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European Commission

Annual Activity Report 2020

DG TAXATION AND CUSTOMS UNION

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> Especially in this time of crisis and in order to build a lasting recovery, everyone must play fair and pay their fair share.

Paolo Gentiloni, June 2020

THE DG IN BRIEF

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

We uphold the principle of fair taxation and strive for a simpler tax environment, in which businesses can innovate and grow. Modernising our tax policies and fighting tax abuse is a key way to boost public finances and stimulate investment, without burdening those hit by the crisis.

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

The European Commission presents proposals for tax legislation where it considers that EU-wide action is needed for the Single Market to work better (Articles 113 and 115 TFEU). It can also make recommendations and issue policy guidance in specific areas. Any European Union tax legislation based on the above articles must be unanimously agreed by all EU Member States before entering into force.

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

The Customs Union is an exclusive competence of the European Union. It is built on the principles of free movement of goods within the Union and a common external tariff towards third countries. The Customs Union also has an important security and safety component, protecting EU trade and citizens. These elements of Treaty law have given rise to secondary legislation adopted under the ordinary legislative procedure under co-decision by qualified majority vote.

DG TAXUD works in partnership with EU Member States and businesses in delivering on all of our policies and priorities. We also work with third countries and international organisations to make our above mentioned objectives a reality, influence international standards and reinforce the implementation of EU trade policy. We promote better and closer cooperation between Member States through our funding programmes. DG TAXUD manages the Customs and Fiscalis programmes through direct management. Following its expected adoption in 2021, DG TAXUD will also manage the Customs Control Equipment Instrument programme. Delivering our outputs in 2020 was particularly challenging because of the Covid-19 pandemic.

In 2020, DG TAXUD reported to Paolo Gentiloni, Commissioner for Economy. On 16 August 2020, Gerassimos Thomas became the new Director General of DG TAXUD.

EXECUTIVE SUMMARY

This Annual Activity Report is a management report of the Director-General of DG TAXUD 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 (executive summary of section 1)

In 2020, DG TAXUD was intensely involved in the crisis response to the Covid-19 pandemic, the EU strategy for recovery and the preparations for the end of transition period after the UK's withdrawal from the EU (Brexit). In parallel, we continued at full speed to deliver on our tax and customs agendas, with a view to support a greener, digitalised and fairer economy in the EU.

From the onset of the health crisis, DG TAXUD ensured that customs facilitated the **smooth and swift trade flows of medical and protective equipment**, while working with Member States to keep dangerous and substandard goods off the Single Market. We also proposed **temporary VAT and customs duties relief** for vaccines, testing kits, medical equipment and protective gear. Mindful of the pressures due to lockdowns across Europe, DG TAXUD took action to **ease burdens on businesses** in 2020. We postponed the entry into force of new rules for VAT e-commerce and deferred deadlines under the Directive on Administrative Cooperation (DAC), to allow businesses and Member States to focus their resources on getting through the immediate crisis.

Tax and customs policy assumed their place at the heart of the EU's agenda for recovery from the crisis. The crisis and its impact on public finances have compounded the need for Member States to secure revenues in a smart, fair and sustainable way. Under the new **Recovery and Resilience Framework**, DG TAXUD established a set of taxation and customs priorities, and assisted Member States in preparing their national recovery and resilience plans. The aim is support the recovery through much needed reforms and investment, notably in the modernisation and digitalisation of tax and customs

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

administrations. This will also help to simplify procedures and cut compliance costs for businesses and traders, which is good for growth. The **new Customs and Fiscalis programmes** will also support recovery by promoting more efficient, digitalized and data-driven administrations, and DG TAXUD invested heavily in supporting the negotiations on these and the new **Customs Equipment programme** last year. To help fund the recovery, DG TAXUD started preparatory work for new **Own Resources**, which will also support Europe's green and digital transitions.

The EU has committed to harnessing the potential of green growth to help Europe's recovery and to meet the ambitious target of reducing carbon emissions by 55% by 2050. Environmental taxation can be instrumental in delivering on these objectives, by encouraging both producers and consumers to reduce carbon emissions and make more environmentally friendly choices. In 2020, DG TAXUD began the preparatory work for the reform of the **Energy Tax Directive** (ETD) and the introduction of a **Carbon Border Adjustment Mechanism** (CBAM). We will bring forward these proposals in 2021.

Within the Single Market, DG TAXUD continued its work to break down unnecessary tax obstacles and make it easier for companies to innovate, invest and grow in the EU. In July 2020, the Commission adopted its **Action Plan for fair and simple taxation supporting the recovery strategy**. This set out a series of actions to ensure that EU tax policy supports Europe's economic recovery and long-term growth. The aim is to create an environment that enables businesses to get back on their feet in the years ahead, through clear, simple and cost-effective tax systems. In 2020, DG TAXUD took this work forward with a proposal to provide **more legal certainty for businesses on certain VAT rules**, a **Recommendation to improve Member States' VAT procedures**, and the adoption of implementing provisions for the **new simplified VAT rules for SMEs**. We also continued working on the entry into force of the **new VAT e-commerce rules**, which will create a clearer, simpler and more effective VAT framework for online sales.

Creating a tax environment that is conducive to growth will also require major **reforms in our corporate tax framework**, to match today's complex business models and globalised economies. In particular, there is an urgent need to adapt corporate tax rules so that all businesses – traditional and digital, large and small – are fairly taxed. In 2020, the EU continued to actively support the **international discussions** for corporate tax reform, steered by the G20/OECD. In parallel, DG TAXUD started examining possible EU solutions to ensure the fair taxation of the digital economy, including a **digital levy**, as requested by the July 2020 European Council. We are carefully assessing the different design options for a digital levy, to ensure that any EU proposal in this area does not hamper the ongoing multilateral efforts in the G20/OECD process.

Tackling tax abuse is fundamental to Europe's long-term prosperity and growth. It will help to protect the level playing field for companies in the Single Market, thereby strengthening the resilience and competitiveness of the EU economy. It also is one of the most obvious ways to increase public revenues, without imposing undue burdens on those hit by the crisis. In 2020, DG TAXUD proposed to extend tax **transparency requirements to online platforms** (DAC 7) and began preparing similar measures for **crypto currencies and e-money** (DAC 8). We also continued to the work to tackle the **VAT Gap**, estimated to have cost Member States €140 billion in revenues in 2018.

In addition, DG TAXUD set out a **strategy for tax good governance** in the EU and beyond, to prevent the erosion of Member States' tax bases through harmful tax practices or a race to the bottom. The strategy includes a reform of the **Code of Conduct on Business Taxation** and improvements to the **EU list of non-cooperative jurisdictions**. In June 2020, the Commission issued a recommendation to deny public funding to companies with links to tax havens, to prevent the misuse of national covid support measures.

Customs also has an important role to play in supporting Europe's economic recovery. Each year, the Customs Union facilitates the trade of more than €3.5 trillion worth of goods – a critical driver of growth. Customs is instrumental in ensuring that this trade flows seamlessly, while collecting much-needed revenues for the EU and national budgets. It also safeguards the Single Market from illegal, counterfeit and dangerous products, thereby contributing to consumer confidence and protecting honest traders from their illicit counterparts.

However, the Customs Union faces many challenges, notably in dealing with the modern demands of e-commerce, increased volumes of trade and increasingly complex supply chains. In her political guidelines, President von der Leyen announced that the Customs Union needs to be taken to the next level, in particular, by ensuring an integrated European approach to customs risk management, which supports effective controls by EU Member States.

In September, the Commission adopted the **Customs Action Plan**, which contains a series of initiatives to achieve this goal. The focus is on improving the Customs Union through state-of-the-art equipment, accelerated digitalisation, better use of data analytics, and stronger cooperation between Member States and with the EU's partner countries worldwide. The Action Plan is built on four main pillars: improving risk management, managing e-commerce, promoting compliance and ensuring that customs authorities act as one in our Customs Union. The aim is to make customs formalities more business-friendly and better for trade, while improving customs capacity to collect revenues and protect the Single Market from illegal or dangerous imports. The Action Plan also announced plans for a comprehensive analysis of the EU's system of **international cooperation in customs** matters.

In October 2020, DG TAXUD presented another major initiative to advance the modernisation and digitalisation of customs, with the proposal for an **EU Single Window Environment for Customs**. This proposal is the first step in creating a digital framework for enhanced cooperation between all border authorities, which will also eventually enable businesses and traders to provide data in one single portal in an individual Member State.

In addition to these flagship initiatives, DG TAXUD also proceeded with several other important actions to modernise, digitalise and improve customs in 2020. We continued to explore the establishment of **EU Analytics Capabilities**, to harness the potential of data analytics tools and data platforms for better customs supervision, control and risk management. In a move towards a smarter and paperless customs environment, we launched the **electronic system for INF.** We also prepared for the launch of **Import Control System (ICS2)**, which will collect advance cargo data on all postal and express imports from March 2021. This included **amending the EU's agreements with Norway and Switzerland**, which will join the ICS2 too, to ensure equivalency of customs security and risk management measures.

DG TAXUD continued its active **international engagement** last year, despite the Covid restrictions. We represented the EU's tax and customs policies at global level and helped set global standards, including through our participation in the World Customs Organisation, World Trade Organisation and OECD. Throughout 2020, DG TAXUD continued to monitor the implementation of the **preferential trade arrangements** that the EU has with third countries, to protect the EU's financial interests and ensure fair trade. In August, the Commission adopted a package of proposals to revise and modernise the rules in the origin protocols of the EU's agreements with 19 partners of the **Pan-Euro-Mediterranean** area.

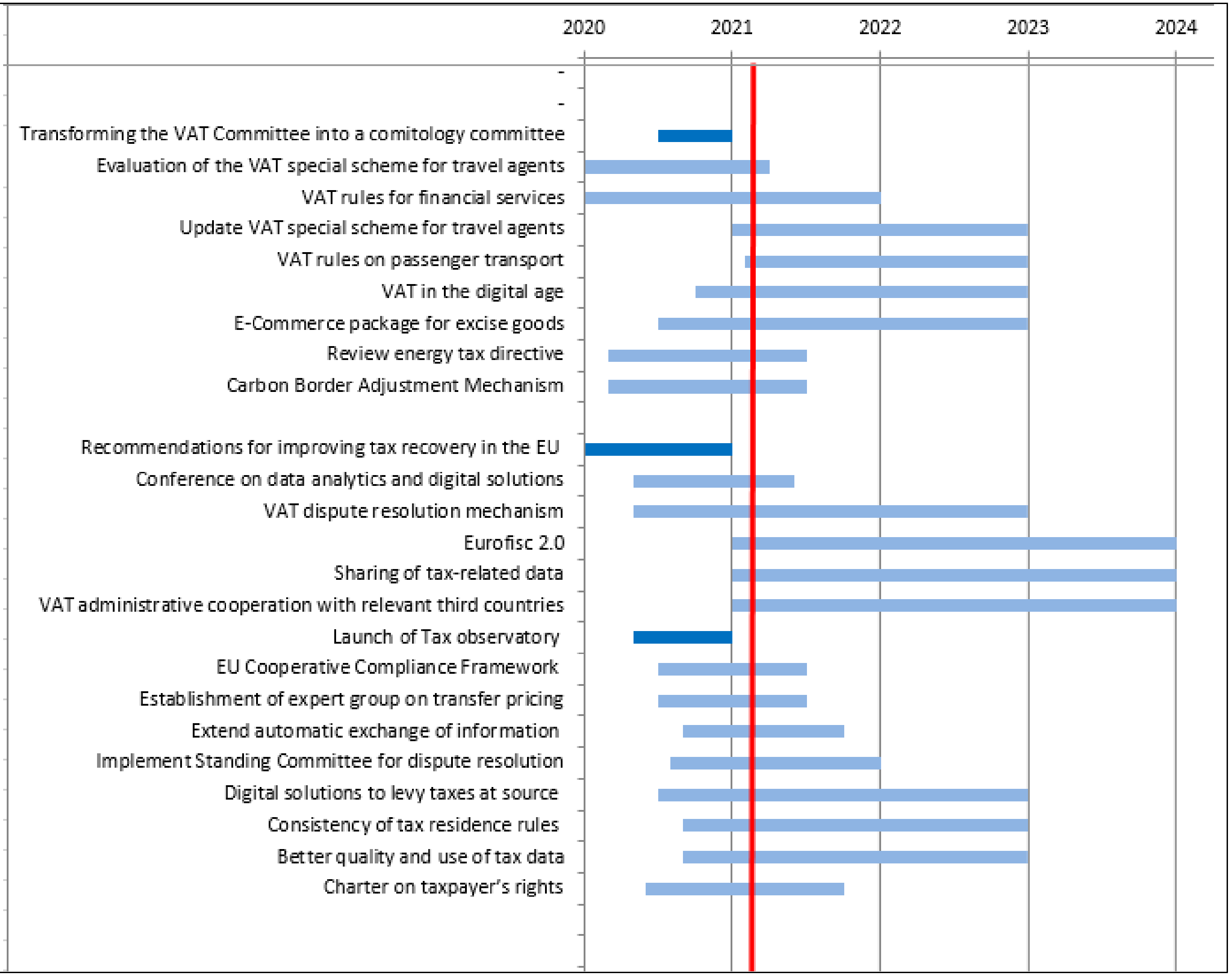
We supported and monitored international **partners' alignment with the EU's tax and customs acquis** throughout the year, including in the Western Balkans, Turkey, Ukraine, Moldova and Georgia, contributed to the implementation of the trade and customs chapters of the **Euro-Mediterranean Association Agreements**. In addition, DG TAXUD published an external evaluation of the EU-China Agreement on Cooperation and Mutual Administrative Assistance in Customs Matters (CCMAA) in October, to prepare for a new **EU-China** Strategic Framework for Customs Cooperation.

