union is administered by Member States but the Commission is actively supporting them in this work. It does this in several ways, including by managing on a day-by-day basis most of the EU import quotas, by keeping up to date all tariff-related information and by developing or upgrading several of the UCC electronic systems for EU-wide use. The Commission also supports Member States and trade stakeholders by bringing them together, under the umbrella of the activities of the Customs 2020 programme, at regular meetings to develop guidance and by providing assistance with interpretation of legislation and formalities.

For the EU as a whole, external demand is a major source of growth; therefore there is pressure for customs authorities to manage international supply chain transactions efficiently while at the same time performing their traditional task of collecting revenues. As gatekeeper for the EU borders for the flows of goods, EU customs play a crucial role in implementing the EU Security Agenda and protecting the EU and its residents. Because of their presence at the EU external border, customs are also called upon to implement in a coherent and harmonised way more than 60 pieces of non-customs EU legislation relating, for example, to dual use, fire arms and intellectual property.

Cooperation with external partners

DG TAXUD works closely with several institutional stakeholders, especially other services of the European Commission, the European External Action Service (EEAS), the ECOFIN Council and the European Parliament, Europol, Frontex, Eurojust and the European network of judicial authorities.

As regards cooperation with public administrations at EU level, DG TAXUD co-chairs and organises meetings of the Heads of Tax Administration Summit (TADEUS), organises and chairs meetings of the Heads of Customs Administrations (the Customs Policy Group), and organises and chairs regular meetings of customs officials and meetings of Common Transit Convention countries.

In addition to engagement with public administrations at EU level, we have regular cooperation and dialogues with a broad number of third countries either through specific customs cooperation and mutual assistance agreements or in the framework of more general free trade or partnership agreements.

In this context, the Commission aims to promote good EU practices, facilitate legitimate trade and compliance with EU rules and legislation, secure the international supply chain and ensure correct revenue collection.

We engage regularly with international organisations like the World Customs Organisation (WCO), the World Trade Organisation (WTO), the United Nations Economic Commission for Europe (UNECE), the Organisation for Economic Co-operation and Development (OECD), the Intra-European Organisation of Tax Administrations (IOTA) and the International Monetary Fund (IMF) and participate actively in these multilateral fora to influence and support international standard setting and policy shaping in line with EU standards and legislation.

We interact regularly with businesses and civil society representatives through various expert groups such as the VAT Expert Group, the EU VAT Forum, the Joint Transfer Pricing Forum, the Platform for Good Tax Governance, the Trade Contact Group (TCG) on customs matters and the Electronic Customs Coordination Group (ECCG).

DG TAXUD reported in 2019 to Pierre Moscovici, Commissioner for Economic and Financial Affairs, Taxation and Customs and to Valdis Dombrovskis, Vice President for the Euro and Social Dialogue. As from 1 December 2019, DG TAXUD reports to Paolo Gentiloni, Commissioner for Economy.

EXECUTIVE SUMMARY

This Annual Activity Report is a management report of the Director-General of DG 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].

a) Key results and progress towards the achievement of the Commission's general objectives and DG's specific objectives

The DG TAXUD initiatives were taken to support a fairer and deeper Internal Market, tackle tax fraud, ensure sustainable revenues and support a better business environment. In 2019, DG TAXUD in particular worked on a fairer **taxation for the digital economy**:

- with Council adopting the second VAT e-commerce package that will ensure a smooth implementation of the rules in 2021;
- concluding the inter-institutional negotiations on the proposal to collect and exchange VAT-relevant payment data on e-commerce transactions and;
- concluding negotiations on the **simplification of certain VAT rules** for small and medium size enterprises that will allow them to access exemption also when supplying goods and services to other Member States, in which they are not established.

DG TAXUD continued to contribute to the negotiations of the **withdrawal agreement** and the **future relationship with the UK**.

On 15 January 2019, the Commission launched the debate on reforming decision-making for areas of EU taxation policy, suggesting a progressive and targeted transition to **qualified majority voting** (QMV) under the ordinary legislative procedure in certain areas of shared EU taxation policy. The Commission did not propose any change in EU competences in the field of taxation, or to the rights of Member States to set personal or corporate tax rates as they see fit but proposed to better use the existing tools in the Treaties. The debate is still ongoing in the Council and the European Parliament.

Throughout 2019, Member States **continued negotiating** the Commission's 2018 proposals setting out the detailed arrangements of the **definitive VAT system** for business-to-business supplies of goods and VAT Rates. Amid reservations and criticism by some Member States that want to keep the status quo, technical discussions on safeguard measures (such as split payment) are ongoing. On 8 November 2019, EU finance ministers reached a general approach on an update to already-existing **special VAT rules for EU SMEs**.

Member States agreed on 8 November new rules to **tackle VAT fraud in the e-commerce** sector. These ensure that anti-fraud experts in EU Member States have

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

access to VAT-relevant data held by payment intermediaries such as credit card and direct debit providers that facilitate over 90% of online purchases in the EU.

On 12 September 2019, the Commission published the **evaluation of the Energy Taxation Directive** (ETD). Clearly, EU rules on energy taxation no longer deliver the same positive contribution as when they first came into force in 2003.

Throughout 2019, DG TAXUD continued to follow up to the major elements of its 2016 **Customs Governance** Communication. Meanwhile, the Commission, Member States and trade stakeholders continued to ensure that the **Union Customs Code** (UCC) remained fit for purpose, amongst others regarding:

- the new **VAT e-commerce rules** regarding the distance sales of goods from third countries or territories and
- by allowing a **longer period of time for the deployment** of some of the 17 IT systems that the UCC provides for completing customs formalities.

Throughout 2019, DG TAXUD continued to ensure the uniform application of the Common Customs Tariff (CCT) and the daily update of the Integrated Tariff of the European Union.

The Customs and the Fiscalis 2020 programmes offer Member States a European framework for cooperation amongst national customs and tax administrations and their officials. A big part of the programmes is dedicated to the creation and update of much needed trans-european IT systems. The Commission proposals on the **continuation of the Customs and Fiscalis programmes post-2020**, together with the proposal for the new Customs Control Equipment Instrument were well received by the co-legislators.

In 2019, the EU contributed heavily to the discussions on the **reform of the international corporate tax framework**. Mandated by the G20, the Organisation for Economic Cooperation and Development (OECD) is working on a global consensus-based reform of the international business taxation system.

New EU rules came into force on 1 July 2019 to ensure quicker and more effective **resolution of tax disputes** between Member States. On 1 October 2019, the European Commission launched the **EU Customs Trader Portal**, an electronic single point-of-access to a number of EU customs systems.

In the context of the EU Strategy and Action Plan for customs risk management, DG TAXUD progressed in 2019 with the development of two core customs instruments:

- the Import Control System 2 (ICS2);
- the reshaped Customs Risk Management System (CRMS2).

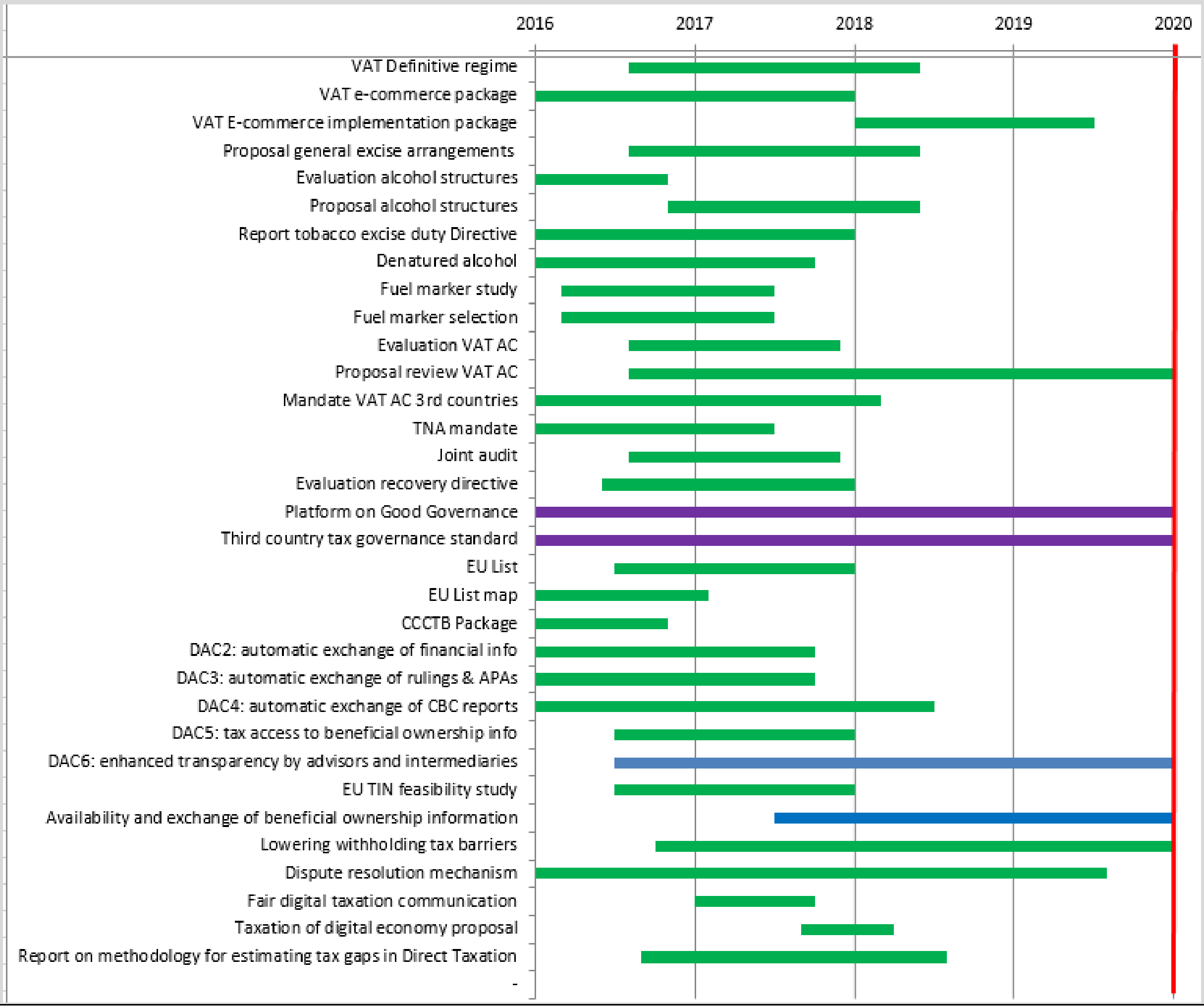
In 2019, on behalf of the EU and together with the customs administrations of the Member States, the Commission ensured the **implementation** of the customs-related provisions of **customs or free trade agreements**. TAXUD played a major role in overcoming the initial difficulties in the implementation of the EU's Free Trade Agreement with Japan and paving the way to the successful use of the additional trading possibilities offered by the agreement to EU exporters.

DG TAXUD also continued **monitoring the implementation of preferential trade arrangements** to protect the EU's financial interests and ensure fair trade between the

EU and the third countries that are benefitting from preferential trade arrangements.

b) Key Performance Indicators (KPIs)

KPI 1: Tax Action Plans Implementation Indicator



This indicator monitors the policy work carried out by the DG, measuring if and when DG TAXUD delivers on key actions laid down in the action plans. The indicator provides a percentage of the actions implemented over time. In 2019, 4 actions were closed (green bars), while no new action was started (bars starting in 2019), 2 actions are ongoing and 2 are of a continuous nature.

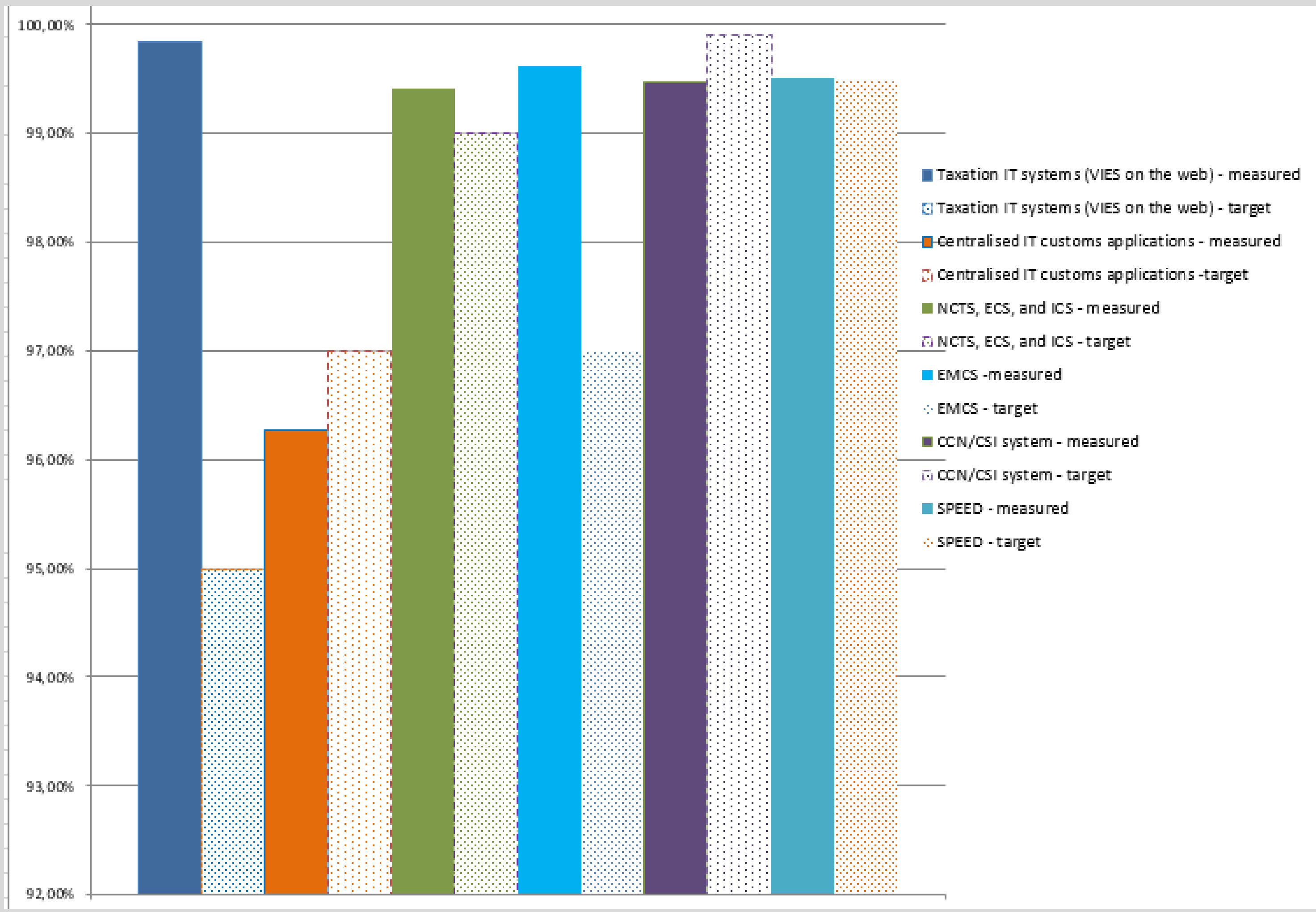
KPI 2: Modernisation and simplification of the Union Customs Legislation indicator

