



2013

Annual Activity Report

**Directorate General
for Taxation and
Customs Union**

Table of Contents

INTRODUCTION:	4
THE DG/SERVICE IN BRIEF	4
THE YEAR IN BRIEF	5
EXECUTIVE SUMMARY	9
KEY PERFORMANCE INDICATORS	9
POLICY HIGHLIGHTS OF THE YEAR	10
KEY CONCLUSIONS ON RESOURCE MANAGEMENT AND INTERNAL CONTROL EFFECTIVENESS.....	12
INFORMATION TO THE COMMISSIONER.....	12
1. POLICY ACHIEVEMENTS	13
1.1 ACHIEVEMENT OF GENERAL AND SPECIFIC OBJECTIVES	13
1.1.1 TAXATION POLICY AREA: TO CREATE A SIMPLER AND MORE EFFICIENT TAX ENVIRONMENT IN ORDER TO FULLY EXPLOIT THE ECONOMIC POTENTIAL OF THE INTERNAL MARKET	13
1.1.2 CUSTOMS POLICY AREA: TO ENSURE THAT EU CUSTOMS POLICY PROTECTS SOCIETY, FACILITATES TRADE AND SUPPORTS THE COMPETITIVENESS OF THE EUROPEAN ECONOMY	14
1.1.3 TAXATION POLICY (ABB 05): TO STRENGTHEN THE FRAMEWORK FOR TAX ADMINISTRATIONS TO EFFICIENTLY COMBAT FRAUD AND TAX EVASION WITH A VIEW TO SECURE MEMBER STATES' TAX REVENUES.....	15
1.1.4 TAXATION POLICY (ABB 05): TO REDUCE ADMINISTRATIVE COSTS AND TO TACKLE TAX OBSTACLES IN THE INTERNAL MARKET BY SIMPLIFYING AND ENFORCING LEGISLATION AND STRENGTHENING COORDINATION AMONGST MEMBER STATES	17
1.1.5 TAXATION POLICY (ABB 05): TO DEVELOP NEW TAX INITIATIVES AND ACTIONS TO SUPPORT EU POLICY OBJECTIVES	20
1.1.6 CUSTOMS POLICY (ABB 04): TO PROTECT CITIZENS FROM THE SECURITY AND SAFETY RISKS POSED BY THE INTERNATIONAL TRADE IN GOODS AND TO SUPPORT THE FIGHT AGAINST ILLICIT TRAFFIC AND FRAUD BY IMPROVING THE CAPACITY OF THE COMMISSION AND MEMBER STATES TO ACT	21
1.1.7 CUSTOMS POLICY (ABB 04): TO MODERNISE AND STREAMLINE THE FUNCTIONING OF THE CUSTOMS UNION, BY IMPROVING ITS FUNCTIONING FOR THE BENEFITS OF THE ECONOMIC OPERATORS AND CUSTOMS ADMINISTRATIONS.....	23
1.1.8 CUSTOMS POLICY (ABB 04): TO ENSURE EFFECTIVE MANAGEMENT OF THE CUSTOMS UNION THROUGH THE DEVELOPMENT OF HIGH QUALITY CUSTOMS LEGISLATION, IT SYSTEMS AND THEIR UNIFORM APPLICATION.....	25
1.1.9 INTERNATIONAL ASPECTS OF TAXATION AND CUSTOMS (ABB 03): TO PROTECT EU SOCIETY AND ITS ECONOMIC AND FINANCIAL INTERESTS THROUGH INTERNATIONAL COOPERATION IN THE TAXATION AREA	28
1.1.10 INTERNATIONAL ASPECTS OF TAXATION AND CUSTOMS (ABB 03): TO DEVELOP INTERNATIONAL COOPERATION TO SUPPORT THE EFFECTIVE MANAGEMENT OF THE CUSTOMS UNION; TO PROTECT EU SOCIETY AND ITS ECONOMIC AND FINANCIAL INTERESTS; TO FACILITATE TRADE AND TO CONTRIBUTE TO THE BROADER EXTERNAL POLICY OBJECTIVES OF THE UNION.....	30
1.2 SPECIFIC EFFORTS TO IMPROVE 'ECONOMY' AND 'EFFICIENCY' OF SPENDING AND NON-SPENDING ACTIVITIES.....	34
1.2.1 EXAMPLE 1	34
1.2.2 EXAMPLE 2	34
1.2.3 EXAMPLE 3	35
2. MANAGEMENT OF RESOURCES	37
2.1 MANAGEMENT OF HUMAN AND FINANCIAL RESOURCES BY DG TAXUD	39
2.1.1 PROCUREMENT	39
2.1.2 GRANTS.....	42
2.2 BUDGET IMPLEMENTATION TASKS ENTRUSTED TO OTHER SERVICES AND ENTITIES	45
2.3 ASSESSMENT OF AUDIT RESULTS AND FOLLOW UP OF AUDIT RECOMMENDATIONS.....	46
2.3.1 INTERNAL AUDIT SERVICE (IAS) AUDITS	47
2.3.1.1 PLANNING STAGE OF THE SELECTION PROCESS	47
2.3.1.2 PERFORMANCE AUDIT ON CUSTOMS ACTIVITIES IN DG TAXUD	47
2.3.1.3 FOLLOW-UP OF IAS AUDIT RECOMMENDATIONS AND IMPACT ON ASSURANCE	47
2.3.2 INTERNAL AUDIT CAPABILITY (IAC) AUDITS.....	47
2.3.2.1 AUDIT ON THE CAPITALISATION OF INTANGIBLE ASSETS IN DG TAXUD.....	47
2.3.2.2 AUDIT ON INTRA-MUROS	48
2.3.2.3 AUDIT ON ETHICS IN DG TAXUD	48
2.3.2.4 FOLLOW-UP AUDITS PERFORMED AND AUDITS CLOSED IN 2013.....	49
2.3.2.5 FOLLOW-UP OF IAC AUDIT RECOMMENDATIONS AND IMPACT ON ASSURANCE.....	49

2.3.3	DG BUDG AUDIT.....	49
2.3.3.1	VALIDATION OF THE LOCAL SYSTEMS.....	49
2.3.4	EUROPEAN COURT OF AUDITORS (ECA) AUDITS.....	50
2.3.4.1	FOLLOW-UP OF OPEN RECOMMENDATIONS AND IMPACT ON ASSURANCE.....	50
2.3.5	CONCLUSION OF THE CHAPTER	51
3.	ASSESSMENT OF THE EFFECTIVENESS OF THE INTERNAL CONTROL SYSTEMS	52
3.1	REVIEW OF THE PRIORITISED ICS IN THE REPORTING YEAR.....	52
3.2	RISK ENVIRONMENT AND CHALLENGES IN 2013.....	53
3.3	THE OVERALL CONCLUSION OF THE ANNUAL REVIEW AND THE PRIORITISED ICS FOR 2014	54
4.	MANAGEMENT ASSURANCE	56
4.1	REVIEW OF THE ELEMENTS SUPPORTING ASSURANCE	56
4.2	RESERVATIONS AND OVERALL CONCLUSION ON ASSURANCE.....	57
	DECLARATION OF ASSURANCE	58

INTRODUCTION:

The DG/Service in brief

The Directorate General Taxation and Customs Union's (TAXUD) mission is to develop and manage the **Customs Union**, a foundation of the European Union, and to develop and implement **tax policy across the EU** for the benefit of citizens, businesses and the Member States. Particular attention is given to the Internal Market, by making sure it functions smoothly and efficiently.

In this respect, the main priority for tax policy and the application of the EU tax law is focused on working towards a coherent tax strategy and uniform implementation of the EU law in the Member States designed to limit distortions which arise from the interaction of the different tax systems of the Member States, to create fair and efficient tax systems and to promote greater cooperation between tax administrations. The fight against tax fraud and tax evasion as well as against harmful tax practices and aggressive tax planning has gained additional importance in the context of the budgetary consolidation efforts linked to the financial crisis and the striving for a fair tax system. Tax initiatives are subject to the unanimity principle which conditions the pace of progress in this area. In the process of the European Semester TAXUD is as a core DG responsible for the economic analysis of national tax policies and for preparing the country-specific recommendations in the field of tax policy.

In the area of customs policy – an exclusive EU competence – the main focus is on simplifying and modernising the customs environment. TAXUD is responsible, inter alia, for developing the general customs legislation, tariff, origin and valuation issues, customs control and procedures. TAXUD aims at setting out a strategic framework for customs covering measures against illicit, restricted and prohibited goods and establishing effective risk assessment in order to facilitate legitimate trade, address the administrative burden on the business community and control and manage the supply chains used for the international movement of goods by enhancing effective and systematic sharing of risk information between customs authorities and other governmental agencies.

TAXUD manages the **Fiscalis 2013** and **Customs 2013** programmes and, from 2014 on, their successors **Fiscalis 2020** and **Customs 2020**, respectively. These are multi-annual programmes based on annual work programmes. Their aim is to improve the proper functioning of the taxation systems as well as to support the functioning and modernisation of the Customs Union in order to strengthen the internal market by enhancing cooperation between participating countries, their tax/customs authorities and their officials. The combined total budget for the period 2008-2013 was EUR 481 million. Of this budget, around 80% are used to finance large trans-European IT systems in the area of customs and taxation and 20% to finance so-called “joint actions” (e.g. seminars, workshops, project groups) among officials of customs and among officials of tax authorities, EU eLearning modules and development of a Customs competency framework.

Most of the trans-European systems span to all Member States and have an impressively large user population in the National Administrations, in the traders' community and in society as a whole. They are supported by a closed and secure trans-European communication network (CCN/CSI), and by more than 60 applications and databases operated under the management of TAXUD. Therefore, ensuring the IT continuity is a

major challenge for the DG in order to avoid disruptions in the functioning of the Customs Union which would affect citizens and businesses across the entire EU.

DG TAXUD personnel add to 451 permanent posts (as of 2013 year-end) organised in five Directorates which mirror the nature of its operational objectives. Thus, two Directorates are focused on the design of the customs policy, the proper functioning of the Customs Union, including the aspects of risk management, supply chain security, protection of citizens and border controls as well as the management of EU international relations in the field. Furthermore, two Directorates deal with the taxation issues – i.e. one for indirect and the other one for direct taxation, and the Resource Directorate provides cross-cutting services and support activities to the Director General and other units within the DG. TAXUD collaborates with a range of other DGs such as TRADE, MARKT, ECFIN, COMP, ELARG, DEVCO, MARE, AGRI, MOVE, SANCO, CNECT, ENTR, DIGIT in the context of its activities. TAXUD has entrusted small shares of its budget to DG DEVCO, OIL and DG EMPL (more information in section 2.2).

The year in brief

Taxation

In the field of direct taxation, the 'offshore leaks' affair in April 2013 boosted the visibility of TAXUD activities and offered to the DG a window of opportunity to propose ambitious goals in the area of taxation which still remains under unanimous decision of Member States.