Throughout 2020, DG TAXUD worked intensively on following up on the **UK's withdrawal from the EU and on the negotiations for a future relationship**. This work spanned the entire DG, covering customs, preferential access, VAT, excise duties, direct taxation and IT systems. DG TAXUD successfully negotiated the crucial customs related aspects of the new EU-UK Trade and Cooperation Agreement (TCA), including a chapter on Rules of Origin for preferential treatment. To ensure fair competition and prevent harmful tax practices, DG TAXUD also negotiated the tax provisions for a level playing field between the EU and UK. DG TAXUD was central to the work on the **implementation of the Withdrawal**

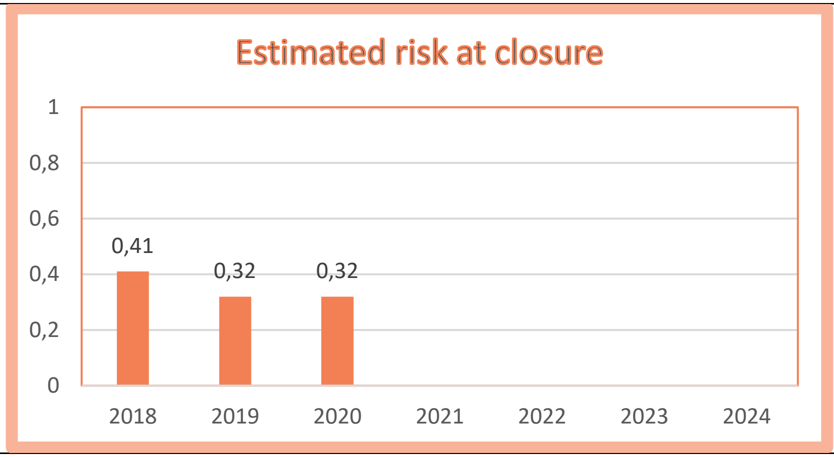
Agreement and Ireland/Northern Ireland Protocol, notably the establishment of a strong Union Presence in Northern Ireland. To ensure that EU businesses were informed and prepared for the end of the transition period, DG TAXUD carried out a successful communications campaign, while also working closely with Member States, traders, businesses and other stakeholders to explain and clarify the upcoming changes in tax and customs due to Brexit.

B. Key Performance Indicators (KPIs)

Most relevant KPI 1



Most relevant KPI 2			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*					✓		Q1 2021-Q4 2023
		component 2							Q2 2024-Q2 2025
10	**AES**	*component 1*					✓		Q1 2021-Q4 2023
		component 2	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

KPI-3 Estimated risk at closure (target : <2%)	

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, 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 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. Please refer to AAR section 2.1.3 for further details.

In addition, DG TAXUD has systematically examined the available control results and indicators, as well as the observations and recommendations issued by the internal auditor and the European Court of Auditors. These elements have been assessed to determine their impact on management's assurance about the achievement of the control objectives. Please refer to Section 2.1 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

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

E. Specific actions on Covid-19

In 2020, Europe was severely struck by the Covid-19 pandemic. The Commission steered a strong and coordinated response to the health crisis, as well as launching an ambitious agenda for Europe's social and economic recovery, underpinned by the EUR 672.5 billion Recovery and Resilience Facility. EU tax and customs policies made a significant contribution to the EU's pandemic response in 2020, while emerging as central players in ensuring a strong and sustainable recovery in the years ahead.

DG TAXUD delivered rapid, well-targetted actions in response to the health crisis. Tax and customs initiatives were swiftly implemented to facilitate smooth supply chains of vital medical and protective equipment, while new proposals were put forward to support crisis-struck businesses. These included:

- The temporary suspension of VAT and customs duties payable on imports of vital goods, such as PPE and other medical equipement, needed to combat Covid-19.
- The creation of specific nomenclature codes, in order to monitor the trade flows of certain Covid-19 related goods (such as vaccines, masks, test kits, etc.).
- A recommendation to facilitate the import of personal protection equipment and medical devices.

- Temporary measures that allowed Member States to grant VAT relief on Covid-19 vaccines and testing kits.
- Information sharing with all national customs authorities on dangerous, counterfeit or substandard medical devices and medical supplies, to ensure that those goods were stopped at the border.
- Guidance to ensure the harmonised interpretation of EU legislation on VAT and customs in Covid times.
- A postponement of the entry into force of the VAT e-commerce package, to enable businesses and Member States to focus their resources on fighting the crisis.
- The deferral of deadlines for filing and exchanging information under the Directive on Administrative Cooperation (DAC).

We also monitored the application of these measures, in close contact with Member States and the relevant trade associations, so that adjustments could be made in real-time, if needed.

The pandemic also highlighted the importance of customs in assisting Member States in times of crisis. From the outset, EU customs ensured that imports of important medical and protective equipment could flow freely, while keeping unsafe products off our markets.

Taxation policy also took its place at the heart of the recovery agenda. Through the Recovery and Resilience Facility, DG TAXUD will help Member States to accelerate the moderinsation and digitalisation of national tax and customs administrations, so that they are better equipped to collect and protect the tax revenues needed for public spending nad investment. We also intensified the work for fair and simple taxation, to help Member States "build back better" by raising revenues in an efficient, equitable and ecological way. The Next Generation EU plan, designed to stimulate the EU economy, encourage growth and support companies, needs to be financed, including through sustainable Own Resources. DG TAXUD launched the work on proposals, due in 2021, that will help fund the recovery.

Covid-19 has also posed challenges as regards performance, control, audit and assurance in relation to the 2020 EU budget. In an exercise coordinated at corporate level, all Commission services have promoted the consistent and rigorous protection of the EU budget ensuring that appropriate mitigating measures were put in place.

1. Key results and progress towards the achievement of the Commission's general objectives and DG's specific objectives

General Objective 1: European Green Deal

Carbon must have its price – because nature cannot pay the price anymore.

President Von der Leyen, State of the Union, 16 September 2020

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

In her 2020 State of the Union speech, President Von der Leyen announced the EU's higher ambition of reducing emissions by 55% by 2050. Taxation has a key role to play in delivering on this target and in helping Europe to transition towards a greener economy. Taxation policy can help unleash the potential of green growth to promote sustainable economic recovery in Europe, supporting both producers and consumers in reducing carbon emissions and making more ecological choices. In addition, the Commission's Recovery Plan for Europe indicated that green own resources could contribute to financing the future EU budget. This was confirmed by the July 2020 European Council.

In 2020, DG TAXUD advanced on the preparatory work on two key proposals to support the EU's climate change and environmental agenda: the revision of the Energy Tax Directive and the Carbon Bordern Adjustment Mechanism. Both proposals should be adopted by mid-2021, as part of the Commission's "Fit for 55" package.

The **inception impact assessments** for both initiatives were published, while **public consultations** were run between July and October 2020. Preparatory work for the proposals, including work on the impact assessments progressed throughout 2020.

In the context of the European Semester and monitoring of the Structural Reform Support measures, DG TAXUD also monitored that national tax measures take into account the European Green Deal objectives.

General Objective 3: An economy that works for the people

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

The crisis and its demands on public finances have created intense pressure on Member States to secure tax revenues, while preserving social values. To finance the recovery, Member States will need smart tax systems, that deliver sustainable revenues while supporting businesses as they get back on their feet.

Under the new **Recovery and Resilience Framework**, DG TAXUD established a set of taxation and customs priorities, that could be taken forward in the national recovery and resilience plans, as relevant. In 2020, DG TAXUD was very active in supporting Member States in the preparation and submission of their national recovery and resilience plans, in order to support the recovery through much needed reforms and investment.

In July 2020, the Commission adopted its **Action Plan for fair and simple taxation supporting the recovery strategy.** This was part of a Package built on the twin pillars of fairness and simplicity, to ensure that EU tax policy supports Europe's economic recovery and long-term growth. The 2020 Tax Package aims to make life easier for honest businesses, easing administrative burdens and helping them develop, while making life harder for those that try to cheat the system. Many of the individual initiatives in the Package have already been launched, as outlined in the sections below.

In early 2020 citizens were invited to comment on the **roadmap** for this Action Plan. A **communication campaign,** publicising the action plan, emphasized the benefits to citizens and businesses of fair, simple and sustainable taxation. In September 2020, Commissioner Gentiloni hosted a public online event to present key elements from the Tax Package and outline the Commission's broader tax agenda for a stronger, fairer and more efficient Single Market.

I. A tax environment that supports recovery and growth

As outlined in the 2020 Tax Package, businesses need a supportive tax environment, free from competitive distortions, tax obstacles and unnecessary administrative burdens, to grow and thrive. This is more important than ever in the years ahead, as European businesses get back on their feet after the shock of the 2020 crisis. DG TAXUD is determined to break down unnecessary tax obstacles in the Single Market and simplify the rules and procedures for taxpayers, to make it easier for companies to recover, innovate, invest and grow.

In creating an enabling environment for businesses, the changing nature of consumption and new business models need to be taken into account. The growth of e-Commerce accelerated in 2020, partially due to the Covid restrictions imposed on more traditional means of selling. Throughout 2020, DG TAXUD continued working on the entry into force of the EU **VAT e-commerce rules,** designed to create a clearer, simpler and more effective VAT framework for online sales. This included a report on the progress made both by the Commission and Member States in implementing the VAT e-commerce package, and Explanatory Notes on the new VAT e-commerce rules. A **communication campaign** to inform traders – within the EU and globally – of the new VAT e-commerce rules was also prepared.

DG TAXUD also undertook a host of other activities, in 2020, to create a supportive tax environment for businesses in Europe. This included:

- A proposal for a new decision-making process to ensure **uniform interpretation of certain VAT rules.** This will provide more legal certainty for European businesses.
- Commission Recommendations to improve Member States' procedures for registering taxable persons and **determining and collecting VAT**, which will enhance efficiency and ease the administrative burden for businesses.
- Implementing provisions for the **new simplified VAT rules for SMEs,** applicable from 2025.
- Work was started on **Improving EU Taxpayers' Rights** in the Single Market, with a view to issue a Communication and a Recommendation in 2021.
- Work was started on an EU **cooperative compliance programme** for both SMEs and multinational enterprises, with a view to launching pilot projects in 2021.