			Project Initiation (BPM, BC & VD)	Functional Analysis & Specifications	Technical elaboration, specifications & development	Roll-out & Deployment	Achieved Milestone TSS	Achieved Milestone Date of Deployment	MASP 2019 dates of deployment
1	**REX**						✓	✓	01-01-2017
2	**BTI**	*phase 1 - step 1*					✓	✓	01-03-2017
		phase 1 - step 2					✓	✓	02-10-2017
		phase 2					✓	✓	01-10-2019
3	**Customs Decisions**						✓	✓	02-10-2017
4	**UUM&DS**						✓	✓	02-10-2017
5	**AEO**	*phase 1*					✓	✓	05-03-2018
		phase 2					✓	✓	1-10&16-12-2019
6	**EORI2**						✓	✓	05-03-2018
7	**SURV 3**						✓	✓	01-10-2018
8	**PoUS**	*phase 1*							Q1 2024
		phase 2							Q2 2025
9	**NCTS**	*component 1 (phase 5)*					✓		Q1 2021-Q4 2023
		component 2 (phase 6)							Q2 2024-Q22025
10	**AES**	*component 1 (AES)*					✓		Q1 2021-Q4 2023
		component 2 (national)	national project						Q1 2021-Q4 2023
	AES, NCTS, ICS2	*transition strategy*							
11	**SP INF**						✓		Q2 2020
12	**SP**	*component 1 SP_EXP*	national project						Q1 2021-Q4 2023
		component 2 SP_IMP	national project						national
13	**NA, PN, TS**		national project						national
14	**National Import upgrade**		national project						national
15	**CC Import**	*phase 1*							Q1 2022-Q4 2023
		phase 2							Q4 2023-Q2 2025
16	**GUM**	*component 1*							Q4 2023-Q2 2025
		component 2	national project						national
17	**ICS 2**	*release 1*					✓		Q1 2021
		release 2					✓		Q1 2023
		release 3							Q1 2024

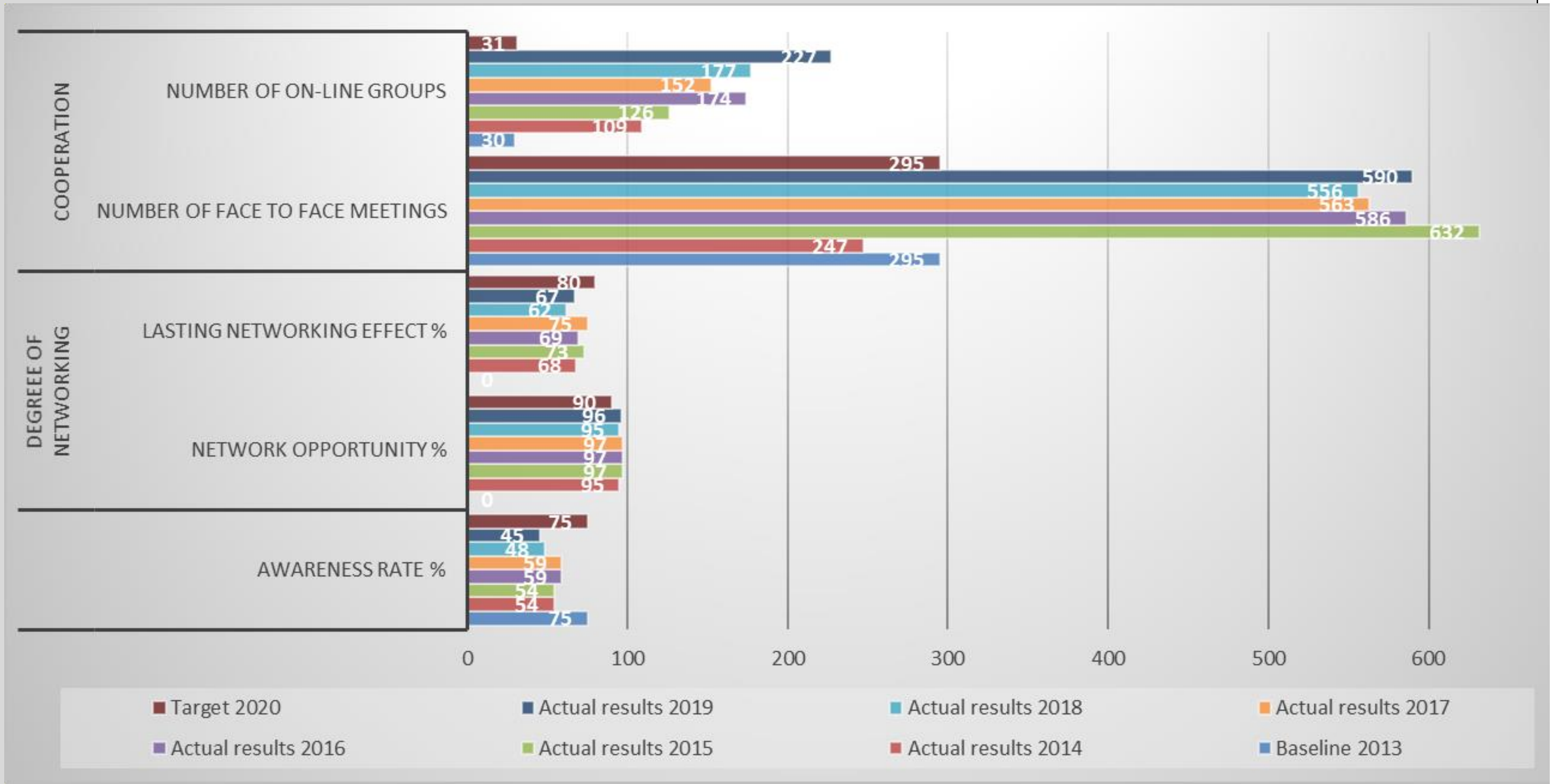
Legend: **Different shades of grey used to indicate separate stages of projects.**
Where a stage is not fully completed this is indicated by partially filling the space.
Cross hatched spaces indicate not applicable.
Checkmark indicates milestone achieved

This indicator monitors the implementation of the IT related tasks assigned to the Commission and Member States by the UCC work programme aiming for modernisation and simplification of the Customs Union. The graph demonstrates in respect of the different IT systems which project phases have been completed by 1 January 2020 since the adoption of the first version of the UCC Work Programme in 2014 (revised in April 2016 and in December 2019).

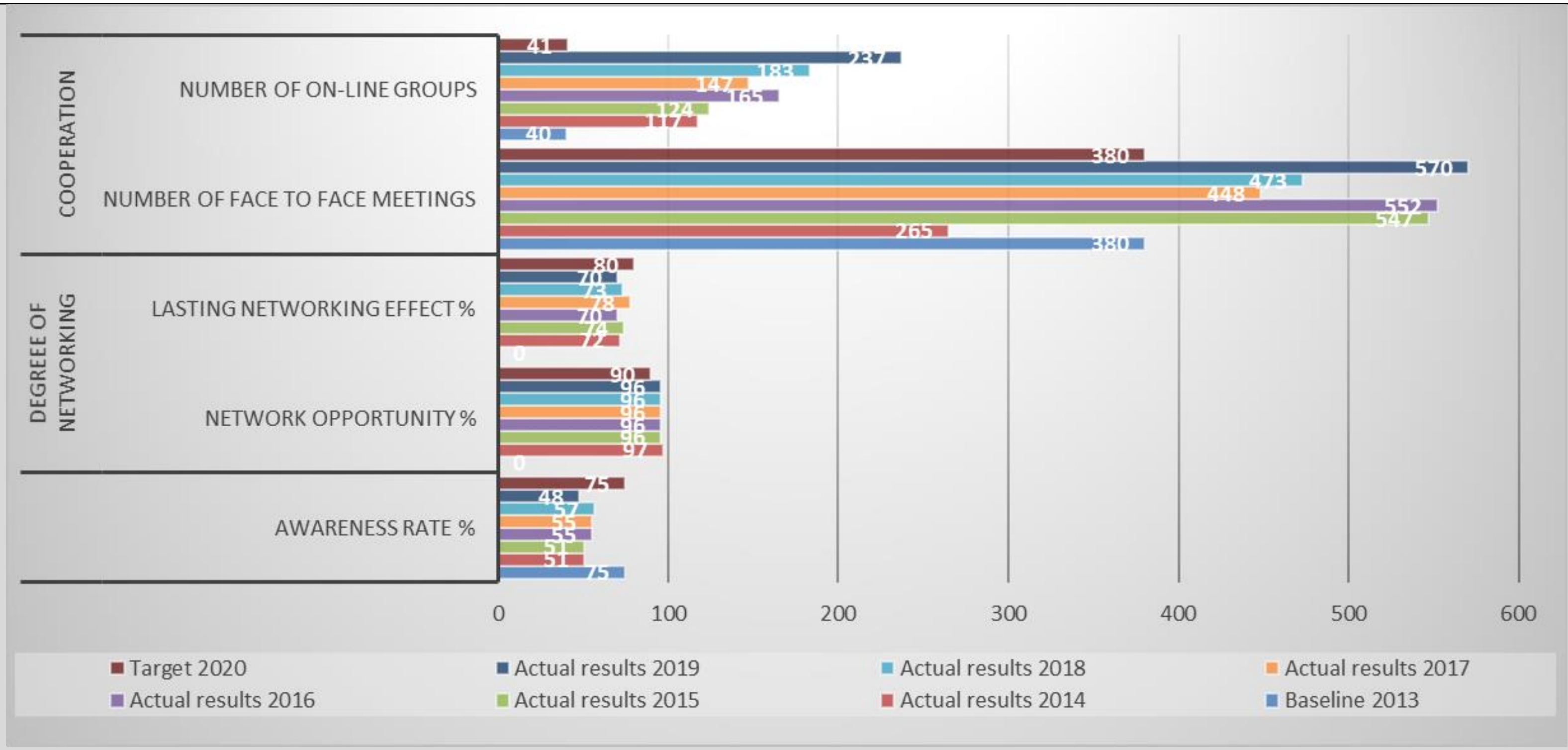
KPI 3: Availability of Taxation and Customs IT Systems indicator



This indicator visualises the measured availability of European customs and tax Information Systems and of the underlying Common Communication Network (CCN/CSI) compared to their targeted 2020 availability (dotted columns).

KPI 4 Collaboration Robustness Indicator **Fiscalis 2020**	 *No data are available for the awareness rate 2015, 2017 as measured bi-annually.* *Lasting networking effect and networking opportunity measured as from 2014, baseline 2013 being 0.* *Networking: data source changed from Programme Poll (bi-annual) to EAF (annual) for all the years in order to ensure consistency in the measurement (cut-off date for EAF extraction: end Jan.2020).*

Customs 2020



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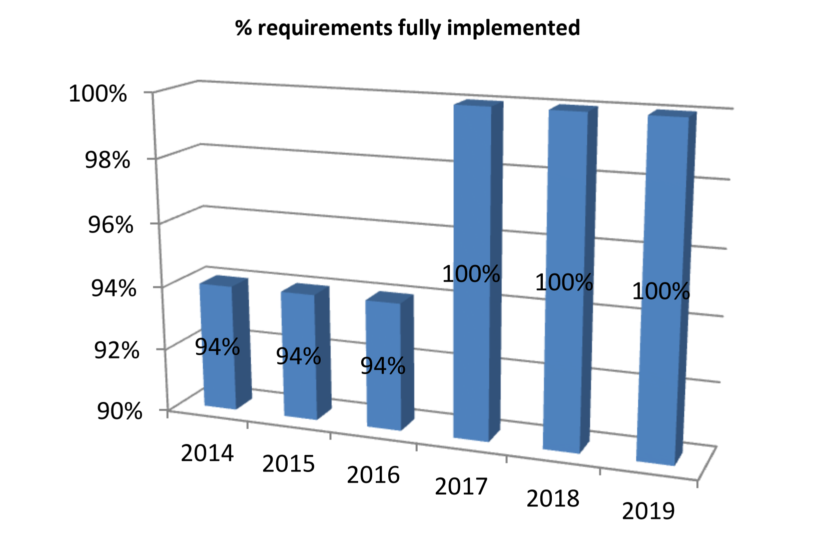
Lasting networking effect and networking opportunity measured as from 2014, baseline 2013 being 0.
Networking: data source changed from Programme Poll (bi-annual) to EAF (annual) for all the years in order to ensure consistency in the measurement (cut-off date for EAF extraction: end Jan.2020).

KPI 5 Internal control criteria implemented	Target: >90% each year
	

c) Key conclusions on Financial management and Internal control (executive summary of section 2.1)

In accordance with the governance arrangements of the European Commission, (the staff of) DG TAXUD conducts its operations in compliance with the applicable laws and regulations, working in an open and transparent manner and meeting the expected high level of professional and ethical standards.

To ensure the achievement of policy and management objectives, the Commission has adopted a set of internal control principles, based on international good practice. The financial regulation requires that the organisational structure and the internal control systems used to implement the budget be set up in accordance with these principles. DG TAXUD has assessed its internal control systems during the reporting year and has concluded that the internal control principles are implemented and function as intended. Please refer to AAR section 2.1.3 for further details.

In addition, DG TAXUD has systematically examined the available control results and indicators, including those for supervising entities to which it has entrusted budget implementation tasks, 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 2.1 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; 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.

d) Provision of information to the Commissioner(s)

In the context of the regular meetings during the year between the DG and the Commissioner(s) on management matters, the main elements of this report and assurance declaration, have been brought to the attention of Commissioner Moscovici, responsible for Economic and Financial Affairs, Taxation and Customs Union and as from 1 December 2019 to the attention of Commissioner Gentiloni, responsible for Economy.

1. KEY RESULTS AND PROGRESS TOWARDS THE ACHIEVEMENT OF THE COMMISSION'S GENERAL OBJECTIVES AND DG'S SPECIFIC OBJECTIVES[2]

GENERAL OBJECTIVE 1

A fairer and deeper Internal Market

In general, the DG TAXUD initiatives were taken to support a fairer and deeper Internal Market, tackle tax fraud, ensure sustainable revenues and support a better business environment in the Internal Market. In 2019, DG TAXUD in particular worked on a fairer **taxation for the digital economy**:

- with Council adopting the second VAT e-commerce package that will ensure a smooth implementation of the rules in 2021;
- concluding the inter-institutional negotiations on the proposal to collect and exchange VAT relevant payment data on ecommerce transactions and;
- concluding negotiations on the **simplification of certain VAT rules** for small and medium size enterprises.

DG TAXUD continued to contribute to the negotiations of the **withdrawal agreement** and the **future relationship with the UK**. This included amendments to the Union Customs Code (UCC) Delegated Act and the UCC Implementing Act to prepare for a possible no-deal scenario. Major work was also done to have the Customs and tax IT systems ready for a withdrawal. Moreover, DG TAXUD, in close cooperation with the Business Preparedness Group, supported stakeholders, both in Member States and businesses, to prepare for a withdrawal without a ratified agreement.

2 An Executive Agency uses as heading: "Implementation of the Agency's Annual Work programme - Highlights of the year".

On 15 January 2019, the Commission launched the debate on reforming decision-making for areas of EU taxation policy, which currently requires unanimity among Member States. Such unanimity often cannot be achieved on crucial tax initiatives, and can lead to costly delays and sub-optimal policies. The unanimity rule has meant that some key proposals for growth, competitiveness and tax fairness in the Internal Market have been blocked for years.

The Communication suggested a progressive and targeted transition to qualified majority voting (QMV) under the ordinary legislative procedure in certain areas of shared EU taxation policy. Under QMV, Member States would be able to reach quicker, more effective and more democratic compromises on taxation matters, while taxation decisions would benefit from concrete input from the European Parliament, better representing citizens' views and increasing accountability.