This affair confirmed the urgency for more and better action against tax evasion. The European Council in May decided to accelerate the work in the fight against tax fraud, tax evasion and aggressive tax planning, both in the field of direct and indirect taxes. The EU played a pivotal role in securing the remarkable commitments made by world leaders to improve global tax governance.

In the field of direct taxation, priority was given to promoting and broadening the scope of the automatic exchange of information at all levels. Within the EU, the Commission proposed in June to extend the automatic exchange of information between EU tax administrations by adding to the list of categories dividends, capital gains, all other forms of financial income and account balances. Following the December European Council Conclusions unanimous agreement on this proposal should be reached in early 2014. This paves the way for the EU to have the most comprehensive system of automatic information exchange in the world. In parallel, in September, G20 Heads of State endorsed automatic exchange of information as the new single global standard.

Ahead of the G20 summit, DG TAXUD launched a communication campaign on the fight against tax fraud and tax evasion including a video "[The missing part](#)" which has reached over 1.2 million people and now is ranked amongst the most watched videos produced by the Commission.

The issue of base erosion and profit shifting (BEPS), mechanisms under which companies shift their profits to low-tax jurisdictions, raised also a lot of attention from EU and G20 ministers of finance in 2013. We played a leading role by promoting the Commission's recommendations on aggressive tax planning adopted at the end of 2012. We set up a new platform, with members of EU tax authorities, businesses and civil

society to monitor progress in this area. In September, the G20 ministers of finance fully supported the OECD action plan on BEPS.

Additional initiatives were undertaken to ensure fairer taxation in a fraud-proof tax system, namely: Council agreement in July on a quick reaction mechanism to fight VAT fraud; following the mandate received by the Council in May, the Commission started talks on stronger savings tax agreements with our closest neighbours (Monaco, Andorra, Lichtenstein, Switzerland and San Marino); the debate on taxing the digital economy launched at the European Council in October and the Commission proposed in November amendments to the Parent-Subsidiary Directive to safeguard against abusive tax planning.

Introducing fair taxes in the financial sector including both banks and asset and risk managers was also high on the political agenda. Following the request of 11 Member States¹, in February the Commission adopted a proposal for a Council directive establishing enhanced cooperation for a financial transaction tax (FTT). It is estimated that the eleven harmonised national FTTs will deliver revenues of €30–35 billion a year. The harmonised FTT will have low rates and – thanks to enhanced cooperation – a wide base and safety nets against the relocation of the activities of the financial sector.

Finally, following the Commission's commitment to smart regulation, in October we made a proposal for a new standard VAT return which is one of the initiatives set out in the REFIT programme to simplify rules and reduce administrative burdens for businesses. The standard VAT return could cut costs for EU businesses by up to €15 billion a year. The aim of this initiative is to slash red-tape for businesses, ease tax compliance and make tax administrations across the Union more efficient.

Regarding the control of application of the EU law, as a consequence of the crisis, priority was given to infringements with a positive impact on the functioning of the Internal Market and the economy as well as to cases of discrimination of cross-border workers and mobile persons. Priority was given also to horizontal application of judgements of the Court of Justice of the EU, where in the context of a preliminary ruling the Court provided a general interpretation of the EU tax law.

Customs

A major milestone was reached in 2013 in our efforts towards a modern and paperless environment for customs. In October, the Parliament and the Council formally adopted the Union Customs Code, which will ensure that customs continues its vital work in an even more efficient and cost-effective way. The new code will offer greater legal certainty to businesses, and increased clarity for customs officials throughout the EU. It streamlines and simplifies customs rules and procedures, and facilitates more efficient customs transactions in line with modern-day needs. Among the improvements that will be introduced are measures to complete the shift by customs to a paperless, fully electronic environment, and provisions to reinforce swifter customs procedures for reliable traders.

Easing customs formalities was also central for the ‘Blue Belt’ initiative which aims at

¹ Belgium, Germany, Estonia, Greece, Spain, France, Italy, Austria, Portugal, Slovenia and Slovakia

better ensuring the free movement of goods in the single market in case of maritime transport. This objective will be achieved by means of further facilitations in establishing the Union status of goods re-entering the EU by sea. To this end, two sets of draft amendments to the implementing provisions of the Customs Code currently in force have been submitted to the Customs Code Committee, in July and in December. The first set, aiming at enhancing the presumption of Union status of goods transported by regular shipping services, has been adopted by the Commission in November 2013.

In addition, we continued our efforts to integrate trade facilitation and protection of security and safety. In January, we tabled a Communication on Customs Risk Management and Security of the Supply Chain. It sets out a strategy to enable customs to better tackle risks associated with goods being traded in international supply chains. It involves more rational use of resources, better quality and availability of trade data and deeper partnership with trade and international partners. The new EU approach will supplement national work by integrating information and intelligence from various sources.

The EP and the Council also adopted the new regulation on the customs enforcement of intellectual property rights (IPRs) – thereby contributing to better protecting European businesses against fraudsters and thus, safeguarding employment. The scope of IPRs protected at the borders is thereby extended and simplified procedures for destruction have been introduced. This is of major importance since postal and courier packages accounted for around 70% of customs interventions in 2012 (EU Annual report on customs activities published in August 2013). This new Regulation will keep the EU at the forefront of border enforcement of IPRs while simplifying the work of customs and right-holders. In parallel, the negotiations for a new EU-China Action Plan on IPR enforcement were pursued in order to reinforce the bilateral cooperation in fighting IPR infringements at the border.

In the area of protection of citizens, the Parliament and the Council adopted in December the amendment to the regulation on the monitoring of trade in drug precursors between the EU and third countries. With this initiative EU contributes to the international efforts against the diversion of medicines containing ephedrine or pseudoephedrine for manufacturing illicit drugs. The Regulation also sets up a mechanism allowing the EU to react swiftly to new trafficking trends in non-controlled chemicals. The EU-Russia agreement on drug precursors was signed in June 2013 and will be ratified by the two parties in early 2014.

The Commission also pursued several activities aiming at clarifying the role of customs in enforcing prohibitions and restrictions at the border, by advancing the production of a toolbox of standardised procedures and of a set of guidelines on customs controls.

In December, the Commission submitted to the European Parliament and the Council a proposal for a Directive on the Union legal framework for customs infringements and sanctions. The initiative aims at harmonising customs infringements and approximating the 28 national sets of sanctions for those infringements.

Trade facilitation and supply chain security (including the mutual recognition of Authorised Economic Operator programmes) also remained in the focus. The customs agreement between Canada and the EU was concluded in June and entered into force in November 2013 so that the two sides will cooperate more closely to ensure the security of their supply chains. Reliable traders continued to gain in competitiveness with the mutual recognition with Japan, the US, Switzerland and Norway. We also continued to

work towards mutual recognition with other countries (China, Canada, South Korea, Singapore and New Zealand).

In 2013, the dialogue with Russia proved to be indispensable and yet often a challenging task in the light of certain developments at the border with the EU. Russia put in place a range of trade-restricting measures, some of them being contrary to the commitments taken by Russia in the framework of the International Road Transit Convention (TIR). We repeatedly raised the issue in the appropriate multilateral (i.e. the UNECE based TIR bodies) and bilateral fora with a view to ensure that the impact of these measures for EU operators remain as limited as possible and with the objective to put an end to them.

Last but not least, the EP and Council adopted the Fiscalis 2020 and Customs 2020 programmes that provide for the funding of the more than 60 central and over 20 distributed trans-European IT systems as well as for the cooperation among tax and among customs authorities, respectively, for the period 2014-2020 with a total budget of 745 Mio Euro.

Expenditure

DG TAXUD committed 95,8 million € in 2013 divided as follows: procurement contracts (84% of committed budget), grants in direct management mode (12% of committed budget), administrative expenditure (3% of committed budget) and contributions to international organisations (1% of committed budget).

Executive Summary

The Annual Activity Report is a management report of the Director-General of DG TAXUD to the College of Commissioners. It is the main instrument of management accountability within the Commission and constitutes the basis on which the Commission takes its responsibility for the management of resources and the achievement of objectives.

Key Performance Indicators

Result indicator	Trend	Target	Latest known results as per Annual Activity Report																																
Level of administrative cooperation in combating VAT fraud measured by: <ul style="list-style-type: none"> – the number of multilateral controls; – the number of requests for information; – the number of automatic exchanges of information between Member States. 	😊		<table border="1"> <thead> <tr> <th></th> <th>2008</th> <th>2009</th> <th>2010</th> <th>2011</th> <th>2012</th> <th>2013*</th> <th>2014*</th> </tr> </thead> <tbody> <tr> <td>Requests for information - target</td> <td>33,000</td> <td>34,917</td> <td>34,917</td> <td>34,917</td> <td>34,917</td> <td>35,624</td> <td>35,624</td> </tr> <tr> <td>Automatic exchanges of information - target</td> <td>400,000</td> <td>437,169</td> <td>437,169</td> <td>437,169</td> <td>437,169</td> <td></td> <td></td> </tr> <tr> <td>Multilateral controls (rh axis) - target</td> <td>39</td> <td>46</td> <td>46</td> <td>46</td> <td>46</td> <td>55</td> <td>60</td> </tr> </tbody> </table> <p>*Target figures</p>		2008	2009	2010	2011	2012	2013*	2014*	Requests for information - target	33,000	34,917	34,917	34,917	34,917	35,624	35,624	Automatic exchanges of information - target	400,000	437,169	437,169	437,169	437,169			Multilateral controls (rh axis) - target	39	46	46	46	46	55	60
	2008	2009	2010	2011	2012	2013*	2014*																												
Requests for information - target	33,000	34,917	34,917	34,917	34,917	35,624	35,624																												
Automatic exchanges of information - target	400,000	437,169	437,169	437,169	437,169																														
Multilateral controls (rh axis) - target	39	46	46	46	46	55	60																												
Degree of simplification of rules due to the implementation of the Union Customs Code	😊	Minimum target of 25% of reduction of the Administrative Burden (maximum target of 39%, according to CEPS report for the Stoiber HLG & IA of the UCC) is expected to be achieved within 5 years following the application of the UCC	UCC entered into force on 30.10.2013 and will be applied as of 1.05.2016 (DA & IA currently under preparation) with nevertheless a phased deployment of IT systems according to a Work Programme until 31.12.2020. Full effect of UCC and all related IT systems can therefore be expected only as of that latter date.																																