DG TAXUD also focused on enhancing cooperation between Member States in the area of taxation, to facilitate compliance, fight tax abuse and secure the revenues due. In 2020, DG TAXUD continued to support the informal network of **TADEUS**, through which heads of EU tax administrations cooperate on strategic tax matters. TADEUS-driven projects last year included setting up a new governance structure and strategy for Eurofisc and developing a human resources management (HRM) maturity model. DG TAXUD also presented a report with best practice recommendations on **mutual tax recovery assistance** between Member States.

Proper enforcement for better results in EU tax policy

DG TAXUD continued to monitor the **implementation and application of EU rules** by Member States, prioritising enforcement actions in areas where they are most required like removing distortions of competition, tackling tax evasion and avoidance and preventing double taxation. In this respect, we worked on implementation of the Commission Communication "Long Term Action Plan for better implementation and enforcement of Single Market rules".[2]

In the field of taxation, DG TAXUD carried out systematic **compulsory compliance assessments** of new Directives that were identified as priorities in the 2016 Communication "EU law: Better results through better application"[3]. This represented four assessments in the area of indirect taxation and eight ongoing actions for direct taxation. DG TAXUD launched several enforcement related initiatives to support and complement the delivery of policy priorities.

To support the development of well-calibrated policies at EU and national level, DG TAXUD produced a number of important reports in 2020. It monitored the **taxation trends** by preparing detailed statistical and economic analysis of the tax systems of EU Member States, Iceland and Norway. The '**Tax policies in the European Union**' survey presented an indicator-based analysis of the Member States' tax systems, focussing on the most pressing and relevant tax issues, in order to support more informed policy-making. The online '**Taxes in Europe Database'** further complements this picture with information about 650 taxes in Europe.

II. Fair taxation for sustainable revenues and a level playing field

The 2020 Tax Package underlined the need for fair taxation to support not only an efficient, but an equitable recovery. Tackling tax abuse, which threatens sound public finances and disrupts the level playing field for businesses, is fundamental to establishing a fairer tax environment. Increasing tax transparency is essential to ensure national authorities can identify and collect the revenues they are due. At the same time, most citizens and businesses are willing to comply with tax rules. It is crucial to support them and avoid

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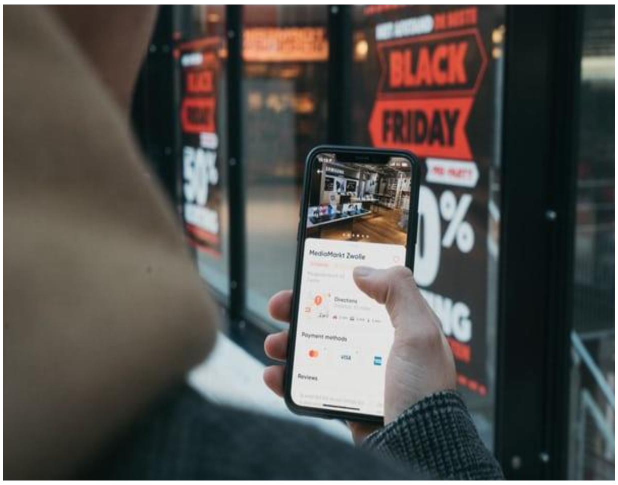
[2] COM(2020) 94 final

[3] Communication from the Commission — EU law: Better results through better application, C(2016)8600.

imposing undue burdens in the fight against a minority of fraudsters. In 2020, DG TAXUD worked to deliver on all these fronts, to reinforce the principle of fair taxation in Europe, and beyond.

Identifying the scale and nature of the problem is a first step towards tackling it. On 10 September, the European Commission released its **annual VAT Gap report** indicating that EU countries lost an estimated €140 billion in Value-Added Tax (VAT) revenues in 2018. Though still extremely high, the overall 'VAT Gap' – or the difference between expected revenues in EU Member States and the revenues actually collected – has improved marginally in recent years. However, figures for 2020 forecast a reversal of this trend, with a potential loss of €164 billion in 2020, due to the effects of the coronavirus pandemic on the economy. The considerable 2018 VAT Gap, coupled with forecasts for 2020, highlight once again the need for a comprehensive reform of EU VAT rules, to put an end to VAT fraud and to increase cooperation between Member States on VAT collection – particularly in the digital age.

On 18 February 2020, the Council approved new measures to transmit and exchange payment data, to fight e-commerce VAT fraud by launching the **Central Electronic System of Payment information** (CESOP). As of 2024, CESOP will keep records of cross-border payment information within the EU, as well as payments to third countries or territories, for a period of five years. This will reinforce the capacity of Member States to fight against e-commerce VAT fraud, by allowing them to properly control the correct fulfilment of VAT obligations on cross-border Business to Consumer (B2C) supplies of goods and services. The implementation of the **VAT Data Payment Regulation**, recently adopted by the Council, will also help in combating VAT fraud in the field of e-commerce.



DG TAXUD also worked to **strengthen the EU's tax transparency framework** in 2020, updating it to reflect the ever-increasing digitalization of our economies. In July, the Commission adopted a proposal to extend the exchange of information between Member States, particularly focusing on platforms (**DAC 7**). The 2020 Tax Package also announced the intention to further expand automatic exchange of information to cryto-assets and e-money (**DAC 8**). This work will also entail a review of existing provisions, in particular regarding sanctions for non-compliance.

In the context of ensuring fairness, the Commission proposed to extend the **specific tax measures for the outermost regions** of France, Portugal and Spain, which are facing specific challenges linked to their remoteness, small size, climate and dependence on a limited number of local products.

III. A fairer business tax environment, fit for the digital age

Fair, efficient and resilient business tax systems are vital to create an enabling environment for businesses, which is needed for economies to grow. However, current corporate tax structures are out of synch with modern realities. Corporate taxation needs to be reformed to reflect today's complex and highly mobile business models. In particular, it needs to be adapted to the digitalisation and globalisation of corporations, so that both digital and traditional businesses are taxed in a fair and sustainable way.

Therefore, in 2020, DG TAXUD continued to work for the **international reform of corporate taxation** with the G20/OECD, to make it fit for the modern economy. Discussions were focussed around two pillars: the fair taxation of the digitalised economy and minimum effective taxation. If global consensus is reached on these issues in 2021, as foreseen, it would be a major step in realigning international business taxation to the realities of today's corporate world and in ensuring that all companies are fairly taxed – regardless of their nature or where they are based. Therefore, EU will continue to constructively and actively participate (at both EU and Member State level) in these international discussions, with the aim of reaching a positive solution in 2021.

In parallel to the international work for corporate tax reform, and in anticipation of its outcome, DG TAXUD also started work on EU solutions to address the challenges of digital taxation. The July 2020 European Council conclusions mandated the European Commission to table a proposal for a **digital levy** by June 2021, to be used as a new own resource. DG TAXUD began to explore several design options to this end and the preparatory work continues. This proposal will be sensibly calibrated, as the EU does not intend to undermine the ongoing multilateral efforts in the G20/OECD process.

DG TAXUD also began the internal preparatory work to scope out how any global agreement should be implemented at EU level. We also started a reflection on the **corporate tax reforms** needed at EU level over the coming years, to ensure long-term sustainable revenues, an equitable tax system and a supportive environment for businesses. The initial actions to improve business taxation were outlined in the 2020 Tax Package. In 2021, DG TAXUD will present a comprehensive Communication, setting out the vision and agenda for corporate taxation in the EU. In addition, DG TAXUD continued to support progress on the **Common Consolidated Corporate Tax Base** (CCCTB) in 2020.

One of the key issues to be addressed in the context of future tax reforms is the issue of fair tax competition. As part of the 2020 Tax Package, DG TAXUD presented a major new Communication on **Tax Good Governance in the EU and beyond**. This set out measures to promote higher standards of tax good governance, to prevent a race to the bottom via harmful tax competition and to secure a fairer environment for all businesses.

In the Communication, the Commission called for a reform of the **Code of Conduct on Business Taxation**, one of the key tools for tackling harmful tax competition and practices within the EU. In particular, the Code of Conduct needs to move to a new stage where it will not just examine specific preferential measures, but also general features of Member States' corporate tax regimes that can have similar, harmful effects. The Commission also highlighted the need to improve the Code's governance to make it more efficient and effective. Discussions were launched amongst Member States in the Code of Conduct Group, on the basis of the Commission's Communication.

Cooperation with third countries is also crucial in ensuring fair taxation for all businesses and countries, given the globalised, digitalized nature of our economies. The 2020 Communication included proposed improvements to the **EU list of non-cooperative jurisdictions**, which deals with non-EU countries that have failed to follow internationally agreed tax standards. Key actions to be taken forward include: reviewing the geographical scope of the EU list, updating the EU listing criteria, and making sure that defensive measures are coordinated and effective.

In the context of the EU listing process, DG TAXUD together with the EEAS, continued to engage in very regular dialogue with the jurisdictions concerned, at technical, diplomatic and political level on all issues related to tax good governance. DG TAXUD also presented regular and robust technical assessments to Member States of the progress that each jurisdiction was making to comply with the listing criteria.

On 14 July, the Commission also recommended that Member States should **not grant financial support to companies with links to EU listed countries**. Restrictions should also apply to companies that have been convicted of serious financial crimes. By coordinating restrictions on financial support, Member States will prevent mismatches and distortions within the Single Market and ensure that compliant businesses are recognised.

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

The **new Customs and Fiscalis programmes** will support recovery and the EU's top priorities, by working for more efficient, digitalized and data-driven tax and customs administrations. Approximately 85% of the new Customs programme and 70% of the new Fiscalis programme is dedicated to establishing and operating transeuropean electronic systems, to connect administrations, manage risks, promote trade and fight challenges such as fraud. The programmes are critical for the smooth implementation of EU tax and customs policy and the operation of the transeuropean IT systems and support. For this reason, working to achieve agreement on these programmes was a key priority for DG TAXUD in 2020.

Advancing towards full agreement on the **new Customs Control Equipment Instrument (CCEI)** was also priority for DG TAXUD 2020. The CCEI will co-finance the acquisition of customs equipment, such as scanners and laboratory supplies, to control the flow of goods entering the EU and will play a key role in ensuring that customs is equipped to facilitate smooth and safe trade in the years ahead.

At the end of 2020, the EP and Council had agreed in principle on the new Customs programme, while discussions continued on the new Fiscalis programme and CCEI, with a view to agreement in early 2021.

At the same time, the **current Customs 2020 and Fiscalis 2020 programmes** continued last year, offering a European framework for national tax and customs authorities to cooperate, coordinate and connect. The continuous and smooth exchange of information between administrations, which these programmes facilitated, is a key element of a well functioning Single Market. The vast majority of the current programmes' funding (approx. 80%) was devoted to the implementation, improvement, operation and support of the European Information Systems (EIS). The remaining programmes' budget was 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 to ensure coherent application at national level.

Specifc Objective 3.3: Support wider EU policy priorities through taxation

Taxation can have an important impact on consumer choices and can be a powerful tool to steer social behavior onto a healthier, more sustainable path. **Tobacco and alcohol taxes** are typical examples of behavioural taxes, which can help reduce alcohol and tobacco consumption and deter smoking and alcohol abuse. Therefore, DG TAXUD works to ensure that EU rules on the taxation of tobacco and alcohol fully support the twin objectives of protecting public health while also supporting public finances.