The Commission did not propose any change in EU competences in the field of taxation, or to the rights of Member States to set personal or corporate tax rates as they see fit.

In addition, on 9 April 2019, the Commission presented a more specific Communication on "A more efficient and democratic decision making in EU energy and climate policy" to launch the debate to move forward on the use of qualified majority voting (QMV) under the ordinary legislative procedure in the fiscal area for specific environmental objectives.

The Communications are still under discussion in the Council and the European Parliament.

SPECIFIC OBJECTIVE 1.1 & 1.2

A tax framework that is fit for purpose and the fight against tax fraud

Public interest to restore fairness to the international tax system remained high and therefore TAXUD continued the work ensuring companies in the Internal Market pay tax where value is created and to tackle fraud.

Fair Taxation

The Commission published on 16 September, a first **evaluation** of the EU **tax transparency rules** on administrative cooperation, including the automatic exchange of information between Member States. Almost seven years after the entry into application of the Directive on administrative cooperation, the evaluation provides a first snapshot of the exchange of tax information on financial accounts and on the tax rulings for multinational companies. Among other findings, the report confirms that the measures are delivering added-value when it comes to countries' ability to crack down on tax avoidance. For example, in 2017 Member States exchanged information on almost 18,000 tax rulings given to multinationals. The evaluation shows that Member States should now be receiving the information they need to fight tax fraud, evasion, and avoidance, and that the new rules have helped to deter taxpayers from hiding income or assets.

Finally, the European Parliament on 24 October urged Member States to work on long-overdue rules obliging multinationals to disclose how much taxes they pay on their profit in each country by agreeing a position on the legislative proposal requiring **public country-by-country reporting of taxes paid by multinationals**. The continuation on the proposal would allow talks between Member States and the European Parliament to begin, in view of agreeing on a final text of the rules. The Members of the European Parliament (MEPs) underlined that corporate taxation is an area of great concern to people and that by not acting for so long, the Member States had not delivered to its citizens.

The digitalisation of the global economy is happening fast and permeates almost all areas of society. Tax administrations in Member States face similar challenges of how to respond to a more digitalized and globalized economy, how to exploit and administer the large potential of big data and data analytics and how to efficiently use resources to ensure high tax compliance. In that context, the **T**ax **Ad**ministration **EU** **S**ummit of the Heads of Tax Administration (TADEUS) endorsed in September 2019 the findings of the 'Digital and data' project – about possible tax reporting requirements for the sharing and gig economy

VAT system

The common Value Added Tax (VAT) system plays an important role in Europe's Internal Market. It is also a major source of revenue for EU Member States, raising over €1 trillion in 2015, corresponding to 7% of EU GDP. One of the EU's own resources is also based on VAT. Throughout 2019, Member States **continued negotiating** the Commission's 2018 proposal setting out the detailed arrangements of the **definitive VAT system** for business-to-business supplies of goods. Amid reservations and criticism by some Member States that want to keep the status quo, technical discussions on safeguard measures (such as split payment) are ongoing.

Negotiations on the proposal reforming the **VAT rates system** advance in parallel, as existing Member State derogations will disappear once the definitive system is in place.

On 8 November 2019, EU finance ministers reached a general approach on an update to already-existing special VAT rules for EU SMEs. The new rules will raise the maximum domestic exemption turnover threshold for companies doing business in their country to a maximum of €85,000 and open the exemption for non-established EU companies subject to an EU-wide €100,000 threshold in turnover for SMEs doing business cross-border to be eligible for exemption in another Member State. Qualifying SMEs will be able to take advantage of further simplifications in dealing with VAT obligations such as registration and reporting. The new and improved VAT scheme for SMEs should enter into force in January 2025. At the end of 2019, the outcome of the re-consultation of the European Parliament was pending.

The Commission adopted on 24 April 2019 a proposal to **exempt supplies to armed forces from Value Added Tax (VAT) and excise duties** when such forces are deployed outside their own Member State and take part in a European defence effort. The initiative acknowledges the growing importance of the Common Security and Defence Policy (CSDP) and military mobility which require supplies such as training materials, accommodation, provision of food and fuel - all in principle currently subject to VAT. EU finance ministers adopted this initiative on 16 December 2019.

On 20 December 2019, the Commission published the **VAT Explanatory Notes** on the "2020 Quick fixes" regarding the new rules related to call-off stock arrangements, chain transactions and the exemption for intra-Community supplies of goods that entered into force on 1 January 2020.

VAT Fraud

According to the most recent 2017 VAT collection figures, EU Member States are still losing over €137 billion in revenues. The VAT Gap decreased in 25 Member States and increased in three. Individual performances across Member States still vary significantly. This substantial VAT Gap again highlights the need for a comprehensive reform of the EU VAT rules, as proposed by the Commission back in 2017.

VAT GAP IN 2017 (EUR million)

Belgium	3,996	Greece	7,339	Lithuania	1,119	Portugal	1,929
Bulgaria	625	Spain	1,806	Luxembourg	23	Romania	6,413
Czech Republic	2,082	France	12,030	Hungary	1,893	Slovenia	128
Denmark	2,235	Croatia	459	Malta	13	Slovakia	1,791
Germany	25,016	Italy	33,629	Netherlands	2,744	Finland	1,622
Estonia	122	Cyprus	11	Austria	2,444	Sweden	654
Ireland	1,938	Latvia	385	Poland	5,764	UK	19,199

Total EU-28	137,470

More details are available in the 2019 VAT Gap Report.

As part of the Commission's sustained effort to put in place a modern and fraud-proof VAT system, Member States launched on 15 May 2019 a **new tool to crack down on VAT fraud**. This Transaction Network Analysis (TNA) will allow tax authorities fast and easy access to cross-border transaction information, allowing for quick action when potential VAT fraud is flagged. It also allows closer cooperation between the EU's network of anti-fraud experts (‘Eurofisc') when it comes to jointly analysing information detecting and intercepting VAT Carousel Fraud as fast and effectively as possible. The tool allows Eurofisc officials to cross-check information with criminal records, databases and information held by Europol and OLAF, the EU's anti-fraud agency, and to coordinate cross-border investigations.

Member States agreed on 8 November new rules to **tackle VAT fraud in the e-commerce** sector. These ensure that anti-fraud experts in EU Member States have access to VAT-relevant data held by payment intermediaries such as credit card and direct debit providers that facilitate over 90% of online purchases in the EU. Practically, payment service providers will be obliged to provide Member State authorities with certain payment data related to cross-border sales, which the 'Eurofisc' officials can then access and analyse. In turn, both EU and non-EU online sellers will be identifiable when they do not comply with VAT obligations. The new rules will be applied as of January 2024.

Non-EU companies, including those who make use of warehouses or so-called 'fulfilment centres' in the EU, can sell goods to EU consumers through **online marketplaces**. It can often be difficult for tax authorities to obtain the VAT due on those goods. On 21 November 2019, EU Member States adopted detailed measures needed to **simplify VAT rules for sales of goods online**, also ensuring that online marketplaces play their part in the fight against tax fraud. Following the new VAT measures for e-commerce agreed in December 2017, online marketplaces will be considered to act as the seller when they facilitate sales of goods with a value up to €150 to customers in the EU by non-EU businesses using their platform. Importantly, the same rules will apply when non-EU businesses use online platforms to sell goods from ‘fulfilment centres' in the EU, irrespective of their value, allowing tax authorities to claim the VAT due on those sales. The new rules will come into force in January 2021 and should also help Member States to collect up to €7 billion of VAT per year.

The electronic business portal for VAT known as the 'Mini One Stop Shop' is extended by these measures and will allow companies that sell goods online to their customers to deal with their VAT obligations in the EU through one easy-to-use online portal in their own Member State and their own language. Without the portal, VAT registration would be required in each EU Member State into which they want to sell – a situation cited by companies as one of the biggest barriers for small businesses trading cross-border. The system is already in place for telecommunications, broadcasting and e-service providers since 2015 and is working well.

The statistics of this EU VAT Mini One Stop Shop (VAT MOSS), covering the period from 2015 to 2018, show a positive result in terms of VAT collection for all EU countries. Overall, the VAT revenues collected under MOSS show a constant growth from € 3 billion in 2015 to more than € 4.5 billion in 2018. In 2018, the VAT collected even increased by more than 20% compared to 2017 figures. The number of traders using the MOSS to declare and remit cross-border VAT has also shown a moderate increase in this period. An intermediary evaluation of the MOSS system showed that the use of MOSS can reduce the administrative burden for businesses by up to 95%.

EU Evaluation of the Energy Taxation Directive (ETD)

On 12 September 2019, the Commission published the evaluation of the Energy Taxation Directive (ETD), which lays down rules for the taxation of energy products used as motor or heating fuels and for electricity. Clearly, EU rules on energy taxation no longer deliver the same positive contribution as when they first came into force in 2003 since technology, national tax rates and energy markets have all evolved considerably over the past 15 years.

The evaluation points out that the high divergence in national energy tax rates is not in line with other policy instruments and can lead to fragmentation of the internal market, a problem exacerbated by the widespread use of optional tax exemptions. At a time when the EU has considerably raised its ambition as presented in the European Green Deal by setting new climate targets for 2030 and an objective of carbon neutrality by 2050, the EU's energy taxation framework clearly has a significant misalignment with other EU policies. Among others, the ETD currently does not fulfil its potential in contributing to the reduction of Greenhouse gas and air pollutant emissions. The ETD does not contribute sufficiently to improvements in energy efficiency and in the sustainability of the energy mix. It does not provide sufficient incentives for investments in clean technologies in the relevant energy sectors, which are expected to play a relevant role in enabling the energy transition.

On 8 November 2019, EU finance ministers reached a general approach on an updated Directive on General Arrangements for excise duties that will modernise the existing processes and procedures and thus reduce administrative burden.

SPECIFIC OBJECTIVE 1.3

Well-functioning and modern Customs Union

Throughout 2019, DG TAXUD continued to follow up to the major elements of its 2016 **Customs Governance** Communication.

Union Customs Code

The Commission amended the Union Customs Code (UCC) twice in 2019. A first package adopted on 19 March 2019 introduced, besides technical amendments, a **new Article 260a** to provide relief from import duties on goods repaired or altered in the context of international agreements. In addition, further to a request from Italy, this amendment includes a provision that brought the Italian municipality of **Campione d'Italia** into the **EU customs territory** from 1 January 2020. This amendment is closely linked with a Directive amending the VAT and Excise Directives in order to provide for corresponding fiscal treatment of Campione d'Italia.

The second amendment, adopted on 17 April 2019, allows a **longer period of time for the deployment** of some of the 17 IT systems that the UCC provides for completing customs formalities. The proposal allows customs authorities and economic operators to continue using transitional arrangements for customs formalities to be managed by 9 electronic systems that will not be deployed by the original deadline of 2020. For 3 of those systems, the new deadline is end 2022 at the latest and for the remaining 6 the new deadline is end 2025 at the latest. The amendment also requires the Commission to produce an annual report on the state of play of the work on completing the electronic systems.

The new VAT e-commerce rules regarding the distance sales of goods from third countries or territories, mean that from 2021 an electronic customs declaration will be required for all goods imported into the EU, regardless of their value while currently there is a 22€ threshold. The generally low value of **e-commerce imports** into the EU, coupled with the enormous number of such transactions, has obliged customs to decide on new solutions to manage this new workload at the EU's borders. Therefore, on the basis of a Commission proposal of 14 March 2019, an amendment to the UCC Delegated Act entered into force on 25 July 2019 providing for a **simpler customs declaration with a reduced number of data requirements** for consignments not exceeding EUR 150 or of a non-commercial nature.

The Commission on 10 September adopted a package of amendments to the UCC Implementing Act that took effect from 1 October 2019 and that in particular:

- Amend the export procedure to allow customs to better supervise the real exit of goods from the customs territory of the Union; and
- Enable customs authorities to provide tax authorities access to certain information to support the fight against VAT fraud.

In 2019, work also started on further amendments to the UCC Delegated Act and Implementing Act, required for:

- the VAT e-commerce package,
- the roll out of the UCC Import Control System 2 and,
- the use or movement of goods in the context of military activities.

This year, DG TAXUD also started to assess how the UCC customs simplifications are applied in practice by a representative group of 10 Member States including by assessing the Member States' customs controls and the efficiency/effectiveness of resources available.

Finally, on 3 July 2019, DG TAXUD and DG TRADE completed the work of establishing a "customs tool", laying down a procedure that allows for the levying of trade defence instruments on certain goods brought to an exclusive economic zone or to the continental shelf of a Member State, for instance for the exploitation of natural resources. Before that, trade defence measures that applied to goods imported into the EU customs territory did not apply to goods brought to such areas. This measure will further strengthen the EU's ability to protect its industry against unfair trade.

Common Customs Tariff

Since the completion of the internal market, goods can circulate freely between Member States. The 'Common Customs Tariff' (CCT) therefore applies to the import of goods across the external borders of the EU. The tariff is common to all EU members, but the rates of duty differ from one kind of import to another depending on what they are and where they come from. Throughout 2019, DG TAXUD continued to ensure the uniform application of the CCT and the daily update of the Integrated Tariff of the European Union (TARIC, a multilingual database integrating all measures relating to EU customs tariff, commercial and agricultural legislation) by:

- providing up-to-date data for the customs clearance systems of the Member States,
- giving economic operators a comprehensive view of all tariff measures applicable when importing or exporting goods into/from the EU,
- adopting two implementing regulations on tariff quotas and ensuring the management and daily allocations for more than 1,150 tariff quotas in 2019,
- publishing 41 legislative tariff classification measures, and solved 46 other cases of divergent classification by consensus with the Member States, and

- finalising the Harmonised System (HS) 2022 World Customs Organisation (WCO) recommendation and preparing the subsequent Explanatory Notes.

Customs IT Systems

In 2019, DG TAXUD continued operating an important portfolio of IT systems, supporting the Member States and third countries in their exchanges of Customs related information, and supporting traders. The operational exchanges included 11.6 million transit movements, over 15 million indirect export movements, 47 million entry summary declarations and 437 million surveillance records. The publicly available information on the internet was accessed more than 172 million times, an increase of 14% compared to 2018.

In December, the Commission adopted its first annual report on progress with the work of completing the Union Customs Code electronic systems. In 2019, DG TAXUD further prepared the Single Window project for the exchange of information between national customs administrations and EU IT systems managing veterinary, phytosanitary, environmental, agricultural and other certificates, licenses or permits required for cross-border movement of goods. The Customs Single Window would allow Member States customs administrations to have a single access to the different EU certificates databases for the automated acceptance and verification of these documents. This will also be an opportunity for the EU-level harmonization of implementation of non-customs legislation by the national customs authorities. In parallel to progressing the pilot initiative, DG TAXUD published the results of the public consultation.

SPECIFIC OBJECTIVE 1.4

The EU programmes supporting EU tax and customs policy

The Customs and the Fiscalis 2020 programmes offer Member States a European framework for cooperation amongst national customs and tax administrations and their officials. The Commission proposals on the **continuation of the Customs and Fiscalis programmes post-2020**, together with the proposal for **the new Customs Control Equipment Instrument** were well received by the co-legislators. Negotiations on the three files are well advanced. Their adoption is pending progress on the adoption of the multi-annual financial framework.