Result indicator	Trend	Target	Latest known results as per Annual Activity Report
Percentage of infringement cases proposed for a Commission decision during the year out of the total number of pending infringement cases, excluding those	😊	Taxation: Attaining at least 60% of pending infringement cases proposed for a Commission decision in an infringements-decision-making cycle during the year Customs: Attaining at least 50% of pending infringement cases proposed for	2013: Indirect Taxation: 74,14% Direct Taxation: 79,82% Customs: 67%

outside of the control of DG TAXUD ²		a Commission decision in an infringements-decision-making cycle during the year																																				
Availability of Taxation and Customs IT systems and networks ³	😊	<table border="1"> <thead> <tr> <th></th> <th>2009</th> <th>2010</th> <th>2011</th> <th>2012</th> <th>2013</th> <th>2014*</th> </tr> </thead> <tbody> <tr> <td>— Taxation IT systems (target)</td> <td>95%</td> <td>95%</td> <td>95%</td> <td>95%</td> <td>95%</td> <td>95%</td> </tr> <tr> <td>— Centralised IT customs applications (target)</td> <td>98%</td> <td>98%</td> <td>97%</td> <td>97%</td> <td>97%</td> <td>97%</td> </tr> <tr> <td>— NCTS, ECS, and ICS (target)</td> <td>97%</td> <td>97%</td> <td>97%</td> <td>97%</td> <td>97%</td> <td>99%</td> </tr> <tr> <td>— CCN/CSI system (target)</td> <td>98%</td> <td>98%</td> <td>98%</td> <td>98%</td> <td>98%</td> <td>99.9%</td> </tr> </tbody> </table>			2009	2010	2011	2012	2013	2014*	— Taxation IT systems (target)	95%	95%	95%	95%	95%	95%	— Centralised IT customs applications (target)	98%	98%	97%	97%	97%	97%	— NCTS, ECS, and ICS (target)	97%	97%	97%	97%	97%	99%	— CCN/CSI system (target)	98%	98%	98%	98%	98%	99.9%
	2009	2010	2011	2012	2013	2014*																																
— Taxation IT systems (target)	95%	95%	95%	95%	95%	95%																																
— Centralised IT customs applications (target)	98%	98%	97%	97%	97%	97%																																
— NCTS, ECS, and ICS (target)	97%	97%	97%	97%	97%	99%																																
— CCN/CSI system (target)	98%	98%	98%	98%	98%	99.9%																																
Percentage of the internal control requirements effectively implemented	😊	Above 90%	88%																																			

Policy highlights of the year

In the fight against tax fraud, Member States cannot act effectively alone, they need to cooperate. Thus, the first Key performance indicator concentrates on the administrative cooperation in combatting the VAT fraud. Based on the 2012 results (2013 figures not available yet) the number of *requests for information* increased significantly compared to the 2011 – from 35.624 to 45.327, which comfortably meets the target to maintain similar the level. Due to the move to the automated VAT refund procedure and Eurofisc, the figures on *automatic exchanges of information in the VAT area* decreased sharply in 2012. This change in the administrative cooperation makes a comparison with previous years obsolete. Targets in the MP2014 were revised and the *automatic exchanges of information* will no longer be followed. Targets have been achieved in the field of multilateral controls (MLC). Furthermore, Member States will continue to be encouraged

² Legislative changes pending in the MS, ISC pending with the LS, cases pending in the Court of Justice or other JSP based justifications.

³ For aesthetic reasons the diagram shows only part of the IT systems which are followed – more detailed information about the various applications is included in section 1. Policy Achievements under the relevant specific objective. Only the availability during business hours/08:00-20:00h is presented.

to make more use of the MLC's. The Commission will promote the MLC's at different fora, such as Standing Committee on Administrative Cooperation (SCAC), Anti Tax-Fraud Strategy (ATFS) and G28.

In 2013, the main policy achievements in the field of the fight against tax fraud, tax evasion and aggressive tax planning were the ongoing efforts of the G8, G20 and OECD to develop a global standard of the automatic exchange of information (AEOI) which is expected to be adopted in 2014 as a key instrument in the fight against tax fraud and evasion. In June, TAXUD proposed amendments to the Directive on administrative cooperation to align AEOI within the EU on the new global standard. A Platform for Tax good governance was established in 2013 to help the Commission monitor the affective implementation of the Recommendation on Tax havens and Aggressive tax planning by the Member States. In the area of indirect taxation, an agreement was reached in July on the quick reaction mechanism aimed to fight VAT fraud.

Furthermore, priority was given to the proposal for a directive setting up a procedure of enhanced cooperation for a financial transaction tax. The participating Member States will implement a harmonised FTT which should introduce fair taxation for the financial sector. In July, the EP endorsed the Commission's proposal and suggested lower rates for certain financial transactions.

The major achievement in the area of customs policy was the adoption of the Union Customs Code by the EP and Council in October 2013. The UCC provides the legal measures to complete the shift by customs to a fully paperless and fully electronic environment. The EP and Council decided on a step by step approach for its implementation. The entry into application is scheduled on 1 May 2016 and IT systems will be deployed in stages. The KPI measuring the reduction of administrative burden ("Degree of simplification of rules due to the implementation of the UCC") is a long-term indicator and the full achievement of the target is expected in 2020-2021

Another legislative initiative that was formally adopted in June 2013 was the new regulation on the customs enforcement of intellectual property rights. Safeguarding the interests of right-holders is of principal importance for the business environment and will result in simplified customs procedures and strengthened cooperation in combatting IPR infringements at the border.

Moreover, in 2013, the regulation on the monitoring of trade in drug precursors between the EU and third countries was amended. This will serve as a basis for the fight against diversion of medicines used for manufacturing of illicit drugs.

Additionally, in December 2013, the Commission tabled a proposal for a directive on the Union legal framework for customs infringements and sanctions. This initiative will help the coordinated application of customs law and protection of European citizens by harmonising customs infringements and approximating the sanctions imposed by the MS administrations.

The control on the application of the EU law both in taxation and in customs remains a priority for DG TAXUD. The performance in this area is monitored by the Percentage of infringement cases proposed for a Commission decision. This indicator was introduced for the first time in the 2013 MP and that is why it shows only the result for 2013. The performance of the DG in both taxation and customs is well above the target.

The 2013 MP did not contain specific indicators measuring the performance of the spending programmes managed by TAXUD, namely Fiscalis 2013 and Customs 2013.

Given that these two programmes finance mainly development, implementation and maintenance of IT systems and applications, the availability of IT systems is included as a key performance indicator which, amongst others, will also be used to measure the performance of the 2020 programmes. Figures on the availability of the IT systems show a minimum of 95% availability of our systems which meets the fixed targets. The final evaluations of both Fiscalis 2013 and Customs 2013 are on-going and will be delivered in the 2nd semester of 2014.

Key conclusions on resource management and internal control effectiveness

In accordance with the governance statement 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.

The Commission has adopted a set of internal control standards, based on international good practice, aimed to ensure the achievement of policy and operational objectives. As required by the Financial Regulation, the Director-General has put in place the organisational structure and the internal control systems suited to the achievement of the policy and control objectives, in accordance with the standards and having due regard to the risks associated with the environment in which it operates.

DG TAXUD has assessed the effectiveness of its key internal control systems during the reporting year and has concluded that the internal control standards are effectively implemented with the exception of some requirements of the standards ICS10, 12 and 13 which are in the same time the priority standards for further monitoring in 2014. In order to improve the effectiveness of these standards, the DG will analyse and update the documentation linked to the areas concerned by the prioritisation. More information on the reason and the planned measures can be found in layer 2 of this report and in the 2014 Management Plan. Furthermore, DG TAXUD has taken measures to further improve the efficiency of its internal control systems in the area of ICS3 and ICS11.

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

In conclusion, management has reasonable assurance that, overall, suitable controls are in place and working as intended; risks are being appropriately monitored and mitigated; 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.

Information to the Commissioner

The main elements of this report and assurance declaration have been brought to the attention of Commissioner Algirdas Šemeta, responsible for Taxation and Customs Union, Audit and Anti-Fraud.

1. POLICY ACHIEVEMENTS

1.1 Achievement of general and specific objectives

1.1.1 Taxation Policy area: To create a simpler and more efficient tax environment in order to fully exploit the economic potential of the Internal Market

In spite of DG TAXUD's numerous actions and efforts, the current situation marks a slight regression compared to the previous year: one more Member State entered in the top 50 countries – Croatia which as a new Member State was previously not followed in the indicators; two more Member States below Rank 120 and one falling from the second to the third category. Tax collection being mostly a responsibility of the individual countries, recommendations have been made to Member States in the framework of the European Semester to address this situation.

Policy Area:		Taxation and Customs		<input type="checkbox"/> Spending programme <input checked="" type="checkbox"/> Non-spending
General objective 1: To create a simpler and more efficient tax environment in order to fully exploit the economic potential of the Internal Market				
Impact Indicator	Target	Interim Milestone	Current situation (as achieved)	
	2020	2016		
Ease of paying taxes indicator (Source: "Paying taxes 2014: The global picture", World Bank and Pricewaterhouse Coopers Report – 2013)	All Member States within the top 100, those Member States which are already in the top 100 in 2010 move to the top 50	No Member State below the rank of 120	<ul style="list-style-type: none"> – 12 MSs within the top 50 – 10 MSs between the ranks 51-100 – 2 MSs between the ranks 101-120 – 4 MSs below the rank of 120 	

1.1.2 Customs Policy area: To ensure that EU customs policy protects society, facilitates trade and supports the competitiveness of the European economy

The International Logistics Performance Index is produced every two years and thus, the current situation reflects the Member States' ranking for 2012. Furthermore, major efforts were made to produce new guidelines for harmonisation of import and export control procedures with a view of protecting citizens and environment with the publication of three guidelines this year. The second impact indicator has been introduced for the first time in 2013 and there are good prospects that the long-term objective of 10 guidelines will be attained.

Policy Area: Customs Policy		<input type="checkbox"/> Spending programme <input checked="" type="checkbox"/> Non-spending	
General objective 2: To ensure that EU customs policy protects society, facilitates trade and supports the competitiveness of the European economy			
Impact Indicator	Target	Interim Milestone	Current situation (as achieved)
	2020	2016	
International Logistics Performance Index <i>(Source: "Connecting to Compete – Trade Logistics in the Global Economy, 2012", World Bank Report - 2012)</i>	All Member States within the top 50	No Member State below the rank 60	<ul style="list-style-type: none"> – 15 MSs within the top 30 – 10 MSs between the ranks 31-60 – 3 MSs below the rank of 60
Protection of society: Number of policies for the protection of citizens and the environment for which guidelines for the harmonised implementation by customs exist <i>(Source: Information provided by DG TAXUD)</i>	Existence of guidelines for harmonised import and export control procedures in the ten most important policy areas for the protection of citizens and the environment	Existence of guidelines for harmonised import and export control procedures in eight policy areas for the protection of citizens and the environment	Guidelines published: <ul style="list-style-type: none"> – Product safety (Guidelines for import controls in the area of product safety and compliance) Guidelines drafted and pending final endorsement: <ul style="list-style-type: none"> – Timber: FLEGT Regulation – Waste: Waste Shipments Regulation

1.1.3 Taxation Policy (ABB 05): To strengthen the framework for tax administrations to efficiently combat fraud and tax evasion with a view to secure Member States' tax revenues

The strengthening of the framework for tax administrations to efficiently combat fraud and evasion is taking place in a coordinated manner according to an action plan set out in December 2012 comprising 34 actions to be implemented at national, European and global level. In order to be entirely effective, actions at the three levels need to be coordinated. The EU framework for administrative cooperation in taxation and fight against tax fraud is in place (VAT, excise and direct taxes), including improvements adopted in 2013 such as the quick reaction mechanism to fight sudden and massive VAT fraud. The number of automatic exchanges of information has decreased sharply due to the move to the automated VAT refund procedure and Eurofisc. Additional improvements proposed in 2013 (extension of automatic exchange of information) or in the previous years (extension of the scope of the savings directive) are under discussion in the Council. The decision to use the existing instruments is to be taken with the Member States.