In 2020, DG TAXUD worked on concrete contributions to support public health objectives and the Commission's Beating Cancer plan. We finalised the **evaluation** of the functioning of the excise duty rates applied to manufactured tobacco. This shows that the current legislation has been working well in terms of predictability and stability of fiscal revenues for Member States, while also providing a high degree of flexibility for national fiscal policies regarding traditional tobacco products. However, the evaluation concludes that, after the initial increase of EU minimum rates for cigarettes and fine-cut tobacco, the impact of the **Tobacco Taxation Directive** on public health has been moderate. In 2020, DG TAXUD started work which may lead to a possible revision of the Tobacco Taxation Directive and general rules for cross-border acquisitions of excise goods by individuals.

In July 2020, Member States agreed on new rules governing **excise duties on alcohol** within the EU. Consequently, DG TAXUD started preparing implementing provisions and also continued on implementation work on the recently adopted review of the **excise duties general arrangements**.

In addition, a **control system for goods moving under the deferral of the payment of excise duty** was put in place, to monitor them more closely and reduce the risk of non-taxation and fraud EU-wide movements of excise goods require an electronic administrative document, processed by the Member States, of dispatch and of destination by using a computerised system, i.e. the Excise Movement and Control System (EMCS) and its components. This IT system ensures that the Single Market functions smoothly, from an excise duty perspective, and allows Member States to cooperate effectively in fighting fraud.

General Objective 5: Promoting our European Way of Life

> Our Customs Union forms a single territory for customs purposes where a common set of rules is applied. It is an asset that we cannot afford to neglect or overlook. Even though it is working in the background, the work it is doing is highly important and ever more complex. This why we are coming with this new Action Plan.
>
> Paolo Gentiloni, June 2020

Specific Objective 5.1: Develop a more modern Customs Union, to facilitate trade, safeguard revenues and protect citizens and businesses[4]

Customs played a vital role in assisting Member States during the Covid crisis – enabling essential goods to cross our external borders quickly while protecting citizens from dangerous imports. The end of the Brexit transition period also shone a spotlight on the advantages of being in the Customs Union for Member States, businesses and traders, in terms of smooth and unhampered trade flows.

However, EU customs faces major challenges – notably in light of increased trade flows and ever-more complex supply chains in the digital age. President Von der Leyen underlined the need “to take the EU Customs Union to the next level”, when setting out the priorities for her mandate. In 2020, DG TAXUD worked towards delivering on this goal.

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

In autumn 2020, DG TAXUD presented an **Action Plan to take the Customs Union to the Next Level**. The Action Plan sets out specific actions for the coming years, focussing on four main priority areas: risk management, e-commerce, compliance, and ensuring the Customs Union acts as one. In the same package, DG TAXUD also presented its Second Biennial Report on Governance of the Customs Union. A **communication campaign** was organised to publicise the Action Plan.

DG TAXUD's long term objective is to ensure the full **implementation of the Union Customs Code legal package,** while adapting customs rules in line with new challenges and opportunities. The envisaged end result is a greener, integrated and fully automated customs environment, fit for the 21st century.

I. Developing digitalised, data-rich customs, fit for the future

For EU customs to be fit for the future, it needs to exploit the advantages of digitalisation, data and new technologies to a much greater extent. This will allow for faster, better and more streamlined controls and procedures at the EU border. DG TAXUD is focussed on developing a digitalised and data-rich EU customs through a series of complementary projects over the coming years.

In 2020, DG TAXUD commenced work on **EU Analytics Capabilities**. This is essentially an EU hub for the collection and analysis of data from a vast number of customs and non-customs sources. The EU Analytics Capabilities is intended to complement Member States' own information capabilities, allowing them to undertake more focused, efficient and cost effective risk management and customs controls and to rationalise the use of scarce resources. These improvements will ensure better protection of the financial interests of the Union and greater security and safety of the Single Market. They will also contribute to the fight against fraud, management of prohibitions and restrictions, control of illicit cash movements, drug precursors or intellectual property rights, customs policy formulation and crisis responses.

On 14 December 2020, the Commission published the second report on the progress in developing the electronic systems provided for under Article 278a of the UCC. In the report DG TAXUD concludes that tangible progress is being made in ensuring the full deployment of the electronic systems by the relevant deadlines. A sizable number of electronic systems have already been deployed and are now fully operational.

Throughout 2020, DG TAXUD also prepared for the launch of the first phase of the new **Import Control System (ICS2),** due to take place in March 2021. In its first phase, this system will collect advance cargo data on all air postal and express consignments at the EU's external border. The aim of ICS2 is to plug a fraud, safety and security gap, which had been widened by the unprecedented rise of e-commerce. In the long-term, the analytical capabilities in ICS2 will enable authorities to focus on screening of high-risk trade while facilitating low-risk trade and to detect threats that could not be addressed at the national levels alone. A worldwide **communication campaign** to inform traders of the upcoming ICS2 launch was also launched in October 2020.

In an important step towards a smarter and paperless customs environment, the Commission launched the electronic system for traders for the Standardised Exchange of Information (INF, Special Procedures)**,** a new trans-European system, required by the UCC to support the standardised electronic handling of traders' information from their inward and/or outward processing activities. The INF system is integrated in the EU Customs Trader Portal, which enables traders to electronically submit the relevant information to the customs authorities.

DG TAXUD also progressed with the work on a **centralised electronic system for the import of cultural goods (ICG system)** and prepared implementing provisions for the import of cultural goods, in preparation for the new rules that will enter into force in 2025. It also presented a first progress report on the ICG system to the Council and European Parliament. The **Customs Decisions System** also underwent a major upgrade, to further improve its functionalities and better align it to the legal provisions.

II. Enhancing cooperation to fight fraud and facilitate trade

For a strong and effective Customs Union, a high level of cooperation between customs and other competent authorities is essential, along with a holistic approach to the many checks and procedures at the EU's external border. In October 2020, the Commission proposed the EU **Single Window Environment for Customs** (EU SWE-C), which will support the coordination of controls between customs authorities and other authorities at the border. An **impact assessment** accompanied the proposal. The Single Window will make it easier for different authorities involved in goods clearance to exchange information submitted by traders electronically. It aims to enhance cooperation and coordination between different authorities, to facilitate the automatic verification of customs and non-customs formalities for goods entering or leaving the EU. It will also facilitate traders and businesses in the long-term, by allowing them to process all their border formalities through a single portal. In 2021, DG TAXUD will work to support the swift adoption of the Single Window proposal by the co-legislators.

DG TAXUD also worked together with DG GROW, in 2020, to pave the way for the link between the future **market surveillance system (ICSMS) and national customs systems** through the future EU Single Window Environment for Customs.

Cooperation between Member States' competent authorities and their Financial Intelligence Units is essential in tackling **illicit cash movements**. In 2020, DG TAXUD worked on creating the EU forms for declaring cash and the technical rules for information exchange between the different bodies in the Member States.

III. Ensuring the proper implementation of customs legislation

The **Union Customs Code** (UCC) is a key element in the ongoing actions to modernise EU customs. It is the framework for EU customs rules and procedures, adapted to modern realities and communication tools. For the proper functioning of the Customs Union, all Member States need to apply EU customs legislation in a uniform and complete manner, and DG TAXUD continually reviews this implementation, to identify where improvements may be needed.

In July 2020, DG TAXUD started its interim **evaluation of the implementation of the UCC**. We also launched two **monitoring exercises to check compliance** with the UCC rules on guarantees and on repayment and remission of customs duties, and started to assess Member States' notifications on **customs infringements and sanctions.** The reassessments of the **AEO authorisations** that were granted under the previous Community Customs Code legislation were finalised in 2020. In addition, the Commission undertook some fact finding visits to Member States to see how they are monitoring AEOs to ensure their continued fulfilment of the AEO criteria. Due to the Covid-19 outbreak, the remaining visits had to be put on hold. The **Customs Union Performance** (CUP) project continuously assesses and supports customs policies through the monitoring of key indicators of performance. In 2020, major steps were taken towards the modernisation of the IT tools, better data analytics and improved data visualisation.

The **Common Customs Tariff** (CCT) applies goods imported across the EU's external borders. It is common to all EU members, but the rates of duty differ from one kind of good to another, depending on what they are and where they come from. Throughout 2020, DG TAXUD continued to ensure the uniform application of the CCT and the daily update of the Integrated Tariff of the European Union (in TARIC) 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 1,400 tariff quotas in 2020,
- publishing 38 legislative tariff classification measures, and solved 33 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.

In October, the European Commission published the latest version of the Combined Nomenclature (CN), applicable as from 1 January 2021. The Combined Nomenclature determines the rate of customs duty that applies and how the goods are treated for statistical purposes. The CN is thus a vital working tool for business and the Member States' customs administrations.

The Commission also adopted a report on the evaluation of the **EU drug precursor policy**. This concluded, amongst other things, that additional action on designer-precursors is needed to address the increasing illegal synthetic drug production in the EU. DG TAXUD will look into the possibilities for such action in 2021.

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

TAXUD's international engagement serves to represent the EU's tax and customs policies on the international scene. It also contributes to international standard setting and the promotion of multilateralism, notably through its contributions in the World Customs Organization, World Trade Organization and the OECD.

In 2020, DG TAXUD continued to contribute actively to the key priorities of the **World Customs Organization (WCO),** in particular the comprehensive review of the Revised Kyoto Convention and the work on E-commerce, Digital Customs and Data Analytics. DG TAXUD worked closely with DG TRADE in order to participate actively in the work of the **World Trade Organisation**, in particular in the Trade Facilitation Committee, the Customs Valuation Committee and in the on-going discussions on the Joint Statement initiative on electronic commerce.

DG TAXUD continued monitoring the implementation of **preferential trade arrangements**. These protect the EU's financial interests and ensure fair trade between the EU and the third countries that benefit from these arrangements. This monitoring of compliance with the rules on preferential origin also strengthens the Union's credibility when negotiating free trade agreements. Due to the Covid-19 pandemic, DG TAXUD only managed to perform a monitoring visit to Uzbekistan in 2020, before all other monitoring visits were postponed or cancelled.

International customs cooperation was also covered in the Customs Action Plan (*see p. 23 above*), extending the monitoring of preferences in international trade beyond the EU's autonomous preferential regimes (i.e. the General System of Preferences) to encompass Free Trade Agreements. The Customs Action Plan also announced the launch of a comprehensive analysis of the EU's overall system of international cooperation in customs matters.

Norway and Switzerland will join the Import Control System (ICS2) together with the Member States to ensure equivalenct customs security and safety measures at the external borders. The agreements with both countries were amended accordingly, mainly regarding risk management and security.

The monitoring of the alignment of the **Western Balkans** and **Turkey** with the EU's tax and customs acquis continued in 2020, along with assistance to these countries in modernising their customs administrations, primarily through the IT developments required by the UCC. DG TAXUD also continued to support regional integration in the Western Balkans through technical assistance and worked on the correct implementation of the EU – Turkey Custom Union, as a key pillar of the bilateral relationship.

Throughout 2020, DG TAXUD continued to support the **EU Eastern Partnership countries**. Georgia and the Republic of Ukraine adopted new customs regulations in line with the Union Customs Code. The Republic of Moldova started working on mutual recognition of Authorised Economic Operators with the EU. Ukraine, Georgia and the Republic of Moldova also advanced the harmonisation with the Convention on a common transit procedure aiming at final accession in 2023.

On 24 August 2020, the Commission adopted a package of 21 proposals to introduce revised modern rules in the origin protocols of the agreements between the EU and 19 partners of the **Pan-Euro-Mediterranean area**. The paramount objective remains the finalisation of the review of the PEM Convention, so that a single set of rules can apply across the whole PEM area.

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. At the end of 2020, the Commission presented the first Report on the benefits for the people of **Western Sahara** on extending tariff preferences to products from Western Sahara.

DG TAXUD prepared for a new EU-**China** Strategic Framework for Customs Cooperation while publishing an external **evaluation** of the EU-China Agreement on Cooperation and Mutual Administrative Assistance in Customs Matters (CCMAA) in October 2020.