The vast majority of the present programmes funding (approx. 80%) is devoted to the implementation, improvement, operation and support to the European Information Systems (EIS), allowing customs and tax administrations to exchange information by secure electronic means by interconnecting approximately 5.000 connection points and to provide online information and services in the area of taxation and customs to EU businesses and citizens. The remaining programmes' budget is used to support and increase cooperation and collaboration between tax and/or customs officials, to jointly work on common challenges and to provide training on EU tax and customs legislation and policy in order to ensure coherent application at national level.

The collaboration between customs and taxation officials is supported by actions like workshops, seminars, project groups, and working visits, including joint audits in the tax area, where officials exchange knowledge and best practices or work together on common problems, and it represents a key sustainable success factor for the understanding and implementation of customs and taxation policy in Europe and for increasing the performance, effectiveness and efficiency of the customs and taxation administrations. In the context of the programmes, the European Commission awarded for the first time 7 universities for their high quality academic customs study programmes (MA/BA level).

GENERAL OBJECTIVE 2

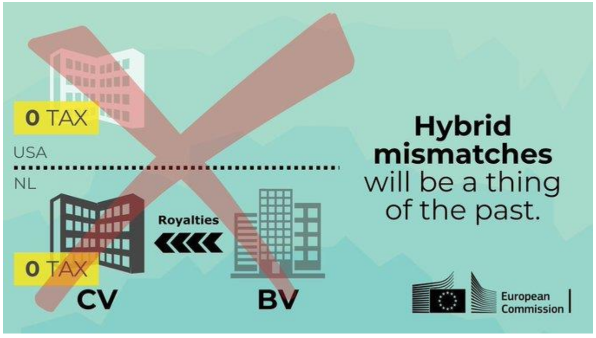
A new Boost for Jobs, Growth and Investment

SPECIFIC OBJECTIVE 2.1

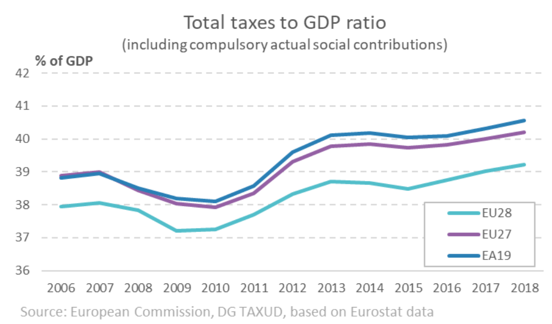
Taxation enhancing EU competitiveness

The international corporate tax framework is out of step with the realities of the modern economy. It is too complex and does not ensure that profits are taxed where they are generated. It creates uncertainty for both tax administrations and taxpayers.

In October 2016, the Commission launched its proposal for a **Common Consolidated Corporate Tax Base (CCCTB)**, a single set of rules to calculate companies' taxable profits in the EU. The proposal will make it easier and cheaper to do business in the single market and will act as a powerful tool against tax avoidance. The Commission proposed a two-step process, first agreeing on the common base (CCTB), before working on the more complex consolidation aspect (CCCTB). While the European Parliament is supportive of both proposals, Member States did not make major progress on this file in 2019. This was partly because of the decision to wait for progress on the international work on corporate tax reform.



In 2019, the EU contributed heavily to the discussions on the **reform of the international corporate tax framework**. Mandated by the G20, the Organisation for Economic Cooperation and Development (OECD) is working on a global consensus-based reform of the international business taxation system. The Commission actively contributed to the global discussions, coordinating – as far as possible – Member States' positions. It also launched an evaluation on the possible impact of international reform on the tax revenues of EU Member States.



All Member States' economies are forecast to continue growing, though at a slower pace. Barring major shocks, Europe should be able to sustain economic growth, robust job creation and falling unemployment. The public finances of euro area Member States have improved considerably, and the aggregate euro area public deficit is now below 1%. However, debt remains high in several countries. As the economy continues to grow, it is time to build up fiscal buffers to cope with the next downturn. Throughout 2019 DG TAXUD has therefore contributed in the context of the **European Semester** to the economic analysis of national tax policies and the preparation of the country-specific recommendations in the field of tax policy supporting reforms to improve the fairness and efficiency of national tax systems.

At the end of November 2019, the 2020 European Semester cycle, with the adoption of a package setting out Europe's economic and social priorities for 2020, and presenting opinions on euro area Member States' Draft Budgetary Plans. Though a lot has been achieved since 2014, economic growth is less dynamic and more must still be done to support inclusive and sustainable growth and job creation, while making Member States' economies more resilient.

Tax disputes resolution

New EU rules came into force on 1 July 2019 to ensure quicker and more effective **resolution of tax disputes** between Member States. The new system will help to find solutions for tax disputes between Member States that can arise from the interpretation and application of international agreements and conventions providing for the elimination of double taxation. Estimates show that 2000 such disputes are currently pending in the EU, out of which around 900 are over 2 years old.

The mechanism will ensure that businesses and citizens can resolve disputes related to tax treaties more swiftly and effectively, eliminating a major obstacle that creates uncertainty, unnecessary costs and cash-flow problems. At the same time, the new directive introduces more transparency around tax disputes in the EU.

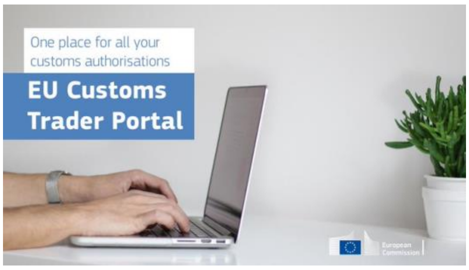
Double taxation occurs when two or more countries claim the right to tax the same income or profits of a company or person. This can, for example, arise from a mismatch between national rules of different jurisdictions or divergent interpretations of the same provision in a bilateral tax treaty. Until now, there has only been a multilateral convention that gives tax authorities the possibility to submit a dispute to arbitration, but without any means for the taxpayer to trigger this process himself. Neither are tax authorities currently required to reach a final agreement.

SPECIFIC OBJECTIVE 2.2

Ensuring efficient customs fostering EU competitiveness

Export and external demand are among the main sources of growth in the EU. Therefore, the fast release of goods upon entry and the facilitation of the use of simplifications and special procedures are key to fostering trade and increasing competitiveness.

Trade facilitation



On 1 October 2019, the European Commission launched the **EU Customs Trader Portal**, an electronic single point-of-access to a number of EU customs systems. In a first stage, the portal will be used for Binding Tariff Information (eBTI) and for Authorised Economic Operator status (eAEO) applications. The portal serves as a single point of contact for applications by the economic operators, additional information requests by the customs authority and replies from economic operators, and the subsequent management of the applications and decisions. As of 1 October, these applications have been made electronically and can no longer be introduced on paper. This will reduce the administrative burden as regards the granting of the authorisation, and will considerably speed up the process.

From 1 January 2021, it will be possible to declare goods up to 150 € using a **customs declaration** that requires 3 times less data than a standard declaration (*see also UCC section above*). This change was made because the existing VAT exemption for goods up to 22 € will disappear and as from that date all imports into the EU will have to be declared at the border using an electronic customs declaration to allow levying VAT. This new simpler form of declaration should mitigate, for both customs and traders, the impact of the sharp increase in the number of customs declarations.

Protection of intellectual property rights

Figures released by the European Commission on 19 September show that the number of interceptions of fake goods being imported into the EU increased in 2018 due to a large amount of small parcels in express and postal traffic. Detention figures for seized consignments jumped from 57,433 in 2017 to 69,354 in 2018, though the total amount of articles detained decreased compared to previous years. Almost 27 million articles that infringed on intellectual property rights (IPR) were detained in 2018 with a street value of nearly €740 million.

The top categories of detained articles were cigarettes, which accounted for 15% of the overall amount of detained articles. This was followed by toys (14%), packaging material (9%), labels, tags and stickers (9%) and clothing (8%). Products for daily personal use in the home such as body care articles, medicines, toys and electrical household goods accounted for nearly 37% of the total number of detained articles.

China continued to be the main source country for goods infringing intellectual property rights. North Macedonia was the main provenance for counterfeit alcoholic beverages. Turkey was the top source for other beverages, perfumes and cosmetics. EU customs saw a high number of fake watches, mobile phones and accessories, ink cartridges and toners, CDs/DVDs, labels, tags and stickers from Hong Kong, China. The main source for computer equipment was India, Cambodia for cigarettes and Bosnia and Herzegovina for packaging material.

Throughout 2019, DG TAXUD also continued its cooperation with other competent authorities and Member States on the harmonised implementation of customs controls to ensure that goods entering the EU comply with EU standards on environment, product safety, human health and food safety.

GENERAL OBJECTIVE 3

A secure European Union

As gatekeeper of the EU borders for the flows of goods, EU customs plays a crucial role in protecting the EU and its residents as well as protecting international supply chains from criminal activities and terrorist attacks.

SPECIFIC OBJECTIVE 3.1

Strengthening security and contributing to tackling terrorism and serious crime

To protect the safety and security of the EU and its residents, throughout 2019, DG TAXUD further strengthened the coordination and cooperation between Customs and other authorities involved in external border management and security. As a member of the EU Serious and Organised Crime Threat Assessment (SOCTA) Advisory Group, DG TAXUD actively contributed to a better integration of customs in this assessment work.

In the context of the EU Strategy and Action Plan for customs risk management, DG TAXUD progressed in 2019 with the development of two core customs instruments to protect the external borders from risks linked to the international movement of goods:

- the Import Control System 2 (ICS2), underpins customs pre-arrival safety and security programme. It will provide a new platform for collection of advance electronic data on all goods and shipments prior to their arrival to the Union customs territory and from different trade sources. It will allow customs authorities to analyse this advance cargo information in real time and take possible mitigation measures already before goods are loaded by the economic operators in a third country or to perform external border controls to protect the Customs Union and Internal Market from a wide range of security and safety threats from illicit trade in goods. In the context of first release of the system DG TAXUD together with DG MOVE worked closely with the Member States from Customs and Civil aviation authorities and industry stakeholders (postal and express industry, air carriers) to finalise guidance on air cargo security referral protocols to identify and mitigate risk for air cargo consignments entering the EU Customs territory.

- the reshaped Customs Risk Management System (CRMS2) that will amongst others implement common risk criteria and better co-ordinated the EU customs response to crisis situations.

In 2019, DG TAXUD continued to closely cooperate with China and Hongkong Customs to expand the **EU-China Smart and Security Pilot Project (SSTL).** The rail connectivity between China and the EU was further developed involving more Member States while also developing measures to tackle the high eCommerce volumes.

In 2019, the **re-assessment of the AEO authorisations** granted under the Community Customs Code (CCC) were under finalisation by all Member States in accordance with Article 250 UCC DA. In this context more than 17 000 AEO authorisations were to be re-assessed.

As part of the Commission's Action Plan to strengthen the fight against terrorism financing and the Security Union agenda, on 17 April 2019 the European Parliament and the Council adopted the Commission's proposal on the **import of cultural goods** prohibiting the import into the EU of cultural goods exported illegally from third countries. The import of certain categories of cultural goods will be either subject to an import licence or an importer statement and the underpinning electronic system should be operational within 6 years. The Commission will annually report to the European Parliament and the Council on the progress with establishing the electronic system.

GENERAL OBJECTIVE 4

EU as a strong global actor

The Commission represents EU customs and tax policy at international level to promote good EU practice and improve cooperation with external partners.

SPECIFIC OBJECTIVE 4.1

Developing international customs and tax cooperation

Non-cooperative tax jurisdictions

The EU continued to have an important impact on the global tax agenda in 2019 and contributed to international progress on several significant issues. The EU listing process for non-cooperative tax jurisdictions, continued in 2019, with an important impact on the global tax environment. This clear, transparent and credible process delivered a real change: many jurisdictions have changed their tax laws and systems, in response to the Commission's concerns and over 100 harmful regimes have been eliminated so far. The list has also had a positive influence on internationally agreed tax good governance standards.

In March 2019, EU Finance Ministers updated the **EU list of non-cooperative tax jurisdictions**, based on analysis and dialogue steered by the Commission. This update resulted in 15 jurisdictions being blacklisted, and around 35 others remaining on the greylist with commitments to fulfil by the end of the year. The Commission continued the intensive dialogue process with all of these jurisdictions in 2019, providing technical support and advice to help them to comply with the required standards by 31 December 2019.

Cooperation with neighbouring countries

DG TAXUD ensured the continued operation of the **common transit procedure with the UK** after the UK's withdrawal from the EU. This key tool for trade facilitation is used for the movement of goods between the EU Member States, the EFTA countries (Iceland, Norway, Liechtenstein and Switzerland), Turkey, the Republic of North Macedonia and Serbia. The UK deposited its instrument of accession with the Secretariat of the Council of the EU on 30 January 2019 and will thus continue to apply the procedure as an independent contracting party as soon as the transitional period ends.

TAXUD was the main contributor on behalf of the EU to the work on the legal framework for the **eTIR procedure** that was agreed in October 2019 at UNECE after a decade of preparatory work and challenging international negotiations. The work will pave the legal path for an electronic TIR customs transit procedure and will bring the TIR Convention in line with business needs and the EU's customs policy. Its formal adoption is scheduled for early 2020.

In 2019, DG TAXUD launched the amendment of the agreements **on customs security measures with Norway and Switzerland**. This should ensure equivalence of security measures at external borders in line with the reinforced risk management framework under the Union Customs Code and should enter into force by the deployment of ICS2 in March 2021.

In 2019, in the context of the revision of the Convention on **pan-Euro-Mediterranean preferential rules of origin** (PEM Convention), DG TAXUD succeeded to finalise a set of revised rules of origin after years of negotiations with the PEM Convention Contracting Parties. The Council adopted a decision on the position to be taken on behalf of the European Union within the Joint Committee established by the Regional Convention and endorsed the new rules. The revised rules of origin of the Regional Convention provide for modern and trade friendly rules that will enable increased and better opportunities for regional integration beyond the EU's borders, thus facilitating trade flows and supply chains whilst benefitting EU businesses and consumers. The application of the revised rules will start on a transitional basis between the Contracting Parties willing to do so. The Pan Euro Med rules of origin today govern around 60% of the EU preferential trade.

DG TAXUD also contributed to the implementation of the trade and customs chapters of the **Euro-Mediterranean Association Agreements** with its partners (Algeria, Egypt, Jordan, Lebanon, Morocco, Tunisia and Palestine), participating actively in the respective Sub-Committees scheduled on regular bases.

After intense discussions and negotiations, the EU-**Morocco** agreement amending Protocols 1 and 4 to the EU Morocco Association Agreement entered into force on 19 July 2019 extending the tariff preferences granted to Moroccan products to products originating from the Western Sahara. On 20 September 2019, the Commission asked the Council for a mandate on the modalities to exchange information with Morocco to assess the impact of the above agreement. The process for adoption of the mandate by the Council is to be completed in the first quarter of 2020.

DG TAXUD continued to support throughout 2019 the **EU Eastern Partnership countries** in their approximation to the EU legislation in areas of customs and taxation.

DG TAXUD also led the negotiations of the customs and taxation provisions of the future Enhanced Partnership Cooperation Agreements with Azerbaijan, Kirghizstan and Uzbekistan. DG TAXUD got from Council the mandate to start negotiations on a Customs Cooperation and Mutual Administrative agreement with **Belarus**.