ABB activity: Taxation Policy (ABB 05)		<input type="checkbox"/> Spending programme <input checked="" type="checkbox"/> Non-spending
Specific objective 1: To strengthen the framework for tax administrations to efficiently combat fraud and tax evasion with a view to secure Member States' tax revenues		
Target 2013	Current situation (as achieved)	
Result indicator 1: Monitoring of the VAT gap⁴ indicator (Source: Study to Quantify and Analyse the VAT Gap in the EU-27 Member States July 2013)		
Alert the Member States when the VAT gap is above 15%. The VAT gap management is purely a Member State responsibility and cannot be managed by the Commission.	The study has been published and activities are on-going regarding an update of the study, planned for mid-2014	
Result indicator 2: Level of administrative cooperation in combating VAT fraud (Source: Information provided by DG TAXUD and obtained from Member States through the statistical data received as well as from FPG 28 (the multilateral control platform))		
<ul style="list-style-type: none"> – Increase the number of multilateral controls (55 in 2013) especially in the field of excise duties; – Similar level of requests for information in 2013; – Decrease in the number of automatic exchanges of information in 2013, as exchange of information takes place through Eurofisc and through the automated refund procedure as well: Encourage a risk analysis carried out at EU level and not solely at national level.	Figures for 2012: - 42 multilateral controls were initiated (52 multilateral controls in 2011); - 45.327 requests for information were sent between MS (35.624 requests in 2011); - 46.353 automatic exchanges of information between MS (485.253 automatic exchanges in 2011)	

⁴ VAT GAP is the difference between the theoretical and effective tax receipts

Result indicator 3: Level of efficiency and effectiveness of tax administrations, in particular with regard to tax collection <i>(Source: Information provided by DG TAXUD)</i>	
Identify good practices of effective tax collection, in specific fields in the different Member States and facilitate their adaption and implementation in other Member States. Based on experience in Greece in 2012 one might tentatively expect between 20-30 events or missions, involving participation by MS experts, aimed at identifying or implementing good practices in 2013.	Based on Article 12 of Regulation (EEC, Euratom) n° 1553/89 on VAT collection and control procedures the Commission has prepared a report on effective tax collection in the MSs which identifies best practices in MSs (to be published early 2014). In 2013, 26 events have taken place on this topic, consisting of workshops and expert visits.

Result indicator 4: Follow-up of the special report No 13/2011 of the European Court of Auditors (ECA) of 13.12.2011 on VAT collection under the customs 42 procedure, measured by the number of accepted recommendations followed-up <i>(Source: RAD database)</i>	
All accepted recommendations followed-up by the expected completion date: Recommendation 3 (guidance to MS clarifying when to use mutual assistance or administrative cooperation) to be completed by 31/05/2013	The Commission accepted 5 out of the 8 recommendations. 4 out of these 5 accepted recommendations have been implemented before the completion date of 31/12/2012; the implementation of the remaining one (Recommendation 3 - guidance to MS clarifying when to use mutual assistance or administrative cooperation) was completed on 25/09/2013.

Result indicator 5: Excise Movements and Control System (EMCS) <i>(Source: Information provided by DG TAXUD)</i>	
<ul style="list-style-type: none"> - Availability: 97% of time. This is a continuous service requirement throughout the year. - By end 2013: over 2.500.000 movements annually - Accession of Croatia by 1 July 2013. 	<ul style="list-style-type: none"> - Availability: 99+% of time. - By end 2013: more than 3.000.000 movements processed; - Successful accession of Croatia by 1 July 2013

1.1.4 Taxation Policy (ABB 05): To reduce administrative costs and to tackle tax obstacles in the Internal Market by simplifying and enforcing legislation and strengthening coordination amongst Member States

Taxation and in particular national tax compliance obligations remain an obstacle to the functioning of the Internal Market. While DG TAXUD has put forward several proposals to lift tax barriers in the internal market, reaching unanimous agreement on those initiatives is difficult and time consuming. On the other hand, the IT systems which support coordination are in place and function above the set objectives. The citizen website which was planned for 2013 is partly in place based on existing platforms such as “Your Europe” and needs further studies to be able to deliver according to its objectives.

Within the area of indirect taxes DG TAXUD focused on the difficulties faced in the refund of VAT to taxable persons, car taxation and cases concerning the validity of tax markings.

Following the targeted initiative in the inheritance tax area launched in December 2011, the legislation of all Member States in this area was thoroughly examined. Where breaches were found, the Commission flagged them to the national authorities. In total, 27 procedures were launched against 14 Member States. Member States' efforts to change the legislation during 2013 allowed the closing of most of the cases and brought the number of open cases down to 6 measures, all of which are at the level of formal infringement procedures.

The direct tax infringement unit has also pursued the horizontal infringement action on tax discrimination against cross-border workers (CBW) announced on 2 February 2012 (IP/12/340). Where discrimination or breaches of the EU's fundamental freedoms were found, the Commission flagged them to the national authorities. In total, TAXUD launched 37 infringement procedures against non-compliant MS. In 20 cases MS have already agreed to make their legislation EU-law compatible, while 15 cases are still open.

As announced on 20 January 2014 (IP/14/31), the Commission has launched a thorough assessment of national direct taxes to determine whether they create unfair disadvantages for **EU mobile persons**. The first contacts with the authorities of the Member State were made already in December 2013.

ABB activity:		Taxation Policy (ABB 05)	<input type="checkbox"/> Spending programme <input checked="" type="checkbox"/> Non-spending
Specific objective 2: To reduce administrative costs and to tackle tax obstacles in the Internal Market by simplifying and enforcing legislation and strengthening coordination amongst Member States			
Target 2013	Current situation (as achieved)		
Result indicator 6: Reduction of compliance costs and compliance time for companies engaged in intra-Community business <i>(Source: Commission Staff Working Document Impact Assessment accompanying document to the proposal for the CCCTB)</i>			
Compliance costs for companies engaged in intra-Community business reduced by between 1% and 5% and compliance time reduced by 8%. Depending on the attractiveness of the final provisions for the CCCTB as agreed in Council, the first significant reductions will be seen two or four years after adoption by Council	Proposal is still under discussion in the Council		

Result indicator 7: Reduction of cross-border tax obstacles for citizens via improved information provision; via proposal by Commission and adoption by Member States of solutions in specific areas; and via exchange of best practices between Member States on ways of simplifying tax compliance in cross-border situations
 (Source: Communication on removing cross-border tax obstacles for EU citizens (COM (2010)769))

<ul style="list-style-type: none"> – Launch of TAXUD citizens website in 2013 – Publication of report setting out best practices in Member States, in the light of the results of the FISCALIS Workshop in December 2012 and of further dialogue with stakeholders 	<ul style="list-style-type: none"> – Intensive work on tax pages for Your Europe Citizens (YEC) website (launched in 2013) and preparation for launch of complementary TAXUD citizens website early in 2014. Coordination with other DGs to avoid overlapping – Launch of two studies and other preparatory work with a view to publishing a report in 2014 setting out best practices in Member States and compliance costs in cross-border situations
--	---

Result indicator 8: Level of progress made in executing the Code of Conduct work programme agreed at December 2011 ECOFIN and in identifying new areas of work. Removal of harmful tax regimes, agreements on common approaches and coordinated solutions to related issues.
 (Source: Code of Conduct Work Programme 2011; ECOFIN conclusions, December 2013)

Code Group completes its work programme	The Group's work on standstill and rollback continues (e.g. patent boxes and UK:Gibraltar). Progress continues on the Model Instruction on the spontaneous exchange of information. New work on the meaning of genuine economic activities in the context of EU patent box regimes was identified in December 2013.
---	---

Result indicator 9: Level of simplification and rationalisation of VAT legislation measured by level of administrative burden for business
 (Source: Final report "EU project on baseline measurement and reduction of administrative costs", 5 March 2009)

Further simplification by legislative proposals in the follow-up to the Green Paper on the Future of VAT by another +/- 3% reduction of the administrative burden for businesses (69 bn € as per the study carried out by Deloitte for the Stoiber HLG) by 2015	COM proposal on a standard VAT declaration made in Oct 2013, whose administrative burden reduction potential is up to 15 bn € / year, i.e. a reduction of over 20%. Implementation of the Mini One-stop Shop (MOSS) / new place of supply rules is of key importance to meet the 2015 deadline. All implementing rules are now in place. Guidelines for businesses are being finalised.
---	--

Result indicator 10: Number of infringement cases closed in NIF as a result of compliance with EU law
 (Source: NIF database)⁵

Attaining compliance with EU tax law by Member States	Indirect taxation: 30 infringement cases closed (40 cases in 2012) Direct taxation: 39 infringement cases closed (35 cases in 2012)
---	--

⁵ The number of closed infringement cases depends on several external factors such as the complexity of the cases, the response time of the Member States etc. This indicator will undergo review in the next cycle.

Result indicator 11: Number of EU PILOT procedures closed as a result of compliance with EU tax law (Source: EU Pilot database) ⁶	
Attaining compliance with EU tax law by Member States at the stage of EU PILOT	Indirect taxation: 14 EU PILOT procedures closed (23 procedures in 2012) Direct taxation: 8 EU PILOT procedures closed (33 procedures in 2012)

Result indicator 12: Percentage of infringement cases proposed for a Commission decision during the year out of the total number of pending infringement cases, excluding those outside of the control of DG TAXUD⁷ (Source: NIF database, ARES)	
Attaining at least 60% of pending infringement cases proposed for a Commission decision in an infringements-decision-making cycle during the year	Indirect taxation: 74,14% of infringement cases proposed for a Commission decision (71% in 2012) Direct taxation: 79,82% of infringement cases proposed for a Commission decision (80% in 2012)

Result indicator 13: Number of non-communication cases pending for DG TAXUD Directives (Source: NIF database)	
Maintaining a low number of non-communication cases	Indirect taxation: 12 non-communication cases pending (2 cases in 2012) Direct taxation: 7 non-communication cases pending (2 cases in 2012)

Result indicator 14: Number of requests to VIES-on-the-Web supported per month (Source: DG TAXUD statistics)	
Support the continuously increasing number of requests, up to 30 million requests expected per month in 2013	Support of 500 million request during 2013, so an average of 41,66 million monthly

Result indicator 15: Availability of Taxation IT systems and other systems for administrative cooperation; Common Communication Network/Common System Interface (CCN/CSI) (Source: Central Service (CS)/Management Information System (MIS) (CCN/CSI figures))	
Availability: – Taxation IT systems: 95% of time between 08:00 and 20:00; 85% otherwise; – 98+% of time	– Taxation IT systems: above 95% (e.g. VIES – MS components: 96+%, VIES on the web – Commission component: 99+%) – CCN/CSI: above 99+%

⁶ The number of closed PILOT procedures depends on several external factors such as the complexity of the cases, the response time of the Member States etc. This indicator will undergo review in the next cycle.