The negotations on the customs- related aspects of Agreements between the EU and **Australia, New Zealand, Indonesia and the EPA** (former Cotonou) countries, as well as the modernisation of the Agreement between the EU and **Chile,** continued last year. DG TAXUD also managed **preferential trade arrangements**, including dealing with requests for derogations.

DG TAXUD provided extensive support to all beneficiary countries of the **Generalised System of Preferences** (GSP) and all **Overseas Countries and Territories** (OCT) for the application of the Registered Exporter system (REX). Trom 1 January 2021, this is the only system applicable for the declaration of the origin of goods in the GSP and in the Overseas Association Decision (OAD).

BREXIT Box: A new relationship with the UK: the role of customs and taxation

Throughout 2020, DG TAXUD worked intensively on managing the preparations for the end of the transition period after the UK's withdrawal from the EU and on the negotiations for a future relationship, which culmulated in the EU-UK Trade and Cooperation Agreement (TCA). This work spanned all parts of the DG, covering customs, preferential access, VAT, excise duties, direct taxation and IT systems.

DG TAXUD successfully negotiated the crucial **customs related aspects of the new EU-UK TCA**, resulting in the most comprehensive approach to an EU FTA to date. The TCA includes a Customs and Trade Facilitation Chapter, which fully respects the UCC legislation and creates the basis for cooperation in new areas, such as the exchange of information, RoRo traffic and security aspects. It also contains a chapter on **Rules of Origin**, with modern customs procedures which ensure the strong protection of confidentiality along with the correct application of the rules. DG TAXUD also ensured that implementation measures were in place on time, so that EU exports could benefit from the preferences in the TCA from 1 January 2021.

DG TAXUD also successfully negotiated provisions for the mutual recognition of **Authorised Economic Operators** (AEOs) and the **enforcement of Intellectual Property Rights** – to the benefit of many EU businesses. The provisions on administrative cooperation on **VAT and recovery of duties and taxes** in the TCA will help Member States to protect their national revenues and collect the taxes they are due.

To ensure fair tax competition and maintain high standards of good governance, DG TAXUD negotiated **tax provisions to ensure a level playing field** between the EU and UK. This includes a tax good governance clause and a non-regression clause, to maintain current high standards in the fight against tax abuse. A Political Declaration on countering harmful tax practices was also agreed with the UK, to prevent harmful tax competition.

DG TAXUD was also central to the work on the implementation of the **Withdrawal Agreement** and **Ireland/Northern Ireland Protocol.** A key achievement in our negotiations with the UK was the establishment of a strong Union Presence in Northern Ireland, to monitor whether the UK authorities implement the Protocol and the UCC correctly there. TAXUD also concluded a memorandum of understanding with the UK to ensure the functioning of the Convention on a common transit procedure in Northern Ireland.

DG TAXUD also ensured the necessary **adaptations to the electronic customs and taxation systems** impacted by Brexit. This work was prepared and performed in collaboration with EU Member States and the UK. The smooth operation of the trans-European systems as of 1 January 2021 is proof of the success of this work.

DG TAXUD also invested heavily in explaining and clarifying the impact of the end of the transition period in the fields of tax and customs and on preferential origin aspects, to

Member States, traders, businesses and other stakeholders. A successful **communications campaign** to alert businesses of the need to prepare for the end of the transition period was carried out, primarily through social media and paid promotion online. DG TAXUD also published guidance and an FAQ document, organised meetings and technical seminars, and replied to large volumes of questions on Brexit-related issues from Member States, industry, traders, press and citizens.

2. Modern and efficient administration and internal control

2.1 Financial management and internal control

Assurance is provided on the basis of an objective examination of evidence 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. The following reports have been considered:

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

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 covers 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.

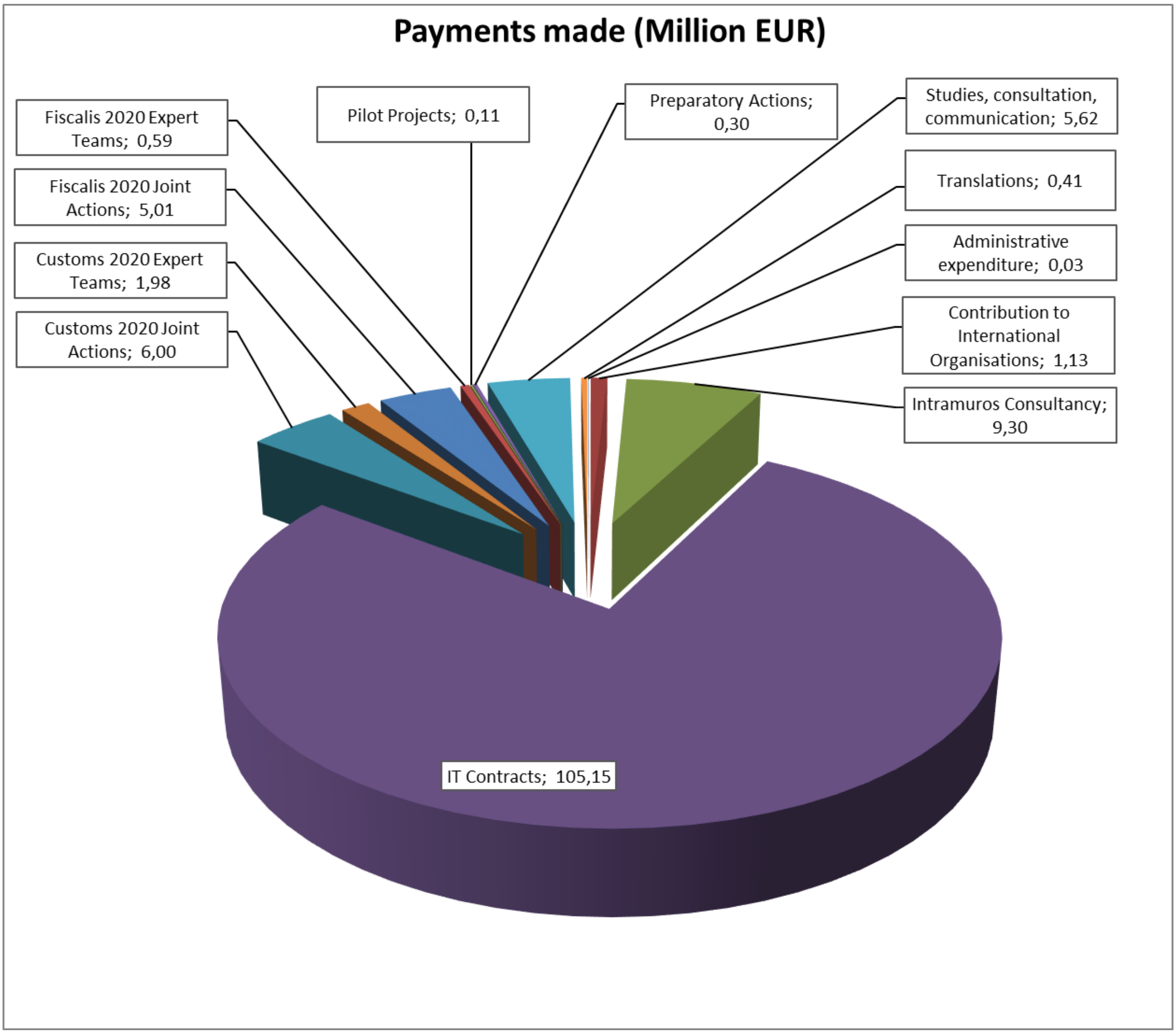
2.1.1 Control results

This section reports and assesses the elements identified by management which support the assurance on the achievement of the internal control objectives[5]. The DG's assurance building and materiality criteria are outlined in AAR Annex 5. Annex 6 outlines the main

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

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. Its implementation is fully done in direct management mode. An amount of EUR 135.611.791,74 was paid in 2020[6]. The payments broke down as follows:



DG TAXUD's expenditure was financed by[7]:

- Administrative budget (EUR 4,81 million)
- Customs 2020 Programme (EUR 80,15 million)
- Fiscalis 2020 Programme (EUR 37,39 million)
- Internal Market (EUR 3,27 million)

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[6] See Annex 3, table 2.Payments

[7] See Annex 3, table 1.Commitments

- Co-delegation received from:
    - DG TRADE (EUR 0,24 million) for the interconnection between the DG TRADE Dual use Goods Licensing System and the MS Customs Systems
    - DG CLIMA (EUR 0,18 million) for the interconnection between the DG CLIMA ODS & FGAS Licensing System and the MS Customs Systems
    - OLAF (EUR 0,15 million) for the use of DG TAXUD's CCN/CSI network
- Contributions to the Customs and Fiscalis programmes from (potential) Candidate Countries (EUR 1,42 million).

The CCN/CSI network is also used by EUIPO, Eurostat, Switzerland and Norway. Part of the annual revenue from these services - EUR 0,82 million - was committed in 2020.

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

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

Overall, the value of signed contracts represents EUR 120.060.826,23 (about 88,53% of the total paid budget in 2020).

The largest part of DG TAXUD's operational budget is dedicated to IT expenses (EUR 105.148.902,23 or 77,54% paid in 2020), 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 5.616.821,65 paid in 2020, i.e. 4,14%), technical and administrative assistance (EUR 9.295.102,35 paid in 2020, i.e. 6,85%).

To be noted as well that during the reporting period, a successful hand-over/take-over between two IT contractors was successfully completed and that a new call for tenders targeting the merger of two existing IT development contracts has successfully been launched.

- **Joint Actions and Expert Teams under Customs and Fiscalis 2020 programmes**

Overall, the expenditure related to Joint Actions and Expert Teams represents EUR 13.575.842,64 (about 10,01% of the total paid budget in 2020), which represents the second major category of DG TAXUD's expenditure.

The expenditure in the framework of the Joint Actions and Expert Teams consists of grants awarded to the participating National Administrations and reimbursement of costs incurred by experts[8]. The beneficiaries of these grants are the customs and taxation national administrations of the 27 Members States, the United Kingdom, and of the 7 (potential) candidate countries (Albania, Bosnia and Herzegovina, North Macedonia, Montenegro, Serbia, Kosovo[9], and Turkey).

The 2 most important grants relate to Joint Actions (EUR 11.011.573,42 in total, 8,12% of payments made, i.e. EUR 5.999.204,41 for Customs 2020 and EUR 5.012.369,01 for Fiscalis 2020) and aim at developing better coordination between the national administrations in the tax and customs areas.

Eleven other grants (EUR 2.564.269,22 paid in total in 2020, 1,89% of payments made) are related to expert teams under Customs 2020 for BTI II (10 Member States), CELBET2 and CELBET3 (both 11 Member States), CLET (10 Member States), ETCIT (13 Member States) and ETCIT2 (17 Member States) projects; and under Fiscalis 2020 for IT Collaboration MANITC II (10 Member States) and MANITC III (7 Member States), TNA (7 Member States) and TNA2 (5 Member States), and CESOP (10 Member States).

- **Contributions to international organisations**

This expenditure relates to the membership of the Union to the World Customs Organisation, and represents about 0,83% of the total paid budget (EUR 1.131.252,03).

- **Pilot Project and preparatory actions**

The pilot project "Monitoring the amount of wealth hidden by individuals in offshore financial centres and impact of recent internationally agreed standards on tax transparency on the fight against tax evasion" generated one payment of EUR 106.430,00, i.e. 0,08% of payments made).

In the scope of the Preparatory Action "EU Tax Observatory - Capacity building to support Union policymaking in the area of taxation", EUR 300.000,00 was paid (0,22% of payments).

- **Administrative expenditure**

The administrative expenditure managed by DG TAXUD (training, conferences, representation expenses and other miscellaneaous expenditure) during the reporting period dropped to 0,02 % of the total paid budget (EUR 30.249,47) due to the impact of the Covid-19 pandemic.