The monitoring of the alignment of the **Western Balkans and Turkey** with the EU's Tax and Customs Acquis also continued in 2019, assisting in the modernization of these customs administrations, focusing primarily on the IT developments required by the Union Customs Code. DG TAXUD continued to support regional integration in the Western Balkans through technical assistance to CEFTA (BTI, AEO). Albania and North Macedonia received comprehensive presentations on the EU Customs and Tax Acquis in preparation for the opening of accession negotiations. DG TAXUD continued working on the correct implementation of the EU – Turkey Custom Union as key pillar of the bilateral relationship.

Multilateral Cooperation

DG TAXUD also participated actively to the key priorities of the **World Customs Organisation** (WCO), in particular the comprehensive review of the Revised Kyoto Convention, the on-going work on E-commerce, Digital Customs and Data Analytics. Moreover, DG TAXUD has played a strong role in the WCO Permanent Technical Committee, Finance Committee and Policy Commission, including concerning the work on the WCO Strategic Plan and governance issues. Furthermore, it plaid a significant role in working bodies such as the WCO Working Group on the Framework of Standards to Secure and Facilitate Global Trade (SAFE) and the Harmonised System (HS) Committee.

Cooperation worldwide

In 2019 DG TAXUD continued to play a crucial role in the **negotiation and implementation of customs-related aspects of EU international agreements**. The EU-Japan Economic Partnership Agreement (EPA) and the EU-Singapore Free Trade Agreement (FTA) entered into force on 1 February and 21 November 2019 respectively. An FTA with Viet Nam was signed on 30 June 2019. Political agreement was also reached in June 2019 on a trade agreement with Mercosur states (Argentina, Brazil, Paraguay and Uruguay). The EU concluded the negotiations of a Protocol on rules of origin to the stepping stone EPAs between the EU and Ivory Coast and the EU and Ghana. It also concluded the negotiation of technical amendments to the Protocol on rules of origin to the interim EPAs between the EU and Eastern African States and the EU and the Pacific States.

During the year TAXUD was actively involved in **the negotiation of FTAs** with Chile, Australia, New Zealand and Indonesia, to ensure these agreements will facilitate legitimate trade while ensuring efficient controls.

In regard of **implementation**, DG TAXUD played a crucial role in finding solutions to initial difficulties in the implementation of the EPA with Japan which, if not solved, would have jeopardized the use of the tariff preferences agreed with Japan. Similarly, meetings of customs committees under FTAs and Customs Cooperation and Mutual Administrative Assistance Agreements (CCMAAs), including China, Hong Kong, Central America and Colombia-Peru-Ecuador, took place in order to ensure the **effective implementation of these agreements**. In the case of China, TAXUD launched an evaluation of the current EU-China CCMAA.

TAXUD continued **monitoring the implementation of preferential trade**

arrangements in order to protect the EU's financial interests and ensure fair trade between the EU and the third countries that are benefitting from preferential trade arrangements. This monitoring of compliance with the rules on preferential origin also strengthens the Union's credibility when negotiating free trade agreements. In this context, DG TAXUD performed in 2019 a monitoring visit to Mozambique and held a monitoring meeting with Pakistan's authorities providing them with tailor-made explanations and advice.

The deployment of the **Registered Exporter system** (REX) continued, with a growing number of beneficiaries benefiting from the specific training provided by TAXUD. The REX system has been enhanced to be used in the Turkish GSP scheme and to integrate the Overseas Countries and Territories.

In the picture: Registered Exporter System (REX)

The Registered Exporter system (the REX system) is applied in the Generalised System of Preference (GSP) of the European Union since 1 January 2017. It is based on a principle of self-certification by economic operators who make out themselves so-called statements on origin. To be entitled to make out a statement on origin, an economic operator has to be registered in a database by his competent authorities. In the GSP, the REX system will progressively and completely replace the current system of origin certification based on certificates of origin issued by governmental authorities and on invoice declarations made out under certain conditions by economic operators.

The year 2019 was the third and last phase of the transition period for the application of the REX system by the GSP beneficiary countries. By the end of June 2020, only the REX system will be applicable in the GSP to declare the origin of goods.

The REX system has been adapted to integrate the Overseas Countries and Territories (OCTs), which have to apply the REX system since 1 January 2020 in the context of the Overseas Association Decision (OAD). The REX system was also adapted to allow its use in the context of the Turkish scheme. Indeed, Turkey is also a GSP donor of preferences applying the REX system in its GSP scheme. Finally, 2019 is also the year of application of the Comprehensive Economic Partnership Agreement (CEPA) between the EU and Japan in which EU exporters have to declare the origin of their goods applying the REX system.

TAXUD pursued work in regard of **customs information exchange** with third countries, in cooperation with Member States, which led to the establishment of a Reflection Paper to guide further work.

Consultations with stakeholders, including EU customs administrations and businesses, showed high interest in the establishment in the EU of **decisions relating to binding information in the field of customs valuation**. The analytical work on the opportunity and feasibility of an EU system of binding valuation information is conducted in the framework of a project group and is progressing well.

2. ORGANISATIONAL MANAGEMENT AND INTERNAL CONTROL

This section explains how the DG delivered the achievements described in the previous section. It is divided into two subsections.

The first subsection reports the control results and other relevant information that supports management's assurance on the achievement of the financial management and internal control objectives[3]. It includes any additional information necessary to establish that the available evidence is reliable, complete and comprehensive. It covers all activities, programmes and management modes relevant to the DG.

The second subsection deals with the other components of organisational management: human resources, better regulation principles, information management and external communication.

2.1 Financial management and internal control

Assurance is an objective examination of evidence for the purpose of providing an assessment of the effectiveness of risk management, control and governance processes.

This examination is carried out by management, who monitors the functioning of the internal control systems on a continuous basis, and by internal and external auditors. The results are explicitly documented and reported to the Director-General. These are:

- the reports from all DG TAXUD Authorising Officers by Sub-Delegation;
- the contribution of the Internal Control Coordinator, including the results of internal control monitoring at the DG level;
- the reports of the ex-post audits;
- the reports on recorded exceptions and non-compliance events;
- the opinion of the internal auditor on the state of 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).

These reports result from a systematic analysis of the evidence available. This approach provides sufficient guarantees as to the completeness and reliability of the information reported and results in a complete coverage of the budget delegated to the Director-General of DG TAXUD.

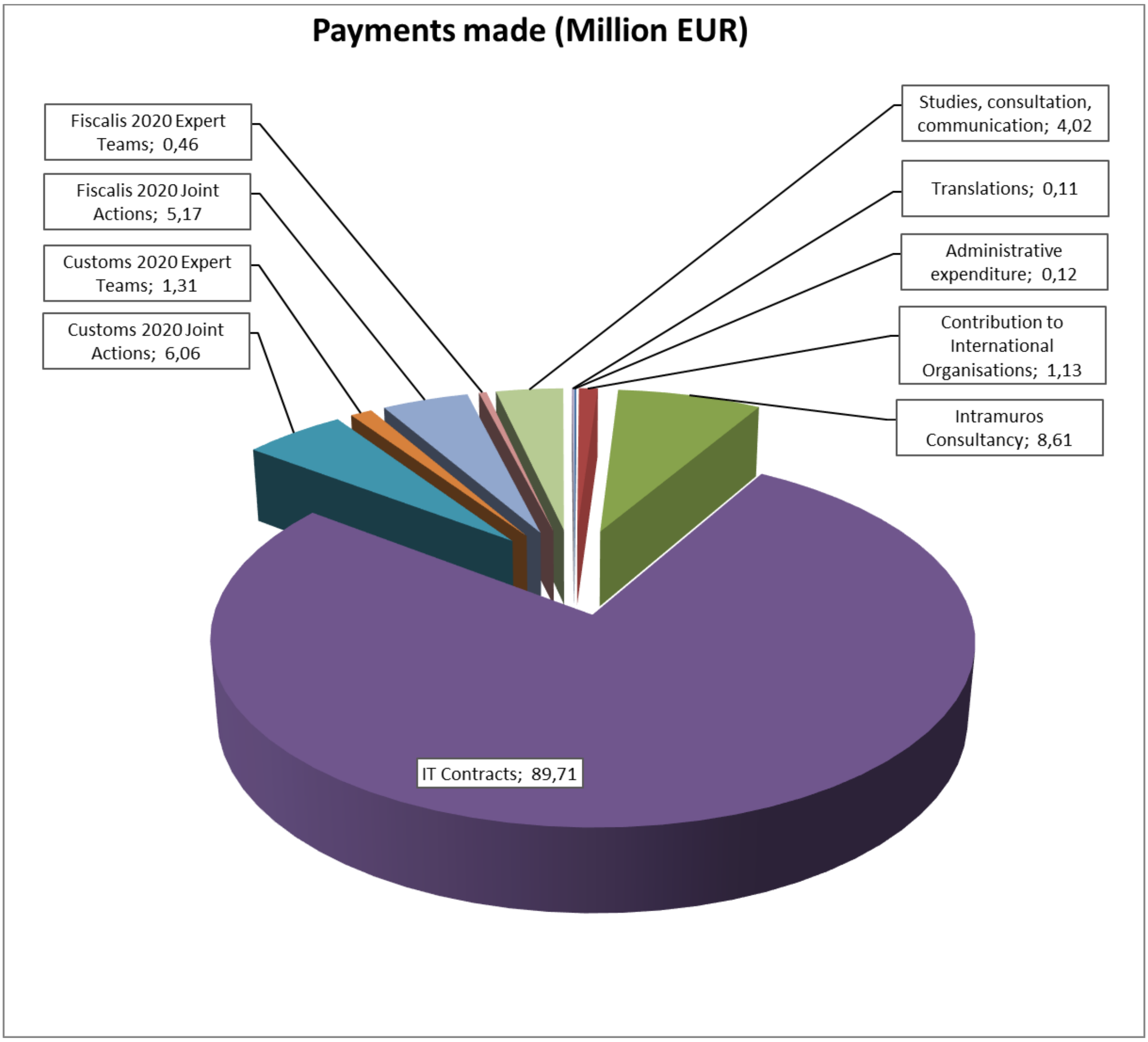
This section is for reporting the control results and other relevant elements that support management's assurance. It is structured into (a) Control results, (b) Audit observations and recommendations, (c) Effectiveness of internal control systems, and resulting in (d) Conclusions on the assurance.

[3] Art 36.2 FR: a) effectiveness, efficiency and economy of operations; b) reliability of reporting; c) safeguarding of assets and information; d) prevention, detection, correction and follow-up of fraud and irregularities; and e) adequate management of risks relating to the legality and regularity of underlying transactions

2.1.1 Control results

This section is for reporting and assessing the elements identified by management which support the assurance on the achievement of the internal control objectives4. The DG's assurance building and materiality criteria are outlined in AAR Annex 4. Annex 5 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. An amount of EUR 116.692.423,48 €[5] was paid in 2019. The budget implementation is done in direct management mode.



[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).

[5] See Annex 3, table 2

DG TAXUD's expenditure is financed by:

- Administrative budget (EUR 8,33 million)
- Customs 2020 Programme (EUR 84,14 million)
- Fiscalis 2020 Programme (EUR 32,38 million)
- Internal Market (EUR 2,94 million)
- Co-delegation received from DG CLIMA (EUR 0,35 million) for the interconnection between the DG CLIMA ODS & FGAS Licensing System and the MS Customs Systems.

DG TAXUD's CCN/CSI network is also used by EUIPO, Eurostat, Switzerland and Norway. Part of the annual revenue from these services, EUR 5,23 million was committed in 2019 but was not used for payments.

The expenditure managed by DG TAXUD falls into the following categories:

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

  Overall, the value of signed contracts represents about 87,70% of the total paid budget in 2019.

  The largest part of DG TAXUD's operational budget is dedicated to IT expenses (EUR 89.711.627,78 or 76,88% paid in 2019), through several framework contracts concluded between the Commission and IT suppliers. These contracts ensure the on-going work on the trans-European systems, networks and related databases, as well as the IT training tools, in line with the work programmes of the Customs 2020 and Fiscalis 2020 programmes.

  Other contracts related to procurement of different tools or services such as studies, databases, consultations, and communication activities (EUR 4.015.864,48 paid in 2019, i.e. 3,44%), technical and administrative assistance (EUR 8.611.374,25 paid in 2019, i.e. 7,38%).

- **Grants and Joint Actions under Customs and Fiscalis 2020 programmes**

  Overall, the expenditure related to the grants represents about 11.14% of the total paid budget in 2019.

  These grants (EUR 12.999.696,53 paid in total in 2019) represent the second major category of the expenditure in DG TAXUD. They are managed through multi-beneficiary grant agreements (7 under the Customs 2020 programme and 7 under the Fiscalis 2020 programme).

  The 2 most important grants relate to Joint Actions (EUR 11.231.317,80 in total, 9,62% of payments made i.e. EUR 6.060.812,11 for Customs 2020 and EUR 5.170.505,69 for Fiscalis 2020) and aim at developing better coordination between the national administrations in the tax and customs areas. The expenditure in the framework of the Joint Actions consists of grants awarded to the participating National Administrations and reimbursement of costs incurred by experts. The beneficiaries of these grants are the public administrations of the 28 Members States and of 6 applicant countries (Albania, Bosnia and Herzegovina, North Macedonia, Montenegro, Serbia and Turkey).

  The 12 other grants (EUR 1.767.844,38 paid in total in 2019, 1,51% of payments made) related to expert teams under Customs 2020 for BTI (13 Member States) and BTI II (10 Member States), CELBET2 (11 Member States), CLET2 (10 Member

States), ETCIT (13 Member States) and ETCIT2 (17 Member States) projects; and under Fiscalis 2020 for TNA (7 Member States), IT Collaboration MANITC1 (7 Member States), MANITC3 (7 Member States) and MANITC4 (8 Member States), m-EMCS (4 Member States), and EDC (4 Member States).

The reimbursement of the travel and subsistence expenses of external experts under both programmes Customs 2020 and Fiscalis 2020 are managed by the PMO. Only 534,35 € were directly paid by DG TAXUD in 2019.

- **Contributions to international organisations**

This expenditure relates to the membership of the Union to the World Customs Organisation, and represents about 0.97% of the total paid budget (EUR 1.129.834,03).

- **Administrative expenditure**

The administrative expenditure managed by DG TAXUD (training, conferences, representation expenses and other miscellanea expenditure) represents about 0,10 % of the total paid budget (EUR 116.409,52).

Throughout 2019, DG TAXUD paid EUR 107.616,89 (0,09% of the total budget) for translations made by the Commission's Translation Service (DGT).

1. Effectiveness = the control results and benefits

Legality and regularity of the transactions

DG TAXUD is using internal control processes to ensure the adequate management of the 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.

In the context of the protection of the EU budget, the DGs' estimated overall risk at payment, estimated future corrections and risk at closure are consolidated at Commission level.

DG TAXUD's data is shown in Table [X] and its accompanying notes below.

The estimated overall risk at payment for 2019 expenditure is 0.61 M€. This is the AOD's best, conservative estimation of the amount of relevant expenditure during the year (114.73 M€) 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 successive years. The conservatively estimated future corrections for 2019 expenditure are 0.23 M€. This is the amount of errors that the DG conservatively estimates will be identified and corrected by controls planned to be carried out in succeeding years.

The difference between those two amounts leads to the estimated overall risk at closure for the 2019 expenditure of 0.38 M€.

The overall risk at payment and closure has been stable over the years due to the nature of the financial transactions and stable control system in place.

Procurement

For procurements, 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, 12 exceptions and 6 non-compliance instances were recorded as control failure. None of these had an impact on the legality and regularity of the transactions. All concerned instances relate to formal compliance issues which do not have a negative impact on the budget.
- The correction of the detected erroneous invoicing which involved an amount unduly invoiced, resulted in 70 credit notes for a total amount of EUR 5.286.902,97 *(please refer to table 8 in annex 3 for details)*. 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 2019. 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 0,50%.