⁷ Legislative changes pending in the MS, ISC pending with the LS, cases pending in the Court of Justice or other JSP based justifications.

1.1.5 Taxation Policy (ABB 05): To develop new tax initiatives and actions to support EU policy objectives

ABB activity: Taxation Policy (ABB 05)		<input type="checkbox"/> Spending programme <input checked="" type="checkbox"/> Non-spending
Specific objective 3: To develop new tax initiatives and actions to support EU policy objectives		
Target 2013	Current situation (as achieved)	
Result indicator 16: CO₂-price signal for sectors falling outside the Emission Trading System (ETS), at a similar level as the CO₂-price for sectors covered by ETS in the whole EU <i>(Source: Information by DG TAXUD based on the EU ETS Carbon price)</i>		
Application of a CO ₂ tax providing for such CO ₂ price signal (or equivalent) in those Member States who have to reduce CO ₂ emission according to the effort sharing decision ⁸ . The target should be measurable once the Energy Tax Directive is adopted. The number of MS applying an explicit CO ₂ tax will be known. As regards equal treatment of ETS and non-ETS sectors, it will be possible to compare the overall financial burden resulting from the combined application of the ETS and energy taxation.	Proposal is still under discussion in the Council	
Result indicator 17: Coverage of Taxes in Europe Database (TEDB) <i>(Source: DG TAXUD pages on Europa web-site)</i>		
Cover all main taxes of EU member States collecting over 0,1% GDP as revenue	All main taxes are covered	
Result indicator 18: Availability of Taxes in Europe Database (TEDB) <i>(Source: DG TAXUD statistics)</i>		
Availability: – 95% of time between 08:00 and 20:00; – 85% otherwise.	Above 99% on average	

⁸ Decision No 406/2009/EC of the European Parliament and the Council of 23 April 2009 on the effort of Member States to reduce their greenhouse gas emissions to meet the Community's greenhouse gas emission reduction commitments up to 2010.

1.1.6 Customs Policy (ABB 04): To protect citizens from the security and safety risks posed by the international trade in goods and to support the fight against illicit traffic and fraud by improving the capacity of the Commission and Member States to act

Making progress towards improved protection of citizens against risks posed by the international trade in goods implies daily operational work of almost 50 people in TAXUD who coordinate the actions of the 28 different Customs administrations. In 2013, we reached most of our targets. Where the latter were not achieved we consider launching infringement procedures against the corresponding MS or will monitor in 2014 the situation closely. In this respect, putting the EU common risk management framework into operation poses significant challenges (Result indicator 19). A common minimum standard of automated risk analysis for security and safety has not yet been achieved due to variances in the development, capacity and technical capability of national electronic risk analysis systems.

For those targets with a 2014 deadline we are still on track to reach the targets.

ABB activity:		Customs Policy (ABB 04)	<input type="checkbox"/> Spending programme <input checked="" type="checkbox"/> Non-spending
Specific objective 1: To protect citizens from the security and safety risks posed by the international trade in goods and to support the fight against illicit traffic and fraud by improving the capacity of the Commission and Member States to act			
Target 2013		Current situation (as achieved)	
Result indicator 19: Capacity to receive and process safety and security data (Source: Information provided by DG TAXUD)			
All Member States able to fulfil the 4 tasks by the end of 2013: 1) receiving entry summary declarations (ENS) 2) receiving exit summary declarations (EXS); 3) capacity to implement automatic risk analysis for import and export; 4) to implement all Common Risk Criteria in an automated way.		1) Receiving the ENS: all MS are operational except LUX. Tests are still on-going. Infringement procedure started. 2) Those MS where EXS need to be launched by Trade are operational. 2 never receive EXS due to trade pattern (exit via neighbouring MS). 3) & 4) Target not entirely met by a small number of MS. Commission to take action in the course of 2014.	
Result indicator 20: All new legislative proposals for protecting citizens or the environment contain harmonised and standardised procedures for customs controls (Source: Information provided by DG TAXUD)			
Create harmonised procedures for controlling goods in the area of citizens safety and environmental (phased-in approach in 2013-2014) so that MS can implement them		The guidance of standardised procedures for customs controls has not been finished yet, but standard provisions have been taken into account in the following proposals or during the inter-institutional discussion: - The Official Controls proposal (COM(2013)265final); - COM Proposal for a market surveillance package with standardised customs procedures on product safety; - COM proposal for Invasive Alien Species.	
Result indicator 21: Number of Member States where customs controls on product safety exist (Source: Information provided by DG TAXUD)			
All Member States carry out customs controls on product safety and have concluded Memoranda of		All Member States carry out customs controls on product safety. MSs visited in the context of Working	

Understanding for cooperation with Market Surveillance Authorities	visits are working on or have concluded Memoranda of Understanding for cooperation between customs and Market Surveillance Authorities
--	--

Result indicator 22: Number of Authorised Economic Operators (AEO). Degree of implementation of AEO throughout the EU: Involvement of AEO certified operators in overall trade volumes (import, export and transit); Involvement of AEO in other certification programmes
(Source: Commission for the EIS and MSs for number of AEOs and their trade volume)

<p>Number of issued certificates: 16.000 by end 2014</p> <ul style="list-style-type: none"> - Trade volumes of AEOs to represent 45-50% of EU trade in 2014; - Recognition of the AEO status by all other EU similar programmes 	<p>Number of issued certificates: 13.818</p> <p>The trade volume target was already met at the end of 2012⁹</p> <ul style="list-style-type: none"> - Two pieces of legislation related to recognition and streamlining between the AEO status and Regulated Agent/Known Consignor (RA/KC) is currently in the Customs Code Committee and the Air Transport Committee for adoption.
---	--

Result indicator 23: Improved exchange of risk information between Member States via the Customs Risk Management System (CRMS)
(Source: Commission for the EIS and MSs for number of AEOs and their trade volume)

<ul style="list-style-type: none"> - Fully operational CRMS system in which a significant number of RIF issued and followed-up. - 1 Priority Control Areas (PCA) performed in 2013 	<ul style="list-style-type: none"> - 2.500 RIFs issued - PCA Dismantle carried out between 1 March and- 31 December 2013. Risk profiles for specific aspect of the transit procedures tested and applied by all 28 MS. Centralised transaction data used for the first time in common joint risk analysis.
--	--

⁹ Data for 2013 will be ready by end April 2014 (MoR report)

1.1.7 Customs Policy (ABB 04): To modernise and streamline the functioning of the Customs Union, by improving its functioning for the benefits of the economic operators and Customs administrations

The 2012 Commission Communication on the State of the Customs Union has highlighted the completion of the modernisation of customs legislation as the first major step to reach the targeted objective of delivering by 2020 *'a more performing, robust and unified customs union that provides the same high quality of services across the EU'*. Together with Member States, the Commission has fixed milestones for the completion of the modernisation of customs. A step by step approach is being implemented.

The adoption of the Union Customs Code was the first step. It was a bit delayed given that the European Parliament and the Council needed more time than expected to reach agreement on this crucial piece of legislation. In order to avoid any disruption in daily customs work the Commission proposed in April 2013 a contingency plan so as to allow the adoption of the Union Customs Code in due time in October.

Among the improvements that will be introduced by the Union Customs Code are legal measures to complete the shift by customs to a fully paperless and fully electronic environment. TAXUD continues its work to reach 99% of all declarations to be made by a computerised procedure (Result indicator 24): the only category that is still below the target (i.e. normal procedures for import) has achieved a good progress – 88,8% of all transactions as of September 2013 compared to 83,8% in 2011.

We have started preparing the draft Commission delegated and implementing acts related to the Code, based on adequate Business Process Models which were delivered in time for useful discussions in the relevant Committees. This work will be continued in 2014 so as to ensure a swift entry into application of the Code in 2016.

At the same time, we have started the review of the Customs Union's current governance. The current decentralised system of implementation and management in the customs union has indeed shown some weaknesses (e.g. difficulties to ensure full harmonisation or duplication of IT development in times of budgetary cuts). A blueprint for the governance beyond 2020 will be developed in 2014.

At operational level we have met our targets to provide centralised IT systems available all over Europe without major disruption.

ABB activity:		Customs Policy (ABB 04)	<input type="checkbox"/> Spending programme <input checked="" type="checkbox"/> Non-spending
Specific objective 2: To modernise and streamline the functioning of the Customs Union, by improving its functioning for the benefits of the economic operators and Customs administrations			
Target 2013	Current situation (as achieved)		
Result indicator 24: Ratio of paperless transactions (declarations made by computerised procedure) (Source: Measurement of Results - Annual Report 2011)			
To reach 99% for all procedures with the entry into application of the Union Customs Code	Electronic input Jan-Sep 2013 ¹⁰ :		

¹⁰ At present (31 January 2014), data on electronic input is only available for the first 9 months of the year 2013. The full range of data 2013, which would be quality assured, would be available at the end of March 2014

<p>(UCC). Adoption of the UCC is foreseen to take place in June 2013</p>	<p>Import</p> <ul style="list-style-type: none"> • Overall: 97% • Normal procedures: 88,8% (83,8% in 2011) • Simplified procedures: 99,4% <p>Export</p> <ul style="list-style-type: none"> • Overall: 99,6% • Normal procedures: 99,4% • Simplified procedures: 99,7% <p>The UCC was adopted and entered into force on 30.10.2013 and will be applied as of 1.05.2016 (DA & IA currently under preparation) with nevertheless a phased deployment of IT systems according to a Work Programme until 31.12.2020. Full effect of UCC and all related IT systems can therefore be expected only as of that latter date.</p>
--	--

<p>Result indicator 25: Degree of simplification of rules due to the implementation of the Union Customs Code (Source: Information provided by DG TAXUD)</p>	
<p>Minimum target of 25% of reduction of the Administrative Burden (maximum target of 39%, according to CEPS report for the Stoiber HLG & IA of the UCC) is expected to be achieved within 5 years following the application of the UCC</p>	<p>UCC entered into force on 30.10.2013 and will be applied as of 1.05.2016 (DA & IA currently under preparation) with nevertheless a phased deployment of IT systems according to a Work Programme until 31.12.2020. Full effect of UCC and all related IT systems can therefore be expected only as of that latter date.</p>

<p>Result indicator 26: Number of movements (NCTS including EU-Russia exchanges, ECS and ICS) supported (Source: CS/MIS (CCN/CSI figures))</p>	
<p>Support of increasing number of movements up to 30,5 million movements in 2013</p>	<p>30.056.406 movements supported</p>