Throughout 2020, DG TAXUD paid EUR 407.191,37 (0,30% of the total budget) for translations made by the Commission's Translation Service (DGT).

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[8] The reimbursement of the travel and subsistence expenses of external experts under both programmes Customs 2020 and Fiscalis 2020 are managed by the PMO.

[9] This designation is without prejudice to positions on status, and is in line with UNSCR 1244/1999 and the ICJ Opinion on the Kosovo declaration of independence.

There are no cases of additional reporting on :

- 'confirmation of instructions' (new FR art 92.3);
- financing not linked to costs (new FR art 125.3);
- Financial Framework Partnerships >4 years (new FR art 130.4);
- flat rates >7% for indirect costs (new FR art 181.6); as decided by reasoned Commission Decisions;
- "Derogations from the principle of non-retroactivity [of grants] pursuant to Art 193 FR" (new FR art 193.2).

1. *Effectiveness = the control results and benefits*

- **Legality and regularity of the transactions**

DG TAXUD uses 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 relevant expenditure, estimated overall risk at payment, estimated future corrections and risk at closure are disclosed in Table [X].

The estimated overall risk at payment for 2020 expenditure amounts to 0,79 M€, representing 0,59 % of the DG's total relevant expenditure for 2020. This is the AOD's best, conservative estimation of the amount of relevant expenditure during the year not in conformity with the contractual and regulatory provisions applicable at the time the payment was made.

This expenditure will subsequently be subject to ex-post controls and a proportion of the underlying errors will be detected and corrected in subsequent years. The conservatively estimated future corrections for 2020 expenditure amount to 0,36 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 subsequent years.

The difference between those two amounts results in the estimated overall risk at closure of 0,43 M€, representing 0,32 % of the DG's total relevant expenditure for 2020.

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 in the AMPR.

DG TAXUD's portfolio consists of two segments with a relatively low error rate.

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

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, 20 exceptions and 8 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 related 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 52 credit notes for a total amount of EUR 1.644.298,19 (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 2020. 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 and regularity has not unveiled any significant weakness, which could have a material impact as regards the legality and regularity of the financial operations. It is therefore possible to conclude that the control objective as regards legality and regularity has been achieved.

Grants

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, the United Kingdom, 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 regularity of transactions.

The control process and strategy have 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 ex-post desk reviews. Up until 2019, the calculation of the error rate for grants was calculated on the basis of the annual ex-post audits. However, for 2020, a multi-annual approach – using the results of all ex-post audits since 2015 – was used as this is considered more representative, in particular given the nature of the expenditure (i.e. repetitive, small amounts) and beneficiaries (National Customs and Taxation Administrations of the Member States).

The total estimated error rate for grants is an average weighted error rate of the results of the audited countries since 2015 and results in **a best possible estimated error rate for grants in 2020 of 1,63%[10]**.

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).

[10] See also Annex 5 for the detailed calculation

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 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 risk *at payment* (FY; m€)	Average Recoveries and Corrections (*adjusted* ARC; %)	estimated future corrections [and deductions] (for FY; m€)	estimated risk *at closure* (FY; 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	122,04	0,10	0	121,94	0,50%	0,61			
Grants	13,57	13,50	11,06	11,14	1,63%	0,18			
DG total	135,61 mEUR	13,60 mEUR	11,06 mEUR	133,08 mEUR	0,59%	= 0,79 mEUR; and 0,59% of (5)	0,27%	= 0,36 mEUR; and 0,27% of (5)	=0,43 mEUR; and 0,32% of (5)

(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 the total relevant expenditure in the reporting year, the detected error rates have been used – or an equivalent. For low-risk types of expenditure, where there are indications that the equivalent error rate might be close to 'zero' (*e.g. administrative expenditure, operating subsidies to agencies*), it is nevertheless recommended that 0.5% be 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 from 1,93% to 0,27%. 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 and most 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 the ARC.

(9) 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 anti-fraud strategy (AFS) since 2013, on the basis of the methodology provided by OLAF. It was last updated in February 2018. Its implementation is monitored and reported to the management on a yearly basis. All necessary actions, except for the development of a new anti-fraud strategy, have been implemented. The new AFS is expected for April 2021.

DG TAXUD also contributed to the Commission anti-fraud strategy, action plan, specifically to eight actions related to several CAFS 2019 objectives: “know-how and equipment”, “Data collection and analysis”, “legal framework” “fighting revenue fraud” and “coordination, cooperation and processes”. Of eight actions, DG TAXUD is sole responsible for implementation of two actions, on a revamped VAT system (CAFS action 49) and on strengthening the international exchange of best practice (CAFS action 51). Both actions are being implemented.

During the reporting period, OLAF did not issue financial recommendations for DG TAXUD).

The results achieved during the year, thanks to the anti-fraud measures in place, can be summarised as follows:

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

During 2020, among anti-fraud actions were:

- monitoring of the level of implementation of AFS action plan actions;
- keeping record of lobbyists' contacts at unit level;
- communication to staff through updated information on the intranet and via dedicated Newsletters;
- ethics survey among staff.

The ethics survey took form of an anonymous questionnaire to receive honest replies and to identify potential measures to mitigate risks. The survey evaluated the level of awareness of all staff across the Directorate-General on issues related to ethical principles and standards.

Although most respondents did not encounter any ethical issues (ab. 70%) or fraud (98%) while working in TAXUD, 50% of them would report it to their line manager if they suspected fraudulent activity within the Directorate General. 68% feel free to discuss potential ethical issues with their line manager. The ethics survey revealed also the need for awareness raising in terms of communication activities. This element will be tackled in DG TAXUD’s new anti-fraud strategy 2021, currently being finalised.

The assessment of fraud related risks was integrated in the annual risk assessment exercise and all Directorates were invited 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. This exercise contributed to an in-depth anti-fraud processes/actions review exercise launched in view of preparing DG TAXUD's new 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 and implementation of actions did not reveal any significant weakness to be addressed.

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

- **Other control objectives: safeguarding of assets and information, reliability of reporting**

DG TAXUD manages a fair number of intangible assets (EUR 48.502.257,31 in 2020 – see Annex 3, Table 4).

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

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

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

Within the scope of the Statement of assurance (SoA) for the financial year 2019, the ECA audited the value of 2019 intangible assets and had no specific comments.

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 988 payments (EUR 135.611.791,74), established 440 contracts (and/or amendments thereto) and 6 grant agreements, audited EUR 3.331.855,00 via desk reviews and recovered EUR 99.032,31 non eligible cost, processed 52 commercial credit notes, issued 72 recovery orders, committed

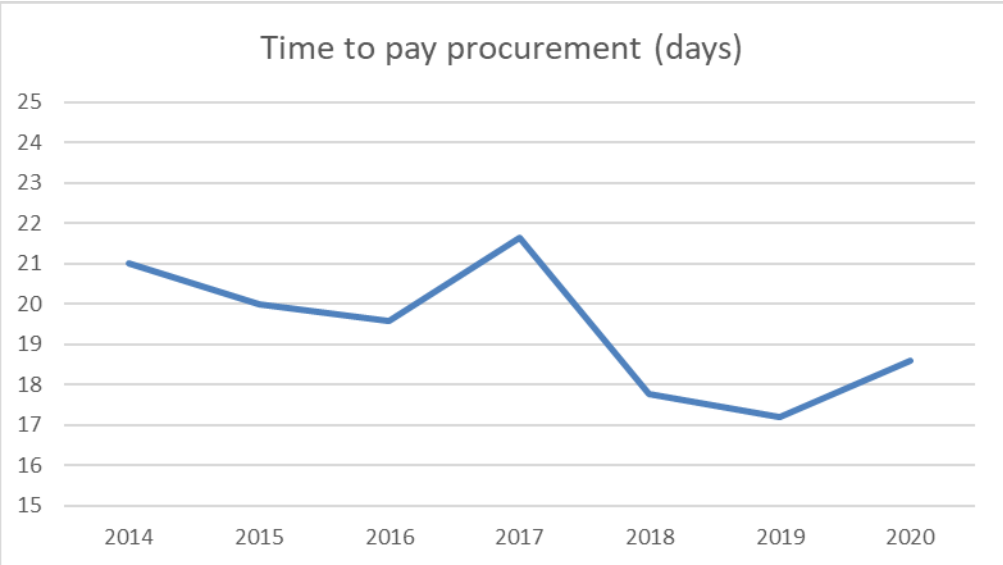
EUR 124.815.932,54 appropriations and prepared 17 procurement procedures (3 open procedures, 3 negotiated procedures and 11 reopening of competitions).

- **Procurement related indicators**

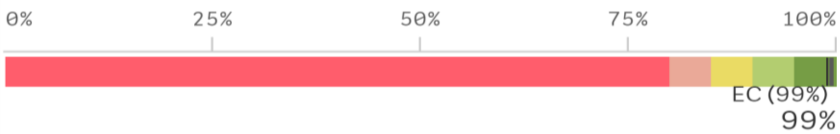
Against this workload, the control efficiency of procurement transactions can be witnessed by the "time to pay" and the "time to procure" indicators.

Procurement control efficiency indicators	**Result 2020** (days)
Time to pay (days)	18,6
Time to procure (days)	200

As it can be seen from the below historical overview, the time to pay indicator has slightly increased in 2020 from 17,2 to 18,6 days. In July 2020, DG TAXUD anticipated a lack of payment appropriations (LoPA), which was finally solved by a reinforcement of EUR 22.295.703,77 only received in November 2020. This LoPA had an impact on the time to pay:



However, despite this increase, the new corporate standard "timely payments (%)" indicator for DG TAXUD, as reported in the new Financial Scorecard (Annex 4) is at the level of the Commission's average:

Timely Payments	**DG Score**	**EC Score**
	**99%**	**99%**

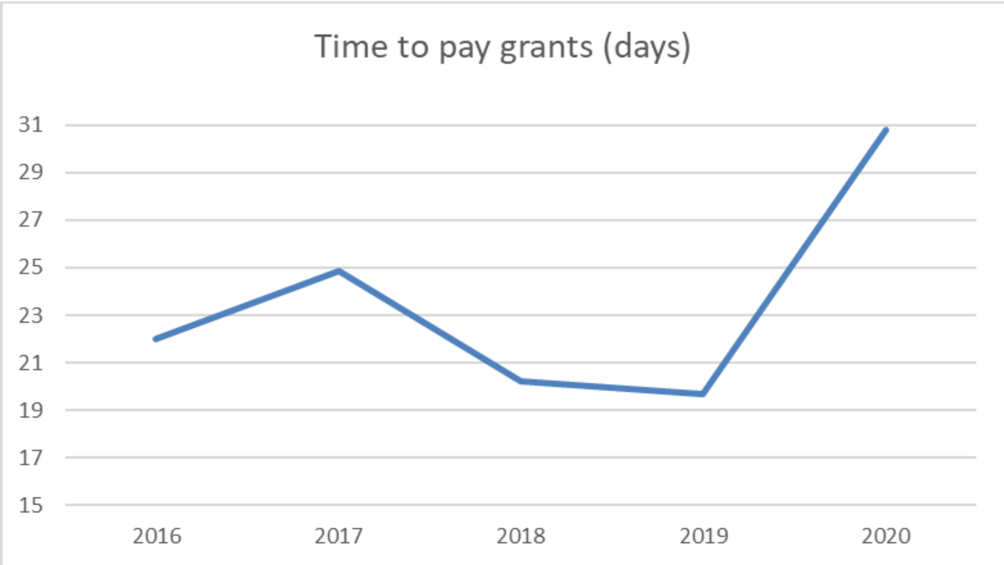
Only 2 invoices lead to the payment of late interests for a total of EUR 720,42 (Annex 3 Table 6).