In conclusion, the analysis of the available control results, the assessment of the weaknesses identified and that of their relative impact on legality 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

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 (among the five Internal Control Objectives) remains ensuring that transactions are legal and regular.

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 objective for the legality and regularity of the underlying transactions is to ensure that the best estimate of the error rate by management is below 2%.

The control process and strategy for grants takes into account the specificities of the DG Customs 2020/Fiscalis 2020 grants:

- the beneficiaries are identified directly in the legal base, i.e. the Member States' customs and tax administrations and 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 confirm that it is not necessary to question the assurance as regards legality and regulatory of transactions.

The control process and strategy has been optimised and streamlined throughout the years. Whereas in the past, the National Administration's financial reports were thoroughly examined by means of detailed ex-ante desk reviews (resulting in very long payment deadlines), the reports are now closed after a quick desk review followed by the payment/recovery order (therefore reducing the payment delays).

These payment/recovery orders remain verified by the usual ex-ante controls embedded in the financial circuits.

Since 2015, the above controls are underpinned by ex-post on-the-spot audits or desk reviews. These audits examine the eligibility, correctness and accuracy of the costs declared in the annual financial reports, and of the transactions in the accounting records (i.e. copy of the invitation letter for each audited event, payment of invoices for travel and hotel expenses, daily allowances, etc.). DG TAXUD targets to audit 3 to 5 Member States per year with the intention to cover the majority of the Member States/Candidate Countries till the end of the current programme period.

In 2019, 7 countries have been audited: 4 desk reviews and 3 on-the-spot audits . Only the countries for which the adversarial procedure was completed in 2019 are taken in account in the calculation of the estimate of error rate.

The results can be summarised as follows[6]:

	Total costs claimed accepted <u>after the ex-ante controls</u> (€)	**Audited amounts** (€)	**Total costs claimed accepted <u>after the ex-post controls</u>** (€)	**Detected Error (Recovered amount)** (€)	**Detected Error Rate** (%)
Country 1 (desk review)	377.908,46	59.585,14	376.789,37	1.119,09	0,30%
Country 2 (on-the-spot)	819.908,67	131.683,61	809.409,56	10.499,11	1,28%
Country 3 (on-the-spot)	971.988,35	165.114,08	971.561,77	426,58	0,04%
Country 4 (on-the-spot)	1.070.975,59	219.827,70	1.055.972,65	15.002,94	1,40%
TOTAL	**3.240.781,07**	**576.210,53**	**3.213.733,35**	**27.047,72**	
Average error rate for the audited population:					**0,76%**
Weighted average error rate for the audited population:					**0,83%**

For each audit, a statistical (random) method samples circa 15% of the total expenditure

[6] The figures in the below tables have been rounded to two digits

("Audited amounts"). The results of the findings on the sample are extrapolated to the total expenditure of the audited countries to calculate the "Detected Error" (corresponding to the recovered amount) and subsequently the "Detected Error Rate".

For the rest of the community (i.e. the non-audited countries), the average "Detected Error Rate" of the audited countries (0,76%) is used to evaluate the estimated error:

	Total costs claimed accepted <u>after the ex-ante controls</u> (€)	**Audited amounts** (€)	**Total costs claimed accepted <u>after the ex-post controls</u>** (€)	**Estimated error** (€)	**Estimated Error Rate** (%)
Rest of the community	9.758.915,46	Not Applicable	Not Applicable	73.714,05	0,76%

The total estimated error rate for grants is an average weighted error rate, which uses the results of the audited countries on the one hand, and the estimated error for the rest of the community.

The above calculation, results in **a best possible estimated error rate for grants in 2019 of 0,78%**. 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.

Table X - Estimated overall risk at closure

DG TAXUD	"payments made" (FY; m€)	*minus* new prefinancing [*plus* retentions made*] (in FY; m€)	*plus* cleared prefinancing [*minus* retentions released* and deductions of expenditure made by MS] (in FY; m€)	**= "relevant expenditure" (for the FY; m€)**	Average Error Rate (*weighted* **AER**; %)	estimated overall risk *at payment* (FY; m€)	Average Recoveries and Corrections (***adjusted*** **ARC**; %)	estimated future corrections [and deductions] (for FY; m€)	**estimated overall risk *at closure* (m€)**
(1)	*(2)*	*(3)*	*(4)*	*(5)*	*(6)*	*(7)*	*(8)*	*(9)*	*(10)*
Programme, Budget Line(s), or other relevant level	as per AAR annex 3, table 2	as per ABAC DWH BO report on prefinancing	as per ABAC DWH BO report on prefinancing	= (2) –/+ (3) +/- (4)	Detected error rates, or equivalent estimates	= (5) x (6)	*H-ARC* (as per ABAC DWH BO report on corrective capacity), but *adjusted*	= (5) x (8)	= (7) – (9)
Procurement	103,69	0,00	0,00	103,69	0,50%	0,52			
Grants (Joint Actions and Expert Teams)	13,00	12,69	9,73	10,04	0,78%	0,07			
Overall, total	116,69 mEUR	12,69 mEUR	9,73 mEUR	113,73 mEUR	0,52%	0,59 mEUR; and 0,52% of (5)	0,20%	0,23 mEUR; and 0,20% of (5)	0,36 mEUR; and 0,32% of (5)

Notes to the table

(1) Differentiated for the relevant portfolio segments at a level which is lower than the DG total

(2) Payments made or equivalent, e.g. expenditure registered in the Commission's accounting system, accepted expenditure or cleared pre-financing. In any case, this means after the preventive (ex-ante) control measures have already been implemented earlier in the cycle. In all cases of Co-Delegations (Internal Rules Article 3), "payments made" are covered by the Delegated DGs. For Cross-SubDelegations (Internal Rules Article 12), they remain with the Delegating DGs.

(3) New pre-financing actually paid by out the department itself during the financial year (i.e. excluding any pre-financing received as a transfer from another department). "Pre-financing" is covered as in the context of note 2.5.1 to the Commission annual accounts (i.e. excluding "Other advances to Member States" (note 2.5.2) which is covered on a purely payment-made basis).

"Pre-financing paid/cleared" are always covered by the Delegated DGs, even for Cross-SubDelegations.
* In Cohesion, the (10%) retention made.

(4) Pre-financing actually cleared during the financial year (i.e. their 'delta' in the Financial Year 'actuals', not their 'cut-off' based estimated 'consumption').
* In Cohesion, the retention which is now released by the Commission.

(5) For the purpose of equivalence with the ECA's scope of the EC funds with potential exposure to legality & regularity errors (*see the ECA's Annual Report methodological Annex 1.1*), our concept of "relevant expenditure" includes the payments made, subtracts the new pre-financing paid out *[& adds the retentions made*], and adds the previous pre-financing actually cleared *[& subtracts the retentions released; and any deductions of expenditure made by MS*] during the FY. This is a separate and 'hybrid' concept, intentionally combining elements from the budgetary accounting and from the general ledger accounting.

(6) In order to calculate the weighted Average Error Rate (AER) for grant expenditure in the reporting year, the detected error rates have been used. For procurement expenditures, where there are indications that the equivalent error rate might be close to 'zero', an AER of 0.5% has been used as a conservative estimate.

(8) Even though to some extent based on the 7 years historic Average of Recoveries and financial Corrections (ARC), which is the best available indication of the corrective capacity of the ex-post control systems implemented by the DG over the past years, the AOD has adjusted this historic average 1,9% to 0,2%.
Any ex-ante elements, one-off events, (partially) cancelled or waived Recovery Orders, and other factors from the past years that would no longer be relevant for current programmes (e.g. higher ex-post corrections of previously higher errors in earlier generations of grant programmes, current programmes with entirely ex-ante control systems) have been adjusted in order to come to the best but conservative estimate of the ex-post future corrections to be applied to the reporting year's relevant expenditure for the current programmes.
In particular the commercial credit notes have been neutralised from the calculation of ARC.

(10) For some programmes with no set *closure* point (e.g. EAGF) and for some multiannual programmes for which corrections are still possible afterwards (e.g. EAFRD and ESIF), all corrections that remain possible are considered for this estimate.

- ***Fraud prevention, detection and correction***

  DG TAXUD has developed and implemented its own antifraud strategy since December 2013, on the basis of the methodology provided by OLAF. It is updated every two years. It was last updated in February 2018.

  DG TAXUD's Anti-Fraud Strategy (AFS) focusses on developing a strong antifraud culture within the DG through awareness raising activities on potential fraud risks and ethical behaviour among TAXUD staff. The strategy furthermore addresses an active cooperation with OLAF and the integration of fraud aspects into the SPP cycle of the DG.

  During 2019, the following specific anti-fraud related actions were carried out:

  - monitoring of the level of implementation of AFS action plan actions;
  - dedicated intranet website to the implementation of the strategy;
  - keeping record of lobbyists' contacts at unit level;
  - communication to staff through updated information on the intranet and via dedicated Newsletters;
  - a lunchtime talk was organised with the Security Directorate on their information security strategy, which includes rules on how to deal with sensitive information;

  The assessment of fraud related risk is fully integrated in the annual risk assessment exercise. The risk guidance document for the risk monitoring/risk assessment exercises regularly invites all Directorates to properly reflect in their risk assessment: the prevention of fraud in the customs area, the VAT/tax related fraud risks as well as the risk areas identified in DG TAXUD's anti-fraud strategy.

  DG TAXUD's anti-fraud strategy proved to be a reliable tool to follow up anti-fraud controls in an effective and efficient manner. It has been updated in 2018 and its implementation is being monitored regularly with reports to management. All necessary actions have been implemented or are due in 2020.

  The review of the anti-fraud strategy and implementation of actions of its action plan did not reveal any significant weakness to be addressed. OLAF did not make financial recommendations throughout the reporting period.

- ***Other control objectives: safeguarding of assets and information, reliability of reporting (if applicable)***

  DG TAXUD manages a fair number of intangible assets (EUR 28.317.289,57 in 2019 – 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.

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. *Efficiency = the Time-to-... indicators and other efficiency indicators*

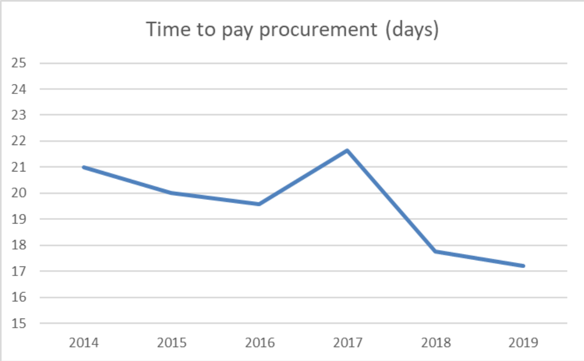
Throughout the reporting period, DG TAXUD made 976 payments (EUR 116.692.423,48), established 226 contracts (and/or amendments thereto) and 6 grant agreements, audited EUR 3.240.781,07 via ex-post on-the-spot audits or desk reviews and recovered EUR 27.047,72 non eligible cost, processed 70 commercial credit notes, issued 103 recovery orders, committed EUR 119.866.896,49 appropriations and prepared 16 procurement procedures (5 open procedures and 11 reopening of competitions).

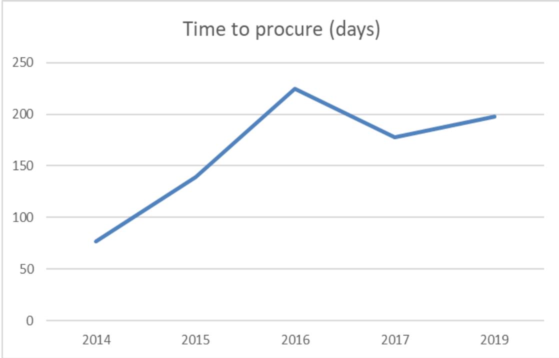
Against this workload, the control efficiency of these transactions can be witnessed by the "time to pay" and the "time to procure" indicators.

Procurement control efficiency indicators	Result 2019 (days)
Time to pay (days)	17,2
Time to procure (days)	198

As can be seen from the below historical overview, the time to pay indicator has slightly decreased in 2019 to 17,2 days.

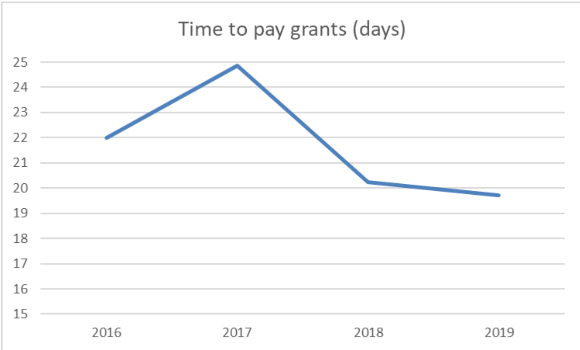
The past "time to procure" indicators are depicted below. The peaks in 2016 and 2017 and 2019 are due to the awarding of complex and large-scale IT framework contracts.





Grants control efficiency indicators	Result 2019 (days)
Time to pay (days)	19,7

The "time to pay" for grants is only calculated since 2016 and is relatively stable (albeit with a downwards trend).



No new initiatives were taken during the reporting period; these indicators demonstrate efficiency in controls.

3. *Economy = the cost of controls*

The cost of controls on financial transactions can be summarised as follows.

Procurement

Procurement control efficiency indicators	Result 2019
Procurement - overall cost of control (% over payments made)	1,20%
Procurement - cost of controls of the evaluation and selection procedure / value contracted (%)	0,15%
Procurement - related cost of control of payments/ amount paid (%)	0,49%
Average cost of a payment	589,05
Average cost of establishing and managing a contract	2.196,78
Average cost of a procurement procedure	EUR 244.200

- For **procurements**, an estimated EUR 176.254[7] were invested in preparing and controlling 16 procurement procedures (5 open procedures and 11 reopening of competitions). Each procurement procedure typically has an estimated total handling cost of EUR 244.200[8].
- For **payments**, an estimated EUR 574.913[9] were invested in preparing and controlling 976 payments worth EUR 116.692.423,48 (0,49% of the total payment amount was dedicated to control). On average, a financial transaction costs an estimated EUR 589 for processing and controlling.
- For **contracts**, an estimated EUR 496.473[10] were invested in preparing and controlling about 226 contracts (and/or the amendments of the contracts) worth about EUR 105.878.562,14 (0,47% of the total amount contracted was dedicated to control). On average, preparation and controlling of each contract costs an estimated EUR 2.196,78.
- There were no specific ex-post supervisory measures on procurement in 2019.

Overall, during the reporting year the controls carried out by DG TAXUD for the management of the budget appropriations cost EUR 1.247.640[11], which represents only 1,20% of the total payments made.

The trend, since 2014, demonstrates a decreasing cost of control for procurement (in % over payments made), which is due to an accumulation of efficiency gains and further automation. The slight increase in 2019 is due to the reallocation of some management costs to the contracts and payments controls.