<p>Result indicator 27: Availability of centralised IT customs applications (including tariff systems); NCTS, ECS and ICS; CCN/CSI system. (Source: CS/MIS (CCN/CSI figures))</p>	
<p>Centralised IT customs applications (including tariff systems):</p> <ul style="list-style-type: none"> – 97% of time during business hours; 95% of time otherwise <p>NCTS, ECS and ICS:</p> <ul style="list-style-type: none"> – 97% of time during business hours; 95% otherwise <p>CCN/CSI system:</p> <ul style="list-style-type: none"> – 98+% of time 	<p>Centralised IT customs applications (including tariff systems):</p> <ul style="list-style-type: none"> – 99+% of time during business hours; 95+% of time otherwise <p>NCTS, ECS and ICS:</p> <ul style="list-style-type: none"> – 98,5+% of time during business hours; 98+% otherwise <p>CCN/CSI system:</p> <ul style="list-style-type: none"> – 99+% of time

<p>Result indicator 28: Timely availability of Business Process Models (BPM) for the meetings of the Customs Code Committee and the Electronic Customs Group (Source: Information provided by DG TAXUD)</p>	
<p>100% timely availability of BPM for the meetings</p>	<p>BPM produced in time for discussion on UCC. More detailed BPM produced to support preparation of the UCC DA and IA.</p>

1.1.8 Customs Policy (ABB 04): To ensure effective management of the Customs Union through the development of high quality customs legislation, IT systems and their uniform application

In 2013, DG TAXUD's daily workload was to a large extent associated with the core business of **managing the Customs Union**. Efforts continued to ensure that the 28 national administrations provide equivalent levels of protection of the external border while maintaining an adequate level of facilitation for trade (e.g. by granting simplified procedures in accordance with common rules).

The correct and uniform application of the EU customs legislation (i.e. the monitoring of simplified procedures following the European Court of Auditors report, the management of tariff quotas, the surveillance and classification of goods) was also monitored and appropriate measures were taken. Last year, TAXUD implemented a new strategy streamlining the classification cases solving procedure. As a consequence, the backlog of cases has been depleted and the result is in fact remarkably good compared to previous years (Result indicator 41). The main reason for delay remains the lack of agreement between the Commission services resulting in blocked or delayed Interservice Consultations due to different policy views. Additionally, the workload remained very high taking into account the high number of new cases, staff movements and organisational difficulties. The volume of surveillance data records continued its upward trend in 2013 (185 million records analysed) compared to the figures in the previous years.

Furthermore, the findings of the evaluations delivered in 2013 evidenced that achieving a consistent approach throughout the Union required close cooperation and coordination between the Commission and the Member States. It also required updating information (e.g. the TARIC and other databases with indispensable information for importers and exporters) or monitoring the national application of EU Customs' legislation. Several monitoring visits to the Member States concerning specific policy areas contributed also to ensuring consistency. The performance of TAXUD in controlling the application of EU law shown by Result indicators 33 to 40 has significantly improved compared to the previous year. All targets have been comfortably met in 2013 which evidences the management, efficiency and effectiveness of the monitoring process.

ABB activity:		Customs Policy (ABB 04)	<input type="checkbox"/> Spending programme <input checked="" type="checkbox"/> Non-spending
Specific objective 3: To ensure effective management of the Customs Union through the development of high quality customs legislation, IT systems and their uniform application			
Target 2013		Current situation (as achieved)	
Result indicator 29: Follow-up of the Special Report No 01/2010 of the European Court of Auditors (ECA) of 7.6.2010 on simplified customs procedures for imports measured by the number of accepted recommendations followed-up (Source: RAD database)			
All accepted recommendations followed-up by the end of 2013 (end of 2015 for the recommendation requiring computerisation)		Out of the 12 recommendations accepted by the Commission, 9 were completed by end 2013. Implementation of the remaining 3 planned to be finalised by the expected completion date: - 1 completion expected by end Feb 2014 with the revision of the Customs Audit Guide; - 1 requires computerisation by end of 2015; - 1 requires further simplifications by May 2016.	

Result indicator 30: Efficiency of the customs process by customs and other border agencies measured by the position of Member States in the ranking of the 'Enabling Trade Index: Sub-index B on Border administration' (Source: <i>The Global Enabling Trade Report, World Economic Forum – 2012</i>) ¹¹	
<p>To improve the overall efficiency of the clearance process and deal with high volume of customs declarations (around 40 millions) with a view to improve Member States' position in the ranking of the Enabling Trade Index: 'Sub-index B on Border Administration' by 2015.</p>	<p>The sub-index B ranking¹²:</p> <ul style="list-style-type: none"> - 6 MSs in the first 10 places; - 23 MSs (including the above 6) within the first 50 places; - 5 MSs after the 80th place. <p>Approximately 261 million customs declarations per year in the EU in 2012 (covering import, export and transit)</p>
Result indicator 31: Number of quotas and suspensions opened for the next year (Source: <i>Suspensions data base</i>)	
<p>Ensure the 100% administrative response to the EU industry requests for tariff suspensions and quotas.</p> <p>The uncollected duty due to tariff suspensions and quotas, which is to the benefit of the EU industry, is currently just below 1 billion €. The target will be to have an increase relative to the increase of the number of suspensions</p>	<p>Publication of 4 Council regulations autonomously suspending the duties of the Customs Tariff – 2 regulations are part of the normal biannual exercise (+/- 1800 suspensions and 60 Quotas)</p> <ul style="list-style-type: none"> - 2 Council regulations suspending the duty – one on Jet Fuel and one concerning sanitary articles - 211 new suspensions adopted out of the 305 requests dealt with; - 147 existing suspensions amended; - 19 new quotas; 16 existing quotas amended; <p>Publication of the CN regulation</p>
Result indicator 32: Amount of data provided for tariff classification of goods (Source: <i>TARIC3, QUOTA2</i>)	
<ul style="list-style-type: none"> - 90.000 updated measures; - 80.000 updated goods descriptions in TARIC; - 200.000 drawing requests on EU tariff quotas; - 220 million surveillance data records. 	<ul style="list-style-type: none"> - 95.000 updated measures - 286.000 updated goods descriptions for all languages. - 272.229 drawing requests - 2.610 return requests - 185 million of surveillance data records analysed (175 million in 2012, 140 million in 2011)
Result indicator 33: Number of infringement cases closed in NIF (Source: <i>NIF database</i>)	
<p>Attaining compliance with EU law by the Member States</p>	<p>2 infringement cases closed (no infringement cases closed in 2012)</p>

¹¹ The Global Enabling Trade Report is produced every two years. It started in 2008, had its second edition in 2010 and the latest one was issued in 2012. The next issue is foreseen for 2014.

¹² The rankings related to Customs are in the sub-index B “Efficiency of Customs Administrations”, “Efficiency of import-export procedures” and “Transparency of the border administration”. Whereas the first two are directly controlled by Customs, the border administration is a group of several different bodies.

Result indicator 34: Number of EU Pilot cases closed (Source: EU-Pilot database)	
Attaining compliance with EU law by the Member States at the stage of EU Pilot	16 EU Pilot cases closed (4 EU-Pilot cases closed in 2012)
Result indicator 35: Percentage of infringement cases proposed for a Commission Decision (Source: NIF database)	
Attaining at least 50% of pending infringement cases proposed for a Commission decision in an infringements-decision-making cycle during the year	67% of infringement cases proposed for a Commission Decision (18% in 2012)
Result indicator 36: Percentage of CHAP complaints that respect SG Temporary benchmarks (Source: CHAP database)	
Attain a 50% compliance rate with the SG temporal benchmarks for handling CHAP complaints	74% of CHAP complaints that respect SG Temporary benchmarks (55% in 2012)
Result indicator 37: Percentage of EU Pilot procedures and NIF infringements that respect SG Temporary benchmarks (Source: EU-Pilot and NIF databases)	
Attain a 50% compliance rate with the SG temporal benchmarks for handling EU Pilot and NIF	74% of EU Pilot procedures and NIF infringements that respect SG Temporary benchmarks (55 % in 2012)
Result indicator 38: Number of cases opened (Source: CHAP, EU-Pilot and NIF databases)	
Attaining compliance with EU law by the Member States	52 cases opened (20% increase of files opened in CHAP, EU-Pilot and NIF as compared to 2012)
Result indicator 39: Percentage of monitoring visit reports sent on time (Source: ARES database)	
Achieve a 80% compliance rate of monitoring reports sent on time	80% of monitoring visit reports sent on time (50% in 2012)
Result indicator 40: Percentage of 1-year monitoring enquiry letters sent to the Member States on time (Source: ARES database)	
Achieve a 80% compliance rate of 1 year monitoring enquiry letters	100% of 1-year monitoring enquiry letters sent to the Member States on time (55% in 2012).
Result indicator 41: Time taken for resolving of divergent tariff classification cases (Source: Case Data base)	
<ul style="list-style-type: none"> – average time 10 months; – 60% of all new cases solved within 6 months and; – 100% of all new cases solved within 1 year since the first discussion at the Customs Code Committee except for individual cases e.g. where policy considerations hinder the adoption of a solution timely. 	<ul style="list-style-type: none"> – average time 10 months; – 45% of all new cases solved within 6 months (27% in 2012); – 93% of all new cases solved within 1 year since the first discussion at the Customs Code Committee (69% in 2012)

1.1.9 International Aspects of Taxation and Customs (ABB 03): To protect EU society and its economic and financial interests through international cooperation in the taxation area

The main objectives of TAXUD's international activity in 2013 were to protect EU interests in the tax and customs fields in international organisations and agreements, to facilitate trade, promote security and enforce IPRs through enhanced cooperation with third countries and international organisations and to promote EU tax principles.

In 2013, the fight against tax fraud and evasion gained momentum at international level, following the commitment of G20 leaders to adopt a global standard on automatic exchange of information in the tax area, currently being prepared by OECD. The US is also negotiating with EU countries and third countries international agreements to ensure that tax information required under FATCA is provided to the US by tax authorities around the world. DG TAXUD actively participated in 2013 in the OECD work to defend European interest in the design of the global standard. In the context of FATCA the Commission, with the support of the Member States, is exploring with the US the possibility of using existing EU systems for the exchange of information to avoid further costs.

On 14 May 2013, the Council authorised the Commission to initiate negotiations with Switzerland, Liechtenstein, Andorra, Monaco and San Marino, in order to upgrade the EU's savings agreements with those countries and to ensure that they continue to apply measures equivalent to those in the EU. The negotiating mandate, in line with the recent developments at the G20, also promotes the use of automatic exchange of information with these countries.

In the same field **negotiations with Norway** are on-going and the Commission hopes to be able to finalise them following agreement in the Council on the revised text of the savings directive in 2014.

In 2013, the Commission continued promoting the principles of **good governance in the tax area** (transparency, exchange of information and fair tax competition) in third countries. 16 provisions on good governance are currently under negotiation, 1 was agreed in 2013 and new negotiations started with 2 countries in 2013.