The past "time to procure" indicators are depicted below and remain stable in 2020. The peaks in 2016, 2017 and 2019 are due to the awarding of complex and large-scale IT framework contracts.

- **Grants related indicators**

Grants control efficiency indicators	Result 2020 (days)
Time to pay (days)	30,8

The "time to pay" for grants is only calculated since 2016. Due to the LoPA previously mentioned, DG TAXUD has decided to prioritise the payments of commercial invoices rather than the payments of pre-financing to the National Administrations participating to the Customs and Fiscalis 2020 programmes, knowing that the Covid-19 pandemic would lead to the cancellation of most of travel expenses financed by the grants. This decision negatively affected the time to pay for Grants:



During the reporting period, DG TAXUD transformed the paper-based to fully electronic workflow for invoices, which helped maintain a good performance despite the confinement.

3. *Economy = the estimated cost of controls*

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

Procurement

Procurement control efficiency indicators	Result 2020
Procurement - overall cost of control (% over payments made)	0,92%
Procurement - cost of controls of the evaluation and selection procedure / value contracted (%)	0,15%
Procurement - related cost of control of payments/ amount paid (%)	0,43%
Average cost of a payment	635,55
Average cost of establishing and managing a contract	988,88
Average cost of a procurement procedure	216.865,00 €

- For procurements, an estimated EUR 153.564[11] were invested in controlling 17 procurement procedures (3 open procedures, 3 negotiated procedures and 11 reopening of competitions). A typical procurement procedure has an estimated total preparing and handling cost of EUR 216.865[12].

- For payments, an estimated EUR 528.775[13] were invested in preparing and controlling 832 payments worth EUR 122.035.949,10 (0,43% of the total payment amount was dedicated to control). On average, a financial transaction costs an estimated EUR 635,55 for processing and controlling.

- For contracts, an estimated EUR 435.106[14] were invested in preparing and controlling about 440 contracts (and/or the amendments of the contracts) worth about EUR 124.815.932,54 (0,39% of the total amount contracted was dedicated to control). On average, preparation and controlling of each contract costs an estimated EUR 988,88. This has dramatically decreased compared to 2019 (2.196,78) thanks to the implementation of an electronic workflow and the increased use of corporate IT tools for procuring intra-muros contracts (representing 194 contracts out of 440).

- There were no specific ex-post supervisory measures on procurement in 2020.

[11] 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 Public Procurement Committee, the Authorising Officers by (sub-) Delegation, etc.).

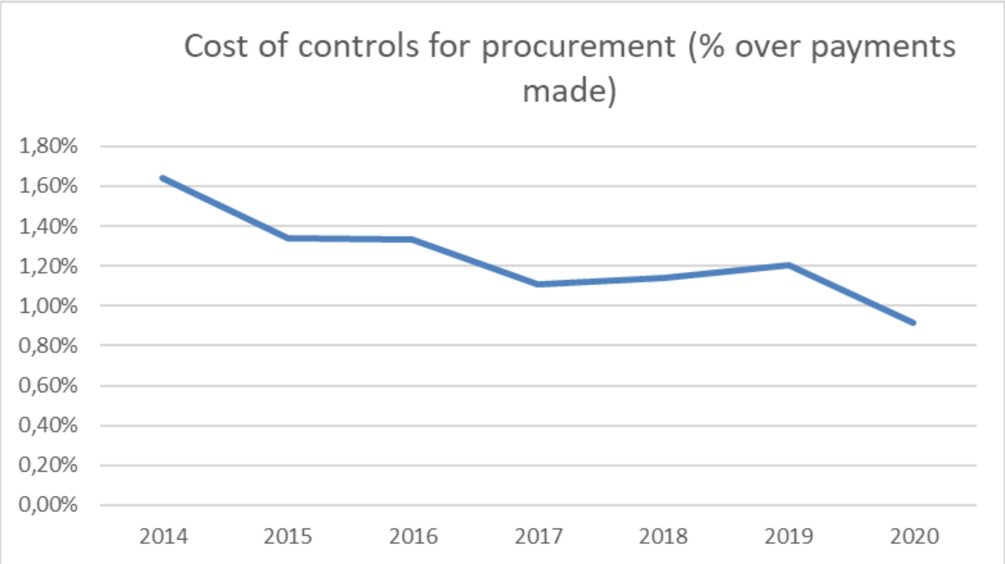
[12] 1,66 FTE, representing the combined efforts of actors in the operational and financial units in preparing and running a public procurement procedure from the drafting of the specfications until the award decision

[13] 4,14 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.

[14] 3,36 FTE, representing the combined efforts of actors in the financial and operational units involved in contracts preparation, verification and validation

Overall, during the reporting year the controls carried out by DG TAXUD for the management of the budget appropriations cost EUR 1.117.445,32[15], which represents only 0,92% 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.



Grants

Grants control efficiency indicators	Result 2020
Grants - overall cost of control (%) [cost of control from contracting and monitoring the execution up to payment included/ amount paid]	2,23%
Grants - cost of control ex post audits/ value of grants audited	0,91%
Grants - overall cost of control (%) [cost of control from contracting and monitoring the execution up to payment included/ amount paid]	2,23%

During the reporting year the controls carried out by DG TAXUD for the management and control of the grant agreements cost about EUR 302.210[16], representing 2,23% of the total grant payments. The cost of the ex-post audits in 2020 was EUR 30.333[17], which represents 0,91% of the total value of grants audited. The cancellation of meetings and travels due the Covid-19 pandemic lead to an under-expenditure of budget allocations by the National Administrations. In order to ensure a sound management of its budget, DG TAXUD agreed with the National Administrations to make a partial recovery of allocation in order to finance others activities (mainly Brexit-related IT activities). These extra-recovery orders led to an increase of control activities.

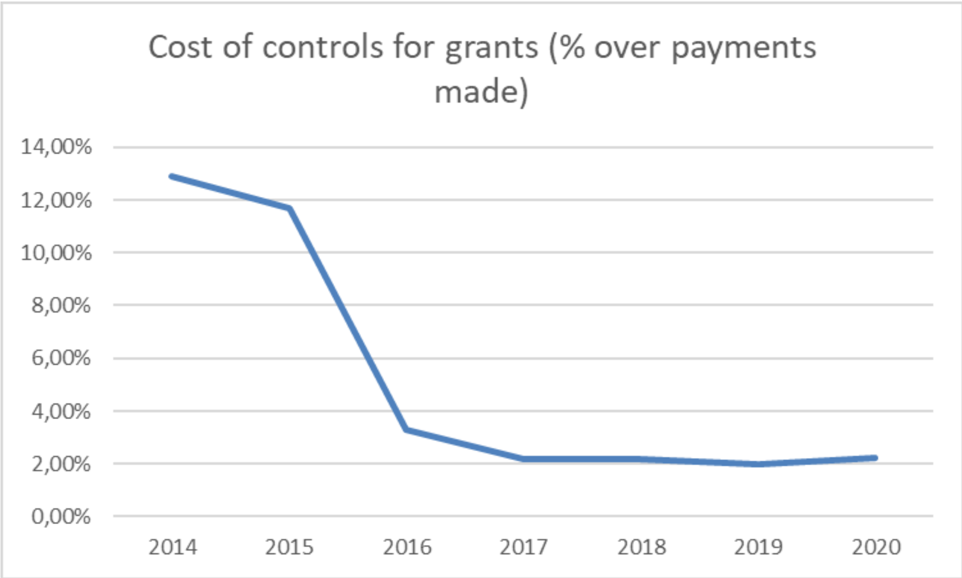
[15] A total of 8.69 FTE, representing the combined efforts of actors in the financial and operational units involved in contracts preparation, verification and validation

[16] 2,00 FTE, representing the combined efforts of actors in the financial and operational units involved in grants preparation, verification and validation

[17] 0,23 FTE, representing the combined efforts of actors in the financial and operational units involved in grants preparation, verification and validation

The total cost of control for grants, i.e. the overall ex-ante controls and the cost of the ex-post audits was EUR 332.544,32[18] representing 2,45% of payments made.

Whilst the trend since 2014 shows a decreasing curve, it must be noted that the method of calculating the cost of controls for grants changed in 2016. The cost of control is relatively stable since. The small increase in 2020 is the result of a negative side-effect of Covid-19 pandemic (additional recovery orders) partially compensated by a positive one (decrease of the amount of audits due to the absence of on-the-spot missions).



Conclusion

Throughout 2020, the overall cost of control (procurement and grants) was EUR 1.449.989[19] representing 1,07% 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.

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[18] 2,23 FTE representing the combined efforts of actors in the financial and operational units involved in grants preparation, verification and validation

[19] 10,92 FTE

DG TAXUD manages a relatively small budget (EUR 135.611.791,74 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 Customs and/or Tax Administrations.

The current control system has been in place since the beginning of the programmes and has been stable. Despite the COVID-19 crisis, which accelerated switching all paper-based workflows to fully electronic workflows, the control system as such remained stable. All controls were implemented as before the pandeminc. The control system 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 one 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 or desk review 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 1,63% for grants and a low overall amount at risk at closure of EUR 0,43 million.

The efficiency of controls has been demonstrated by 99% timely payments in 2020.

In 2020, the overall cost of controls was EUR 1.449.989,64 representing 1,07% 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 2020, the following audits and implementation of action plans took place in DG TAXUD.

EUROPEAN COURT OF AUDITORS (ECA)

2020 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.

The sections below summarise the ECA audits with recommendations addressed to DG TAXUD.

European Court of Auditors' Special Report no 5/2020: *Capital Markets Union – Slow start towards an ambitious goal*

The audit examined whether the Commission has been successful in its actions towards building an effective Capital Markets Union (CMU). To address this overall question, the ECA assessed whether the Commission: had achieved its objectives of increasing the diversity of sources of company financing; had taken effective action to sufficiently foster more integrated and deeper capital markets; had removed cross-border barriers for market participants, and had appropriately designed and monitored the CMU project.

DG TAXUD is responsible for implementing 1 sub-recommendation (3c): *depending on the outcome of an impact assessment, propose to the Council a Directive on a system of withholding tax relief at source.* Timeframe: Q4 2022

European Court of Auditors' Special Report no 3/2021– *Exchange of Tax Information in EU*

The auditors assessed key aspects which determine the effectiveness of the system for exchange of tax information in the EU: the legislative framework that the Commission proposed and put in place and the monitoring of the implementation and performance of the system of information exchange. The overall conclusion is that the system for exchange of tax information has been well established, but more needs to be done in terms of monitoring, ensuring data quality and using the information received.

The ECA formulated 3 recommendations for the Commission (DG TAXUD) summarised as follows: *take direct and effective actions to address the lack of quality of data sent by Member States; make legislative proposals to ensure that all relevant income information is exchanged; expand its monitoring activities and add to its guidance for Member States; establish, together with Member States, a reliable common framework for measuring the benefits of the system for exchange of tax information.* Overall timeframe: Q4 2023.

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

The ECA assessed whether the Financial Risks Criteria and Standards Implementing decision (the "FRC decision") accompanied by guidance, endorsed by the Member States in 2019 for application, was designed in a way that ensured harmonised selection of import declarations for control, and how Member States were implementing this framework. Implementing the FRC decision and guidance is an important step towards uniform application of customs controls.

The ECA presented the draft audit results in Q1 2021, together with draft recommendations for both the Commission (TAXUD) and for the Member States. The resulting special report is expected to be published in Q1 2021.

European Court of Auditors' Upcoming Report – *Protection of intellectual property rights (IPR)*

The audit will assess whether intellectual property rights in EU trademarks, Community designs and geographical indications are well protected within the Single Market. The audit will be in two parts covering both the EU IPR regulatory framework and its enforcement, including the appropriateness of these frameworks. The resulting special report is expected to be published in Q4 2021.