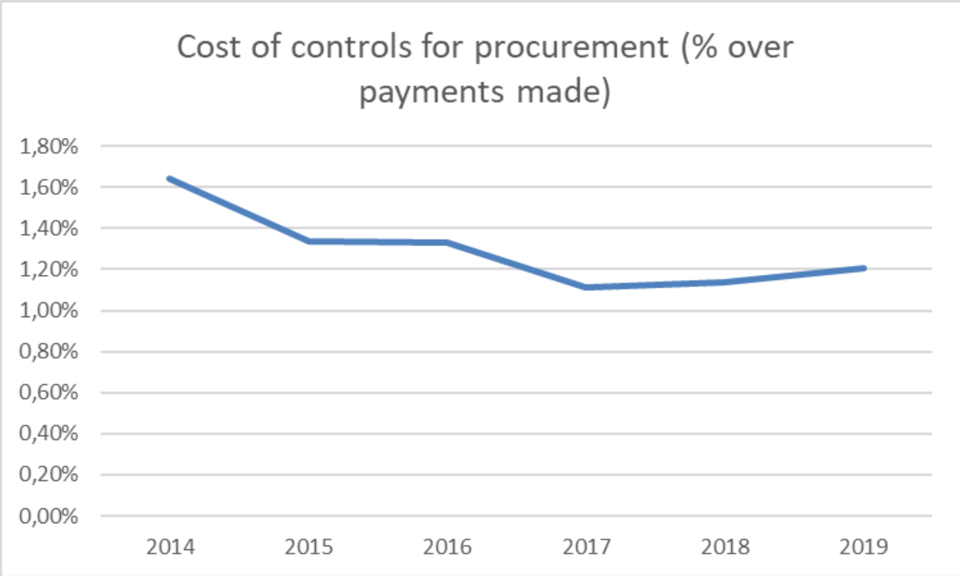
[7] 1,19 FTE, representing the efforts of all actors involved in the control of the public procurement procedures (i.e. the actors in the financial unit, the committee on public procurement, the Authorising Officers by (sub-) Delegation, etc.).

[8] 1,65 FTE, representing the combined efforts of actors in the operational and financial units in preparing and running a public procurement procedure

[9] 3,88 FTE, representing the combined efforts of actors in the financial and operational units involved in invoicing process and in the payments preparation, verification and execution.

[10] 3,35 FTE, representing the combined efforts of actors in the financial and operational units involved in contracts preparation, verification and validation

[11] A total of 8.43 FTE, representing the combined efforts of actors in the financial and operational units involved in contracts preparation, verification and validation



Grants

Grants control efficiency indicators	Result 2019
Grants - overall cost of control (%) [cost of control from contracting and monitoring the execution up to payment included/ amount paid]	1,98%
Grants - cost of control ex post audits/ value of grants audited	2,11%

During the reporting year the controls carried out by DG TAXUD for the management and control of the grant agreements cost about EUR 257.655[12], representing 1,98 % of the total grant payments. The cost of the ex-post audits in 2019 was EUR 68.338,70[13], which represents 2,11% of the total value of grants audited.

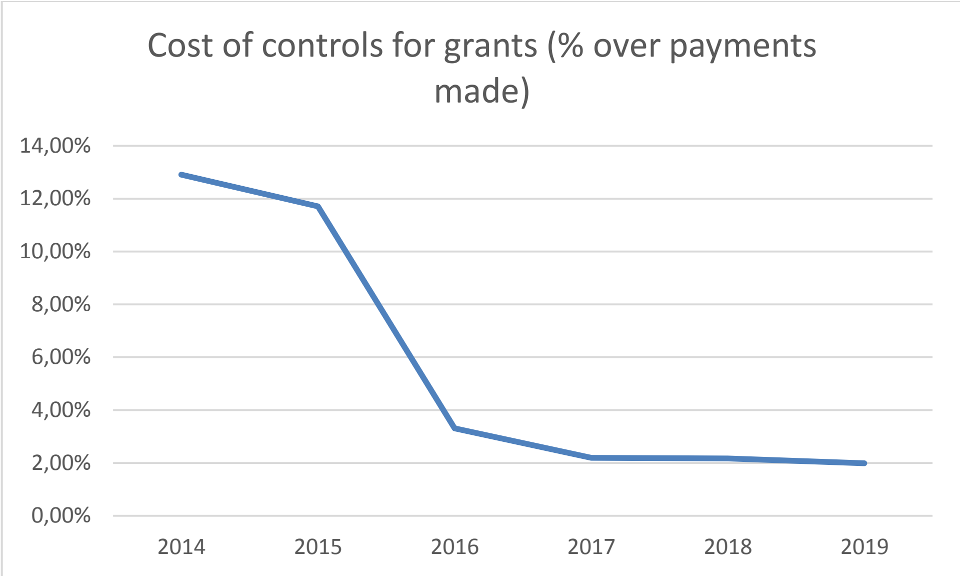
The total cost of control for grants, i.e. the overall ex-ante controls and the cost of the ex-post on-the-spot audits was EUR 325.993,25[14] representing 2.51% of payments made.

Whilst the trend since 2014 shows a decreasing curve, it must be noted that method of calculating the cost of controls for grants changed in 2016. The cost of control is relatively stable since.

[12] 1,74 FTE, representing the combined efforts of actors in the financial and operational units involved in grants preparation, verification and validation

[13] 0,46 FTE, representing the combined efforts of actors in the financial and operational units involved in grants preparation, verification and validation

[14] 2,20 FTE representing the combined efforts of actors in the financial and operational units involved in grants preparation, verification and validation



Conclusion

Throughout 2019, the overall cost of control (procurement and grants) was EUR 1.573.633,25 representing 1,35% of all payments made and are therefore considered efficient and cost-effective.

These controls are essential to ensure compliance with regulatory requirements.

The total cost of controls follows a similar downwards trend albeit relatively stable since 2017.

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.

DG TAXUD manages a relatively small budget (EUR 116.692.423,48 payments made throughout the reporting period). The majority of financial transactions relate either to procurement contracts (IT contractors) or to multi-beneficiary grants where the beneficiaries are the Member States' Customs and/or Taxation Administrations.

The current control system has been in place since the beginning of the programmes and has been stable. It is considered cost-effective, fit for purpose and the best suited for the programmes currently managed by DG TAXUD.

The controls in place, rely, on the on hand (for procurement) on exhaustive technical and financial ex-ante controls before the payments are made (100% of transactions are verified), and, on the other hand (for grants) on thorough ex-post on-the-spot audits with recoveries if and when possible.

The ex-ante and ex-post controls are to a large extent necessary to ensure legality and regulatory compliance and allow eliminating the risks outlined in annex 5.

The controls relating to the procurement procedures also provide a robust assurance. No procurement related control weaknesses have been detected so far.

The results of controls further confirm that the current control system is fit for purpose as can be witnessed by the very limited error rate of 0,50% for procurement and 0,78% for grants and a low overall amount at risk at closure of EUR 0,38 million.

The efficiency of controls has been demonstrated by a significantly improved “time to pay” indicator.

In 2019, the overall cost of controls was EUR 1.573.633,25 representing 1,35% of all payments made; these controls are thus considered efficient and cost-effective.

Overall, the control strategy and controls in place are considered cost-effective and are best suited to fulfil the intended control objectives at a reasonable cost.

2.1.2 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 2019, the following audits and implementation of action plans took place in DG TAXUD.

EUROPEAN COURT OF AUDITORS (ECA)

CURRENT FINANCIAL YEAR: New reports and recommendations

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

European Court of Auditors' Special Report no 12/2019 – *E-commerce: many of the challenges of collecting VAT and customs duties remain to be solved*

In 2019, the ECA published Special Report no 12/2019 "E-commerce: many of the challenges of collecting VAT and customs duties remain to be solved". DG TAXUD was the lead DG (with DG BUDG and OLAF as associated DGs). The audit assessed whether the Commission had established a sound regulatory and control framework and whether Member States' control measures helped ensure the complete collection of VAT and customs duties due on goods and services traded over the internet. The ECA also considered the likely impact of the legislative changes of the VAT e-commerce package that would enter into force in 2021.

In the report, the auditors point out the need to address undervaluation when it comes to goods entering the EU, to strengthen the administrative cooperation arrangements between EU Member States and with non-EU countries and to make the controls more effective. The ECA also recommends that the current customs clearance systems and the enforcement of collection of VAT and customs duties be improved.

The auditors made four general recommendations addressed to the Commission and Member States. For DG TAXUD, there are eight specific recommendations. Their implementation is expected by the end of 2020 (five recommendations) and 2021 (three recommendations).

European Court of Auditors' Upcoming Report – *Exchange of Tax Information in EU*

The ECA is currently conducting audit work to assess the effectiveness of the exchange of tax information in the EU. In particular, the auditors are reviewing the system in place and assessing how the Commission supports its implementation and monitors its performance. Besides, they are examining how Member States exchange information, and whether they make the best use of the data they receive.

The subsequent special report is planned for publication in Q3 2020.

European Court of Auditors' Upcoming Report – *Financial Risks in Customs*

The ECA is carrying out audit works in order to assess whether the Commission's framework of common financial risk criteria and standards (FRCS) is appropriate, and whether Member States are well prepared to implement this framework in order to achieve harmonisation of the selection of customs controls. The audit covers the following three main areas: the design of the common financial risk criteria and standards framework; the preparedness to implement this framework, as well as the monitoring, reporting and reviewing arrangements.

The resulting special report is expected to be published in Q3 2020.

PREVIOUS FINANCIAL YEARS: Follow-up of open recommendations – state of play

1) ECA Special Report no 26/2018 - A series of delays in Customs IT systems: what went wrong?

Seven open recommendations: the ECA requested the Commission to improve IT project time, resource and scope estimates; to facilitate cooperative IT development; to streamline governance by enhancing communication, as well as to introduce transparent reporting on IT implementation. The Commission has already implemented some of these recommendations and remaining ones are expected to be fully implemented by the end of 2020 and 2021 (transparent reporting on IT implementation).

2) ECA Special Report no 19/2017 – Import procedures: shortcomings in the legal framework and an ineffective implementation impact the financial interests of the EU

Two open recommendations: Firstly, the ECA recommended the Commission to consider all available options to strengthen support for national customs services in their important EU role in the new Multiannual Financial Framework (MFF). The Commission is currently assessing options to improve the financing of national customs services in the next MFF and it is executing a Customs Union Impact Assessment study to investigate, inter alia, customs investment funding possibilities from the EU funding instruments. Secondly, the ECA requested a careful follow-up the Member States checks on the Binding Tariff Information (BTI) decisions' compliance by 2020. In response, the Commission has upgraded its European Binding Tariff Information (EBTI) and Surveillance systems in order to assist the Member States in their BTI usage control. It will follow up the implementation of the new Union Customs Code (UCC) provisions once there is sufficient data available.

The recommendations should be implemented by the end of 2020 and 2022 (transition period for Member States to implement changes).

3) 2017 Discharge

Four open recommendations: in relation to 2017 discharge, the ECA, the EP and the Council made recommendations relating to monitoring of import flows, examining the various customs control practices in the EU, as well as addressing the challenges for the protection of the EU financial interests presented by misleading description of origin and misclassification, as well as undervaluation.

In response, the Commission is developing a wider and more structured usage of data mining techniques in order to support Member States to enhance their control activities in the area of traditional own resources (TOR). Besides, the Financial Risk Criteria (FRC) decision adopted in May 2018 will increase the convergence of practices of Member States when identifying consignment subject to risk-based controls.

All recommendations are expected to be implemented by 2022.

<u>Internal audit service (IAS) audits</u>

1) IAS Audit on management of human resources in DG TAXUD (2020)

The overall objective of the audit was to assess whether the Directorate-General for Taxation and Customs Union has put in place an adequate system for managing its human resources that supports effectively the achievement of its operational objectives.

Following this engagement, DG TAXUD accepted 5 audit recommendations (3 'very important') addressing the human resources management key challenges, as well as promoting a healthy and collaborative environment that would enhance the performance of the staff and of the organisation towards the achievement of its operational objectives. Specifically, the 'very important' recommendations covered the areas of HR strategy (due by end 2020), mapping skills and tasks (due by end June 2021), and workload assessment framework (due by end June 2020). All the three require (and will depend on) support from the HR corporate level.

The relevant action plan to implement recommendations was accepted by the IAS as satisfactory on 25 February 2020. DG TAXUD has started preparatory implementation work, including cooperation with DG HR. The whole action plan will have been implemented by end June 2021.

This audit shows that some improvements to internal control principle 4 could be achieved The action plan, as confirmed by the IAS, adequately tackles these improvements.

2) IAS Audit on Monitoring of EU law implementation in DG TAXUD (2019)

The overall objective of the audit was to assess the effectiveness and efficiency of the management and control systems of the Directorate-General for Taxation and Customs Union regarding the monitoring of EU law implementation as well as the compliance with the applicable Commission guidelines.

The audit work resulted in a single important recommendation related to the DG TAXUD’s own initiatives investigations. This recommendation will be implemented in 2020.

3) IAS Audit on DG TAXUD’s preparation of legislative initiatives (2018)

The overall objective of the audit was to assess the adequacy of the design and the effectiveness of DG TAXUD's internal control system for the preparation of its legislative initiatives.

The audit work resulted in a single important recommendation related to the DG TAXUD's evaluation and impact assessment charter update in line with the current practices in place within the DG.

This recommendation was implemented in 2019 and has been sent to the IAS for review.

4) IAS Audit on supervision of outsourced IT operations in DG TAXUD (2017)

The overall objective of the audit was to assess the efficiency and effectiveness of the measures put in place by DG TAXUD to exercise due control on its outsourced IT operations.

The audit identified a number of areas for improvement, reflected in four important recommendations which relate to the contract performance measurement and reporting, audit arrangements, configuration management and ensuring IT service continuity.

All recommendations were implemented in 2019 and sent to the IAS for review.

The conclusion of the Internal Auditor on the state of internal control in DG TAXUD[15], dated 13/02/2020, stated that the internal control systems in place for the audited processes are effective except for the observations giving rise to the "very important" recommendations. The latter comment is due to a minimal delay in sending the action plan for the audit on the management of human resources to the Internal Auditor.

AUDIT	RECCOMENDATIONS		
	ISSUED	IMPLEMENTED	PENDING
Management of human resources	5	0	5
Monitoring of EU law implementation	1	0	1
Preparation of legislative initiatives	1	1	0
Supervision of outsourced IT operations	4	4	0
TOTAL	**11**	**5**	**6**

DG TAXUD accepted all ECA, IAS and EP discharge recommendations and is implementing the actions according to the agreed planning. 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.

[15] Ares(2020)935033 of 13 February 2020

2.1.3 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 assesses the effectiveness of its internal control system on the basis of the new internal control framework. This new framework foresees 35 indicators and it is the outcome of a dual approach. A top-down approach, through the discussion with, and validation by, the Senior Management of the main principles to be covered; complemented with a bottom-up approach, entailing an active role of the operational colleagues to identify the indicators, their baselines and targets. It finally receives the endorsement by the Director General and it is approved by the Cabinet.

The internal control system assessment in 2019 was based on desk review, followed by a screening exercise of the internal control principles and components involving the relevant horizontal units responsible for their implementation.

After evaluation of the assessment findings, no major internal control deficiencies have been detected and the internal control system, as well as its components, are fully present and functioning in DG TAXUD. Control principle 4 however, represents some margin for improvement. The development of a comprehensive human resources strategy (that DG TAXUD will implement in reply to the Internal Audit Service's audit on human resources management) will adequately address the desired improvement.

Closely linked to the assessment of the internal control system, each year a risk assessment exercise is carried out, followed by a mid-term monitoring, as part of the Management Plan process and in accordance with the relevant corporate guidance.