Moreover the possibility of negotiating mutual assistance agreements on VAT with third countries is a priority for the protection of VAT revenues of EU member states. Exploratory talks have been initiated with several countries in 2013, in particular with Norway and Russia.

As asked by the Council the Commission continued its dialogue with Switzerland on the application of the principles and criteria of the Code of Conduct for business taxation and reported back to the Council. Whilst progress has been made on corporate tax reform in Switzerland, the Council considered that further progress is needed and the Commission should continue the dialogue.

Corporate taxation reform has also gained momentum at international level with the OECD Action Plan on **Base Erosion and Profit Shifting (BEPS)**, with a particular focus on companies in the digital economy. The Commission is closely cooperating with the OECD and the MS to defend EU interests at OECD level.

ABB activity: International Aspects of Taxation and Customs (ABB 03)		<input type="checkbox"/> Spending programme <input checked="" type="checkbox"/> Non-spending
Specific objective 1: To protect EU society and its economic and financial interests through international cooperation in the taxation area		
Target 2013	Current situation (as achieved)	
Result indicator 42: Number of tax good governance clauses and agreements in on-going negotiations with individual third countries or groupings (among which the Pacific and African countries, Asian countries) (Source: Action Plan 6 December 2012)		
Inclusion and implementation of good governance clauses in the tax area in all agreements negotiated with trading partners and regional groups of countries	Closed 1 negotiation (NZL) in 2013; 16 still on going, out of which 2 (JPN and CUB) opened in 2013	
Result indicator 43: Provisions on harmonisation of excise policies and convergence of rates included in the Association Agreements currently under negotiation (Eastern neighbouring countries) (Source: Eastern Border Antifraud Action Plan)		
Full harmonization within the region of excise structures and rates within 10 years of entry into force of the Association Agreements	Respective provisions agreed within the Association Agreement (AA) negotiations with Ukraine, Moldova and Georgia, these Agreements have not yet entered into force. Negotiations with Azerbaijan are still on-going (no major progress). For Armenia target will not be reached due to its decision to join the Customs Union with Russia, Kazakhstan and Belarus.	
Result indicator 44: Number of bilateral agreements with third countries on administrative cooperation in the field of indirect taxes (Source: Information provided by DG TAXUD)		
Obtain mandate from Council to start negotiations with some third neighbouring countries	Commission started the procedure to submit two Recommendations to the Council in order to obtain a mandate to open negotiations with Norway and the Russian Federation for an EU agreement for administrative cooperation in the field of VAT (Commission adopted the proposals on 6 February 2014). Informal talks were held with other third countries.	
Result indicator 45: Number of third countries engaged in a dialogue and alignment to the principles of the Code of Conduct, removing measures contrary to the Code (Source: Code of Conduct Work package 2011)		
Find political agreement with third countries, first on procedure, then on substance (legislative amendments) and on monitoring in 2013	CH has announced consultation of possible legislative changes. Work continues on a possible joint statement.	

1.1.10 International Aspects of Taxation and Customs (ABB 03): To develop international cooperation to support the effective management of the Customs Union; to protect EU society and its economic and financial interests; to facilitate trade and to contribute to the broader external policy objectives of the Union

The Commission continued to promote trade facilitation and develop **customs cooperation** in the framework of existing customs cooperation agreements, Free Trade and Association Agreements and in the context of the Economic Partnership Agreements (CARIFORUM).

The cooperation on mutual recognition of the **Authorised Economic Operators (AEO)** programmes continued with our main partners and in 2013 **important developments** took place in this priority area:

- The granting of benefits for "trusted traders" started to apply at the target date of January 2013 thereby establishing reciprocity in in **EU-US** allowing traders to benefit from faster controls and reduced administration for customs clearance;
- The **EU-Canada agreement on supply chain security** entered into force in November 2013 which provides the legal basis for cooperation on supply chain security and risk management including the establishment of mutual recognition of AEO programmes.

The negotiation of the '**EU-China Action Plan on IPR customs enforcement**' for the period 2014-2018 was successfully concluded in 2013 and will provide the basis for improved cooperation.

In June 2013, the EU signed an agreement with **Russia on drug precursors** which will be ratified by the two parties in early 2014.

As regards the cooperation with our eastern partners the implementation of the **strategic framework for better customs cooperation Moldova** progressed well with main focus on AEO and access to the common transit convention, but progressed at a slow pace with Russia and due to the general political situation with Ukraine. The frameworks are based on three priorities: 1) safe and fluid trade lanes; 2) risk management and the fight against fraud; and 3) investment in customs modernisation.

The EU is member and one of the most important contributors to the **World Customs Organization (WCO)**. In 2013 significant progress was made on the SAFE Review and in the pilot phase of the Globally Networked initiative.

Finally, DG TAXUD participated in the **WTO conference in Bali** in December where trade facilitation was a prominent point and further measures were agreed.

ABB activity: International Aspects of Taxation and Customs (ABB 03)		<input type="checkbox"/> Spending programme <input checked="" type="checkbox"/> Non-spending
Specific objective 2: To develop international cooperation to support the effective management of the Customs Union; to protect EU society and its economic and financial interests; to facilitate trade and to contribute to the broader external policy objectives of the Union		
Target 2013	Current situation (as achieved)	
Result indicator 46: WCO: Degree of reflection of the EU policy and positions in the WCO work to secure and facilitate trade (Source: Information provided by DG TAXUD)		
- Continue to drive the SAFE review to reflect new developments in supply chain security	The review is on-going, with very substantive EU input; EU policies and practices are reflected in the review.	

<p>and enhance trade facilitation. The full review is scheduled to be completed by June 2015;</p> <ul style="list-style-type: none"> – Conduct GNC proof-of-concepts phase, to be completed in 2015. The EU will actively contribute to the pilot phase. 	<p>EU-US Utility block for AEO MR submitted to WCO for testing; EU-CH UB on mutual recognition of control results has been developed, to be submitted to WCO in the first half of 2014; work on unique trader identification has been launched</p> <p>Contacts with WCO at all levels have been initiated.</p> <p>Preparations for the vice-chairmanship (from July 2014 to June 2016) have started.</p> <p>TAXUD significantly contributed to the successful conclusion of the WTO TFA in December 2013. Coordination within the Commission and with the WCO has been launched to prepare for implementation</p>
---	---

Result indicator 47: Alignment with legislation and implementation of agreements: Degree of alignment of the candidate and the potential candidate countries' legislation with the EU acquis
(Source: Screening documents, progress reports and enlargement package)

<p>Progress in the degree of alignment based on the evaluation published in the next Progress Reports.</p> <p>Continuous alignment of legislation, modernisation of tax and customs administrations, including completion of IT systems for the exchange of information upon accession.</p>	<p>Whereas all Candidate and Potential Candidate Countries have reached an acceptable level of alignment concerning customs and to a lesser extent tax legislation, further attention should be paid to the proper implementation of this legislation. Trade irritants, at times to protect domestic industries, have been encountered in Turkey, Serbia, Albania and Bosnia and Herzegovina. Turkey already joined the Common Transit Convention; the other countries, except Kosovo, are in the process of preparing for membership. In the area of IT all countries will have to address significant challenges to implement the EU tax and customs exchange of information systems.</p>
---	---

Result indicator 48: Customs cooperation and trade facilitation with Eastern partners and Mediterranean countries
(Source: Information provided by DG TAXUD)

<p><u>Eastern Partners:</u></p> <ul style="list-style-type: none"> – Progress in the degree of implementation of the Strategic Frameworks and the Eastern Border action plan, including facilitation of trade, ensuring security and safety, fighting fraud and convergence of legislation and procedures; – Conclude the negotiations of the customs and trade facilitation chapters of the DCFTA with Georgia, Armenia and Moldova and progress in negotiations of Association Agreement with Azerbaijan and of the enhanced Partnership and Cooperation Agreement with Kazakhstan; – Integration of Ukraine, Georgia, Armenia and Moldova into Pan-Euro-Med cumulation zone by 2015. <p><u>Mediterranean countries</u> Progress towards a certain degree of alignment</p>	<p>Eastern Partners:</p> <ul style="list-style-type: none"> - The implementation of the Strategic Frameworks with Ukraine and Moldova is progressing well, with a main focus currently on the system of "authorised economic operators" and on the accession of Ukraine to the Common Transit Convention. - The implementation with Russia has proceeded at a very slow pace due to Russia's lack of interest; in 2013, Russia applied various measures adversely affecting border-crossing of goods from EU (e.g. the demand for additional guarantee on TIR transport). - Good progress in the Implementation of the Eastern Border action plan; Negotiations with Moldova and Georgia concluded. - Moldova made a request for accession to the pan-Euro-Med Convention on preferential rules of origin in July 2013. - No more possibility for the DCFTA with Armenia due to its decision to join the Customs Union with Russia, Belarus and Kazakhstan. - No major progress in the Association Agreement
--	---

with EU customs and tax standards.	negotiations with Azerbaijan and in the Partnership and Cooperation Agreement negotiations with Kazakhstan. <u>Mediterranean countries:</u> - DCFTA negotiations have started with Morocco and are progressing well.
------------------------------------	---

Result indicator 49: Supply chain security: Degree of implementation of facilitation and security agreements (Source: Information provided by DG TAXUD)	
<p>Further deepen EU-US cooperation on supply-chain security with new US Administration (2013).</p> <p><u>Norway, Switzerland</u> Implement IT AEO mutual recognition (2013). Constantly maintain the agreements in line with the acquis</p>	<p>United States: Continued EU-US cooperation on supply-chain security with US Administration.</p> <p><u>AEO MR with Norway</u> The first IT implementation activity is the production of the Interface control document. The start of the activity is currently pending on the agreement with NO.</p> <p><u>AEO MR with Switzerland</u> The IT implementation activities are on-going for the secure data exchange. DG TAXUD has put the system in the conformance testing on time. However CH has announced some delay with their implementation, which could impact the production date.</p> <p><u>Alignment of the agreements with the acquis</u> CH and NO are associated as observers to the groups preparing the IA and DA to the UCC (concerned customs code committee and expert group).</p>

Result indicator 50: MR-AEO: Degree of implementation of mutual recognition (MR) of AEOs with important trading partners (Source: Information provided by DG TAXUD)	
<p>Granting of benefits to qualified US C-TPAT members by target date of January 2013, thereby establishing reciprocity in EU-US mutual recognition.</p> <p><u>Canada:</u> – Signing and concluding of EU-Canada agreement on supply-chain security in the first half of 2013. – Following the completion of technical preparatory work, negotiate and conclude AEO MR decision with Canada in 2014.</p> <p><u>China:</u> Start formal negotiations by the end of 2012, aim to conclude and implement by 2014.</p> <p><u>Japan:</u> Review of the implementation to introduce automatic information exchange, identification of new additional benefits (2013).</p>	<p>- Grant benefits to qualified US C-TPAT members by target date of January 2013, thereby establishing reciprocity in EU-US mutual recognition.</p> <p>- Sign (March 2013) and entry into force (November 2013) of EU-Canada agreement on supply-chain security.</p> <p>- Implementation postponed due to Japan's budgetary constraints.</p>

Result indicator 51: IPR: Degree of implementation of the EU-China IPR Action Plan, based on jointly agreed evaluation criteria

(Source: Information provided by DG TAXUD)

Extension of the Action Plan until 2014	Action Plan negotiated with China
---	-----------------------------------

Result indicator 52: Availability of Single Portal for Entry and Exit Data (SPEED)

(Source: Information provided by DG TAXUD)

Availability: 97% of time during working hours	Availability 99+%
--	-------------------

1.2 Specific efforts to improve 'economy' and 'efficiency' of spending and non-spending activities

According to the financial regulation (art 30), the principle of economy required that the resources used by the institution in the pursuit of its activities shall be made available in due time, in appropriate quantity and quality and the best price. The principle of efficiency concerns the best relationship between resources employed and results achieved.