European Court of Auditors' Annual Reports 2019 and 2020

In 2020, the ECA has finalised Annual Report on 2019 budget execution and formulated two recommendations in revenues area (Customs duties (TOR) not captured): *provide Member States with regular support in selecting the riskiest importers for post-release audits by: (a) collecting and analysing relevant import data at EU level, and sharing the results of its analysis with Member States; (b) once Surveillance III becomes operational, providing guidance on how to carry out data analysis within this new system.* Overall timeframe: June 2023.

In 2020, the ECA started an annual audit on 2020 budget execution – statement of assurance. The audit is on-going at the time of writing.

Previous financial years : follow-up of open recommendations – state of play

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

In 2020, the ECA started a follow-up of audit recommendations formulated in the audit on import procedures (open, closed and refused, including recommendations formulated to the Member States). Altogether, in DG TAXUD, the auditors are reviewing implementation actions related to 7 recommendations, including **one open recommendation**: a careful follow-up of the Member States checks on the Binding Tariff Information (BTI) decisions' compliance by 2020. The recommendation should be implemented by the end of 2022 (revised implementation date given the necessary transition period for Member States to implement changes).

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

One open recommendation: appropriate reporting arrangements and indicators on the overall level of implementation and on individual projects in the next Customs programme Performance Measurement Framework. All other 8 recommendations have been implemented.Timeframe for implementation: 2021.

3) 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*

The ECA formulated seven recommendations for DG TAXUD. One recommendation has been implemented. The overall timeframe for the remaining six recommendations is Q4 2022.

The below table presents the ECA tasks performed in 2020.

EUROPEAN COURT OF AUDITORS	TASK TYPE	STATUS END 2020	RECOMMENDATIONS (TAXUD LEAD SERVICE)
Capital Markets Union – Slow start towards an ambitious goal	AUDIT: Special Report 5/2020	PUBLISHED	1
Exchanging tax information in the EU: solid foundation, cracks in the implementation	AUDIT: Special report 3/2021	DRAFT (PUBLISHED 26/01/2021)	3
Customs Controls: Insufficient harmonisation hampers EU financial interests	AUDIT: Special report	ON-GOING (DRAFT February	(2)

		2021)	
Protection of intellectual property rights	AUDIT: Special report	ON-GOING	n/a
Statement of Assurance 2019	Annual AUDIT	PUBLISHED	2
Statement of Assurance 2020	Annual AUDIT	ON-GOING	n/a
Import procedures: shortcomings in the legal framework and an ineffective implementation impact the financial interests of the EU	FOLLOW-UP of audit SR 19/2017	ON-GOING	n/a
OTHER ECA TASKS WITH DG TAXUD CONTRIBUTIONS			
Trade defence instruments: system for protecting EU businesses from dumped and subsidised imports functions well	AUDIT: Special Report 7/2020	PUBLISHED	FOR DG TRADE
The EU's Emissions Trading System: free allocation of allowances needed better targeting	AUDIT: Special report: 18/2020	PUBLISHED	FOR DG CLIMA
Energy Taxation	REVIEW	ON-GOING	DECISION PENDING
Commission actions to mobilise private sustainable finance for climate action	REVIEW	ON-GOING	FOR DG FISMA

DISCHARGE FOR 2017, 2018 AND 2019 budgetary years

At the end of 2020, there were **four open recommendations** in relation to 2017 discharge and **six open recommendations** in relation to 2018 discharge, formulated by the ECA, the EP and the Council. All recommendations are expected to be implemented by end 2022. Two recommendations from 2017 discharge are overdue by 12 or less than 24 months: the European Parliament requested examination of customs control practices accross the EU to develop reference analyses and information on customs operations and the procedures used in the Member States; the Council requested to address the challenges for the protection of the EU financial interests presented by mis-description of origin and misclassification, as well as undervaluation. Implementation of the EP recommendation was disturbed by the Covid-19 outbreak in 2020; implementation of the Council's recommendation depends on the timing of the full review on the implementation of the Financial Risk Criteria Decision.

The discharge on 2019 budget is on-going; the Council has issued **two requests** based on the ECA Annual Report 2019.

<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 DG TAXUD 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. DG TAXUD has implemented all recommendations with due dates expiring in 2020: two important (on HR monitoring and reporting and on staff development) and one very important (on HR Strategy). Two remaining very important recommendations on mapping tasks and skills and on workload assessment have implementation date end June 2021. So far, DG TAXUD has implemented parts on tasks mapping, by switching to ATLAS full mode, and it has prepared framworks for skills mapping and workload assessment. Moreover, it has analysed the underlying reasons for the non-recoverable overtime and management's response to requests for overtime recuperation.

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 has been implemented and is ready for IAS review.

3) 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, the last one implemented in 2020 (on configuration management) and sent to the IAS for review.

4) IAS in-depth risk assessment for the IAS Strategic Audit Plan (SAP) 2021-2023

In 2020, IAS conducted an in-depth risk assessment and came up with provisional conclusions on possible audit topics, including in the IT area, in the period of 2021-2023.

5)-Internal audit service (IAS) limited conclusion

The conclusion of the Internal Auditor on the state of internal control in DG TAXUD[20], dated 11/02/2021, stated that the internal control systems in place for the audited processes were effective except for the observations giving rise to 'very important' recommendations stemming from the Audit on management of human resources in DG TAXUD (2020). As said earlier, one very important recommendation has been implemented (on HR Strategy) by the agreed implementation deadline in 2020. The other two remaining very important recommendations on mapping tasks and skills and on workload assessment will be implemented by the agreed implementation deadline of end June 2021.

IAS AUDIT	RECOMMENDATIONS		
	ISSUED	IMPLEMENTED	PENDING
Management of human resources	5	3	2
Monitoring of EU law implementation	1	1	0
Supervision of outsourced IT operations	4	4	0
TOTAL	**10**	**8**	**2**

DG TAXUD implements recommendations of the ECA, IAS and Discharge Authority according to the agreed planning, requesting extension of the expected completion date only when factors external to DG TAXUD require a change of date. 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.

[20] Ares(2021)1209347 of 11 February 2021

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 2020 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 principles 4[21] and 8[22] however, represent some margin for improvement. The on-going development of a comprehensive human resources strategy that DG TAXUD is implementing in reply to the 2020 Internal Audit Service's audit on human resources management) is adequately addressing the desired improvements for control principle 4 (actions to be completed in the second semester of 2021). Control principle 8 represents some margin for improvement since the adoption of the new anti-fraud strategy 2021 been delayed to 2021, instead of end 2020.

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.

Likewise, the self-assessment has been performed by taking into consideration reported non-compliance events and requested exceptions.

The objectives and actions set in the DG's Anti-fraud strategy are based on the results of

[21] "The Commission demonstrates a commitment to attract, develop, and retain competent individuals in alignment with objectives"

[22] "The Commission considers the potential for fraud in assessing risks to the achievement of objectives"

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.

The Financial Scorecard indicators (Annex 4) are all positive (green) for DG TAXUD, including the timely payments which was identical to the 99% Commission average.

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 and the anti-fraud strategy.

The improvements and/or remedial measures relate to the finalisation of two very important recommendations[23] following the 2019 IAS audit on HR management in DG TAXUD and the adoption of the new anti-fraud 2021 strategy. The two final recommendations from the IAS audit are due to be implemented by June 2021 and the new anti-fraud strategy will be adopted in 2021.

2.1.4 Conclusions on the assurance

This section reviews the assessment of the elements already reported above (in Sections 2.1.1, 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.

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 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 1.117.445,32 for procurement and EUR 332.544,32 for grants, is considered cost-effective as this represents only 1,07% 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

[23] (1) task and skills mapping; (2) workload assessement, staff allocation and project team

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 has 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 mid- 2021.

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 Anti-fraud 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 2020. 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'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 improvement 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

I, the undersigned, Gerassimos THOMAS

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[24].

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, 28/03/2021

(e-signature)

Gerassimos THOMAS

[24]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 Modern and efficient administration – other aspects

2.2.1 Human resource management

In 2020, DG TAXUD drafted its **local HR strategy**, with special attention given to **staff competence and engagement**, as well as to the most important needs and challenges for the DG in the field of human resources management.

In addition, to further enhance the **competence** of its people, DG TAXUD developed a *learning and development strategy* with clear learning needs and objectives, as well as learning paths targeted at different staff profiles and competences. DG TAXUD also recruited a significant number of laureates from the specialist customs and taxation competitions to ensure the right set of skills and knowledge. Moreover, DG TAXUD continued working on its knowledge management strategy, which, among others, addresses the risks presented by a substantial number of colleagues approaching the retirement age (through exit interviews, template for handover files, "train successors", legacy talks, active senior programme).

DG TAXUD also looked at how its existing staff capacity can best respond to future HR requirements. To this end, it moved to the full mode of ATLAS to map the tasks covering all the activities of the service. It also prepared a framework to assess workload in a structured way. DG TAXUD was also carefully monitoring staff movements by reinforcing its HR reporting process.

In line with DG TAXUD culture of **engaged workforce**, the Director-General encouraged cross-directorate collaboration, two-way communication and staff inclusion. In this spirit, staff has been consulted on the new TAXUD HR strategy and on lessons learnt from the Covid-19 crisis. Over the course of the year, DG TAXUD prepared guidelines for establishing project teams in order to shape and support further the collaborative forms of work across the DG.

DG TAXUD remained committed to **gender equality** at all levels of the management. In order to be better equipped for the delivery for the Commission's priorities, it carried out a rotation of Heads of Unit. These middle management changes helped to gear the organisation for new responsibilities and offered a possibility for two first female appointments.

2.1.2 Digital transformation and information management

DG TAXUD continued to ensure that appropriate processes and procedures are in place for secure and efficient document management, compliant with the e-Domec principles. In line with the corporate policy, DG TAXUD makes, by default, all its documents available to all colleagues in the corporate management system Hermes-Ares-NomCom. As such, in 2020, 46% of the TAXUD files were visible in the Institution. The other documents remained internal to TAXUD for work-specific reasons. The drop compared to last year is linked to the high number of Brexit and Covid related files that were processed. The DG TAXUD document management team regularly reminded colleagues in 2020 on their open tasks and non-filed documents. The team also 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 ensured its personal data processing records are uptodate. DG TAXUD ensured that appropriate information is provided to the data subjects concerned through concise privacy statements
- In the context data protection compliance of the trans-European IT systems for customs and taxation, DG TAXUD continued exchanges with the network of data protection experts of customs and tax administrations on the respective roles in the processing activities. This exchanges are to be concluded in 2021 and prepare the ground for establishing the necessary arrangements.

In 2020 DG TAXUD replied to 305 requests for access of documents, releasing around 535 documents.

Following the work performed on the data management in 2020, the Information Systems governance is reinforced by a governance model specific to data. This is especially important when data is perceived as a real asset and can be useful in different situations for policy making. The data governance model is based on the principles of the data policy from the EC. This preparatory work will allow the adoption of the model by TAXUD senior management. In 2021, the data governance model will be applicable for all the data assets that are put in the TAXUD data lab. The Data Lab is IT environment with specific capabilities to process and analyse data

2.1.3 Sound environmental management

In 2020, after DG TAXUD had received a 2019 EMAS prize for its staff engagement, the Directorate-General continued to ensure that events are paper- and plastic-free, including social events like the DG TAXUD party in February.

Following a practice in other DGs, a clothes swap action took place on 21 January 2020, where around 150 pieces were collected and 90 pieces found a new owner. The rest was given away to “Les Petits Riens”.

Following a collaboration with DG EMPL and the OIB, waste sorting stations were installed in the SPA 3 building, where DG TAXUD occupies three floors. Sorting stations are now used in all DG TAXUD premises.

During most of the year, most physical meetings and missions were cancelled, resulting in a reduction of travels by Commission officials and Member State experts who met via videoconference. Since teleworking has been the norm since March 2020, a very limited presence in the office probably entailed a reduction of water, paper and electricity consumption. Statistics should be available in April 2021.