The objectives and actions set in the DG's Anti-fraud strategy are based on the results of the fraud risks analysis. As reported in Section 2.1.2, the audit recommendations are regularly monitored. None of the outstanding audit issues relates to controls concerning the implementation of the Commission's budget.

The declarations of the Authorising Officers by sub-Delegation and the Internal Audit Service's limited conclusion, confirming that the internal control systems audited are effective, do not raise any assurance implications.

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 well overall, but some improvements are needed as minor deficiencies were identified related to human resources management.

The improvements and/or remedial measures envisaged are the development of a comprehensive human resources strategy.

2.1.4 Conclusions on the assurance

This section reviews the assessment of the elements already reported above (in Sections 0, 2.1.2 and 2.1.3), and the sub-conclusions already reached. It draws an overall conclusion to support the declaration of assurance and whether it should be qualified with reservations.

The information reported in Section 2.1 stems from the results of management and auditor monitoring contained in the reports listed. These reports result from a systematic analysis of the evidence available. This approach provides sufficient guarantees as to the completeness and reliability of the information reported and results in a comprehensive coverage of the budget delegated to the Director-General of DG TAXUD.

Concerning the DG's assessment of the management of its own resources, in Part 2, the control results and other relevant elements on the achievement of the internal control objectives were reported. The brief description of the expenditure areas managed by the DG showed that its main expenditures fall into the two main categories of procurement contracts and multi-beneficiary grants.

It was demonstrated that the combination of substantial ex-ante controls (both technical and financial) performed during the tendering procedures together with the extensive ex-ante controls of financial transactions and ex-post on-the-spot audits ensures that the assigned resources have been used for their intended purpose and in accordance with the principles of sound financial management. The total control cost of EUR 1.247.640 for procurement and EUR 354.248 for grants, is considered cost-effective as this represents only 1,37% of payments made). The control strategy for grants is fit for purpose and in line with the specificities of the grant agreements (beneficiaries directly identified in the legal base (no calls for proposal), mostly reimbursement of pre-agreed projects and actions, relatively small amounts). The overall procurement and grant control procedures put in place give the necessary guarantees concerning the legality and regularity of the underlying transactions and also aim to prevent and detect fraud.

Concerning the overall state of the DG's internal control system, the internal control framework is fully adhered to. No major internal control deficiency have been detected; the internal control system is present and considered effective. Some improvements for internal control principle 4 on human resources will be implemented by end 2020.

It was furthermore demonstrated that the results from the audits performed in the past years, their recommendations and follow-ups support the above mentioned reasonable assurance about the correct use of the resources. Any on-going issues do not relate to controls concerning the implementation of the Commission's budget. The Internal Auditor's overall opinion on the year 2019 concluded that the internal control systems audited are effective.

The Antifraud Strategy is updated when needed, monitored regularly and proved to be a reliable tool to follow up anti-fraud controls in an effective and efficient manner.

In summary, the information reported in part 2 covers the entire budget delegated to DG TAXUD in 2019. It represents a true and reliable view of the resources used for the intended purposes and in accordance with the principle of the sound financial management. The information reported in sections 2.1.1, 2.1.2 and 2.1.3 does not result in any major issues deserving a reservation:

- the amount at risk for the total expenditure managed by DG TAXUD is well below the materiality level;
- the cost-effectiveness of controls has been established;
- no critical issues were highlighted by internal or external auditors;
- the ECA error rate (i.e. the most likely rate of error) was 0 for DG TAXUD;
- the ECA's scrutiny of sampled DG TAXUD financial transactions were closed without any observations;
- no issues were pointed out by the Sub-delegated Authorising Officers;
- full compliance with the new Internal Control Framework.

With regard to external audits by ECA, taking into account the ECA auditors' observations together with the management measures taken in response, the management of DG TAXUD believes that the ECA recommendations issued do not raise any assurance implications and that they are being implemented as part of the on-going continuous improvements efforts.

Overall Conclusion

In conclusion, 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.

2.1.5 Declaration of Assurance

DECLARATION OF ASSURANCE

I, the undersigned,

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[16]*.*

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-post 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 institution.

Brussels, 27 March 2020

Signed

Stephen Quest

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

2.2 Other organisational management dimensions

The examples of efficiency and economy mentioned in the 2019 Management Plan have been established.

In 2019, DG TAXUD defined its **Data Strategy** laying down how data analysis can support policymaking and increase TAXUD capabilities to better exploit the value from its data. This action plan focuses on:

- Increasing the data skills of staff;
- Treating data as a real asset by inventorying which data exists, including its quality and accesses management, curation);
- Providing the right tools and infrastructure to staff to manage and exploit data.

DG TAXUD runs currently three large data driven project with **cross-unit project teams** that are combining the expertise from policy and IT staff. The interaction between IT and Policy staff, and between the IT staff of different projects has already led to concrete efficiency gains:

- IT staff understands better the policy requirements reducing the written communication and documentation;
- IT staff identifies synergies between projects rationalising the immediate investments while reducing maintenance costs in the long term;
- Policy staff becomes aware of relevant data outside their policy domain, (for instance the data in import/export declarations for the fight against VAT fraud).

These projects concern the development of the:

- imports control system for safety and security risks (ICS2)
- risks management system based on import/export declarations (Surveillance2);
- Central Electronic System Of Payment Information for e-Commerce fraud detection (CESOP).

DG TAXUD has deployed also a number of **cross-unit policy project teams** for cross-cutting files. This has enhanced efficiency by bringing together expertise from different disciplines and enhancing synergies between policy areas. Examples of such efficiency gains through cross-unit collaboration include follow-up work on international corporate tax reform and work to develop an Action Plan on Tax Fraud and Compliance.

2.2.1 Human resource management

In 2019, DG TAXUD analysed carefully the results of the 2018 **staff survey** and communicated them to Senior Management, Middle Management and staff in a transparent way. In almost all the areas that were evaluated, the results were very positive, both when compared with TAXUD's scores in 2016 and with the Commission average. DG TAXUD's staff engagement index is at 75%, while the Commission average was 69%. After thorough discussions at all levels, a development plan with follow-up actions for the areas where there is some room for improvement was established and submitted to DG HR.

In 2019, DG TAXUD preserved the **gender balance** at the senior management level and tried to improve the gender balance at middle management level. However, the gender balance at middle management level remains to be improved, amongst others following the mobility of two female Heads of Units.

DG TAXUD fully supported the **Female Talent Development Programme** for developing the management skills of female team leaders across the Commission during the past year. It has sent two TAXUD candidates to this pilot programme to further develop their management skills.

To **reinforce middle management** in DG TAXUD and allow colleagues to gain management experience and provide them with more career development perspectives, DG TAXUD appointed in 2019 five new deputy Heads of Unit. In the same context, TAXUD participated in the "Junior Professionals Programme" (JPP). This two-year programme allows junior staff to follow a development and mobility programme with assignments in two different DGs.

Collaborative working remained an important pillar of DG TAXUD's working culture in 2019. The Director-General invited TAXUD staff to reflect on the results of the staff survey and other internal listening exercises and to take collective action to improve the DG's working methods. As a follow-up DG TAXUD launched its "TAXUD in ACTION" programme to **improve the internal organisation and working methods**. A variety of initiatives was organised, driven by TAXUD staff, covering amongst others:

- better email management,
- more efficient meetings,
- improvement of procedures,
- roll out of knowledge management & collaboration,
- work on learning & career development.

In the context of the corporate **fit@work** action, DG TAXUD has worked on further awareness raising on the importance of physical and mental health and continued with the fit@work programme. For instance during the "Health days" in

June 2019, staff had the opportunity to participate in workshops, lunchtime activities and presentations by the Medical Service.

Finally, DG TAXUD actively promoted **training activities** with staff having on average 4.8 training days in 2019 (compared to 4.6 training days at Commission level).

Also in 2019**, knowledge sharing** with, **transparency** towards and **two-way communication** with staff remained a key principle in DG TAXUD. This year, we followed up in particular the feedback collected through the 2018 staff survey. **Internal communication** happens in different ways, the main ones being:

- Open Forums with the Director-General and staff (*8 in 2019*);
- Weekly and specific internal newsletters (*124 in 2019*);
- lunchtime talks on policy as well as organisational matters;
- an annual 'Knowledge market' where TAXUD experts share their knowledge on taxation, customs and IT matters ;
- on-boarding events for newcomers.

DG TAXUD efforts did not remain unnoticed at corporate level with DG TAXUD being awarded in 2019 the:

- Internal Communication Award for "Best Change Communication campaign" with the "Future thinking" initiative.
- EMAS Award for "the most innovative best practice for waste reduction", for the efforts put in organising internal events that are environmentally friendly.

2.2.2 Better regulation

In 2019, DG TAXUD continued to prepare impact assessments and evaluations following the horizontal guidelines for better regulation. Where standard procedures outlined in the Better Regulation Guidelines could not be met, in a limited number of cases requests for exemptions were submitted and agreed with the SG. DG TAXUD further improved compliance with the principles of better regulation notably by increasing the number of languages in which the stakeholders were consulted during open public consultations, as well as regarding the length of these consultations. In 2019, the majority of DG TAXUD's public consultations were conducted in all EU official languages.

In 2019, DG TAXUD did not submit any impact assessment report for scrutiny to the Regulatory Scrutiny Board (RSB) but the RSB reviewed three retrospective evaluation projects, which all received a positive opinion:

- the joint DG GROW and DG TAXUD evaluation of the regulations relating to drug precursors,
- the evaluation of the Energy Tax Directive, and
- the evaluation of administrative cooperation in the field of direct taxation.

DG TAXUD finalized in 2019 three retrospective evaluations (see Annex 2.B):

- the evaluation of fiscal marking of gas oil and kerosene;
- the evaluation of taxation and energy products and electricity;
- the evaluation of administrative cooperation in the field of direct taxation.

2.2.3 Information management aspects

DG TAXUD continued to ensure that appropriate processes and procedures are in place for a 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 2019, 74% 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 2019 on their open tasks and non-filed documents. The team also distributed a **Quick Reference Card** for completing metadata and access rights of NomCom files and provided on demand trainings on the registration and filing of documents.

DG TAXUD continued working to ensure compliance with the **Internal Data Protection Regulation**.

- Within DG TAXUD, one of the key action points remained the awareness raising of staff on the new and existing data protection requirements. TAXUD's data protection team continued to meet regularly with the internal data protection network and provided tailor-made assistance to colleagues working on new legislative acts with data protection impact.
- DG TAXUD assessed the compliance of its processing operations with the general principles of the Internal Data Protection Regulation (Article 4 Regulation 2018/1725). As such DG TAXUD completed the drafting of its personal data processing records. DG TAXUD ensured that appropriate information is provided to the data subjects concerned through concise and intelligible privacy statements
- In addition, in the context of the trans-European IT systems for customs and taxation, DG TAXUD and Member States have to cooperate to ensure compliance and where appropriate conclude a joint controllership arrangement. DG TAXUD therefore set up a network of data protection experts of customs and tax administrations, including a first joint

gathering in autumn 2019. Cooperation and exchange of experience is critical for compliance as data protection related activities of Member States and DG TAXUD have to run in parallel to each other. Within the Commission, DG TAXUD also took the lead for drafting a joint controllership arrangement template. With the above activities, DG TAXUD contributed to the implementation of the Commission's Data Protection Action Plan of 7 November 2018.

- Finally, work has been started to assess if internal rules governing the restrictions of data subjects' rights are necessary.

In 2019 DG TAXUD replied to 275 requests for **access of documents** releasing around 428 documents.

In 2019, DG TAXUD's senior management endorsed the **data strategy** of TAXUD's data manager. Throughout 2019, the data manager focused on awareness raising on the importance of data management and data related issues, promoting data literacy at all levels within the DG. For instance the data manager met all heads of units to explain the potential role of data in their work and identify data driven use cases. Under the umbrella of the corporate data catalogue project TAXUD's data manager completed the work on TAXUD's data catalogue.

2.2.4 External communication activities

In 2019, DG TAXUD has considerably extended the portfolio and scope of Communication actions towards both internal and external stakeholders and the general public.

The main communication actions in 2019 concerned the following policy files:

- Qualified Majority Voting
- BREXIT preparations
- VAT for e-commerce

The DG TAXUD Website

Considerable improvements were made to make the DG TAXUD website compliant with the Digital Transformation requirements from DG Communication. Also, the pages of the entire website were checked for relevance, up-to-date and usefulness. A large part of the pages was updated, archived or re-written to make them more user-friendly. Technical and visual improvements were made by implementing several Europa Component Library aspects. In addition, DG TAXUD ensured the whole website was GDPR compliant and was ready to reflect the EU's new situation after BREXIT.

In 2019, the number of page views increased of more than 18%, compared to 2018.

Press and Media material

In 2019, new media materials were created such as:

- factsheets and leaflets for Qualified Majority Voting, VAT gap, EU list of tax haven
- press releases and memos for Qualified Majority Voting, BREXIT, EU list of tax havens, VAT e-commerce, tax dispute resolution mechanism, taxation trends, IPR, VAT gap, energy taxation and infringements.

Social Media presence

The Twitter account was actively managed, including creative communication campaigns on different topics (BREXIT preparedness, VAT, Tax avoidance, Customs Union, etc.) as well as joint campaigns with the corporate social media team of DG Communication. This resulted in a considerable increase (22%) in Twitter followers and in a particular high engagement of 27 800 retweets, replies and likes.

Campaign on BREXIT preparedness

With the continuing negotiations around BREXIT and possibility of a no-deal Brexit on 31 October 2019, DG TAXUD ran throughout 2019 a campaign advising businesses in the EU27 to prepare for a possible no-deal BREXIT scenario.

The campaign included:

- Digital and printed factsheets to nudge companies, especially SMEs, to check whether they are ready to continue doing business with the UK;
- A landing page on the DG TAXUD web-site with key information;
- Offline advertisement campaign, including the acquisition of advertising space, in national or regional printed media, such as newspapers, magazines and/or business publications;
- Social media promotion (visuals, videos, short animations).

Most of the communication material was provided in all EU languages.

External events

On 4 May 2019, DG TAXUD took part in the EU Institution Open Day, in Brussels. The stand and the promotional material focused on the fundamental role the EU Customs Union plays to protect EU citizens from security and safety threats.

On 6 December 2019, DG TAXUD organised an event on 'VAT in the Digital Age' bringing together stakeholders working in the field of Value Added Tax (VAT) to reflect on the opportunities and challenges that new technologies bring in the area of VAT.

Corporate communication and the corporate campaigns

DG TAXUD has worked closely together with central services, in particular DG

Communication's Social Media and Audio-visual teams, to provide information on a number of Taxation and Customs related topics to be communicated through corporate channels.

DG TAXUD was consulted for communication on several actions in relation to the 10 political priorities.

DG TAXUD also worked closely together with DG Communication on the corporate 'EU Protects' campaign, supporting the implementation and dissemination of the campaign through its own communication channels.

Evaluation of the campaign to celebrate the 50th anniversary of the EU Customs Union

In 2018, TAXUD organised a multifaceted communication campaign to celebrate the 50th anniversary of the EU Customs Union. The evaluation of the campaign, finalised in 2019, demonstrated that the campaign had a positive effect on informing stakeholders of the Customs Union and of its vital contribution to facilitating trade while protecting EU companies and citizens. In particular, the videos produced as part of the campaign gathered 9 million views, while the associated social media campaign lead to 2.5 million engagements. In addition, based on the 2019 Eurobarometer on customs, there was a significant increase in the awareness of European citizens regarding customs activities, which increased by 7 percentage points.