The respect of these principles is continuously pursued through the implementation of internal procedures and predefined practices. These procedures ensure that activities are executed in an efficient manner (e.g. the different workflows contribute to the efficient cooperation between staff, units, etc.) and according to the principle of economy (e.g. the procurement rules ensure procurement in optimal conditions).

DG TAXUD is continuously fine-tuning its internal arrangements in order to improve the efficiency and economy of its operations. The following three initiatives show how these principles are implemented in our DG:

1.2.1 Example 1

The Director General has set up 4 working groups composed of TAXUD's Heads of Unit in order to launch a broad reflection on how to gain efficiency in processes whilst facing possible cuts in human and financial resources. The working groups discussed issues such as stronger prioritisation of activities, improvements in the management of comitology committees and expert groups, in logistics as well as in the handling of briefings.

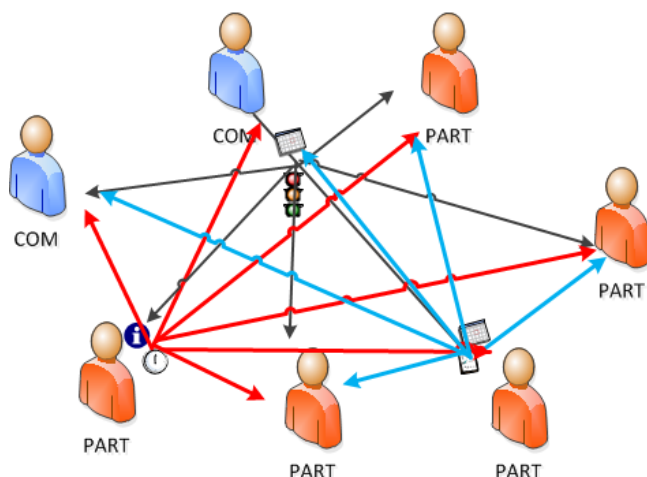
With a view to improve the latter, a collaborative space (Collaboration Tool for Briefings) has been set up where staff can work jointly on a single document and can find easily all existing briefing materiel. This tool replaces email exchanges between the contributors which was burdensome, especially for the coordinator of the briefing, and also posed the risk of unintentionally neglecting a contribution.

Full conclusions are expected in 2014

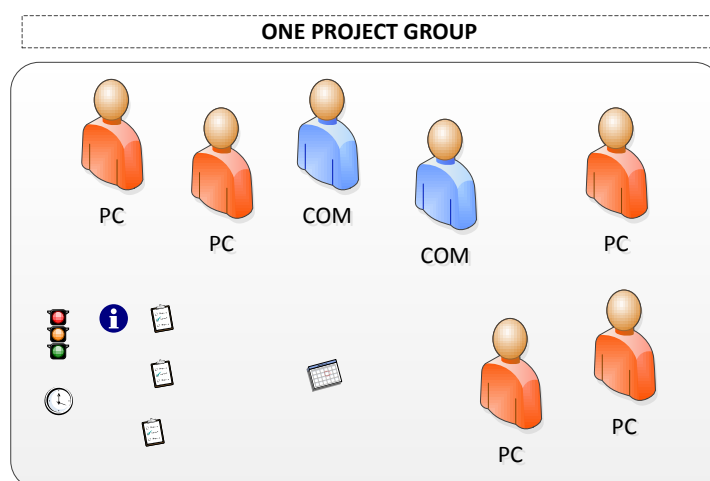
1.2.2 Example 2

In the framework of the Customs and Fiscalis 2013 programme, DG TAXUD rolled out the online collaboration platform "PICS", Programmes' Information and Collaboration Space in March 2013. Programme activities where typically TAXUD and Member States officials are working together, have now a single space where they collaborate and put all information related to the activity. This substitutes the extensive email traffic and individual project memory spaces which were common before.

Present information flow



PICS supported information flow



For projects of longer duration, the online platform allows TAXUD and Member States to interact more intensively in between meetings, preparing the ground for a number of issues from behind their desks and assist better prepared to the meeting. This should build towards more efficient and shorter meetings and eventually a reduction of the number of meetings all together in the coming years. Besides the budgetary savings, this will result in considerable time savings for participants.

The positive trend in its use confirms the utility of the PICS Platform – one year after its implementation the number of users has nearly doubled (1.591 compared to 2.940) and the number of groups has increased from 21 to 83. Thus, by March 2014, 86 meetings have been supported by PICS.

1.2.3 Example 3

Considering the size and the diversity of its IT portfolio, TAXUD has achieved major savings in the implementation and operation of all its IT systems so that with a limited

number of IT staff the DG is able to sustain the ambition of the Programmes.

In June 2010, a sourcing strategy was adopted guiding in the consolidation and operation of the computer infrastructures so as to progress towards operational excellence to the degree possible within the current budgetary and organisation framework. Thus, TAXUD is setting-up two dedicated data centres in Luxembourg and some elements of them became operational in 2013. This allowed the DG to create the infrastructure necessary to migrate its IT operational environments to a single logical location which before that were scattered among 3 different sites.

As per the new outsourcing agreements, the estimated gain is more than 1,5million € yearly at the level of continuous services.

2. MANAGEMENT OF RESOURCES

Assurance is an objective examination of evidence for the purpose of providing an assessment of the effectiveness of risk management, control and governance processes. This examination is carried out by management, who monitors the functioning of the internal control systems on a continuous basis, and by internal and external auditors.

The reports which have been taken as basis for examination are:

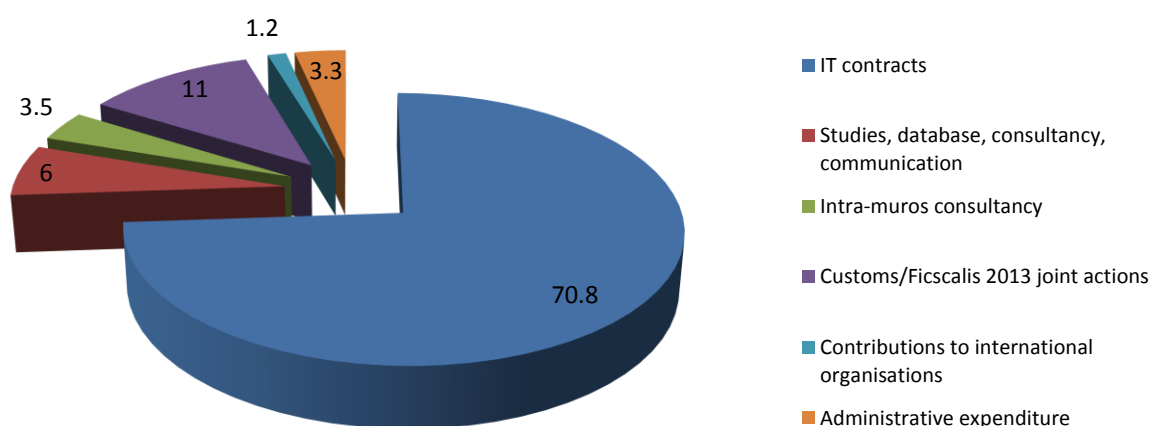
- the declarations by AOSDs;
- the reports from Authorising Officers in other DGs managing budget appropriations in cross-delegation;
- the contribution of the Internal Control Coordinator, including the results of internal control monitoring at the DG level;
- the opinion and the observations of the Internal Audit Capability (IAC);
- the observations and the recommendations reported by the Internal Audit Service (IAS);
- the observations and the recommendations reported by the European Court of Auditors (ECA).

This section reports the control results and other relevant elements that support managements' assurance on the achievement of the internal control objectives¹³. It is structured in three separate sections: (1) the DG's assessment of its own activities for the management of its resources; (2) the assessment of the activities carried out by other entities to which the DG has entrusted budget implementation tasks; and (3) the assessment of the results of internal and external audits, including the implementation of audit recommendations.

DG TAXUD is a policy DG with a relatively small budget (95.8 million € committed in 2013). The budget is implemented on a centralised basis.

¹³ Effectiveness, efficiency and economy of operations; reliability of reporting; safeguarding of assets and information; prevention, detection, correction and follow-up of fraud and irregularities; and 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 32).

TAXUD expenditure (2013 - commitments in Mio €)



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

- **Contracts (IT procurement, intra-muros and miscellaneous)**

The greater part of DG TAXUD's operational budget is dedicated to **IT expenses (70,8 million € committed in 2013)** through several framework contracts between the Commission and IT suppliers to ensure the on-going work of the trans-European networks and related databases, as well as the IT training tools, in line with the Fiscalis 2013 and Customs 2013 programmes (and their successor programmes Customs 2020 and Fiscalis 2020 from 1st January 2014 onwards).

Other contracts relate to **procurement of different tools or services** such as studies, databases, consultations (**6 million € committed in 2013**) or intra-muros technical assistance (**3.5 million € committed in 2013**).

Overall, the value of signed **contracts represents about 84% of the total committed budget** in 2013.

- **Joint Actions under Customs and Fiscalis 2013 programmes**

The Joint Actions (**11 million € committed in total in 2013**) represent the second major category of the expenditure under the programmes. They are managed through 2 multi-beneficiary grant agreements.

The Joint Actions aim at developing better coordination with the national administrations in the tax and customs areas. The expenditure in the framework of the Joint Actions consists of grants awarded to the participating national administrations and reimbursement of costs incurred by experts. The **beneficiaries of these grants** are the public administrations of the 28 Member States and of 5 applicant countries (Albania, FYROM, Montenegro, Serbia and Turkey).

A small part (0,2 million € of committed amount) is devoted to reimbursement of the travel and subsistence expenses of the experts.

Overall, the expenditure related to the **Joint Actions** represents about **12% of the total committed budget** in 2013.

- **Contributions to international organisations**

This type of expenses relates to the membership in international organisations: the World Customs Organisation and the International Tax Dialogue (OECD, IMF and World Bank), and represents about 1% of the total committed budget (**1,2 million €**).

- **Administrative expenditure**

The administrative expenditure managed by DG TAXUD (mission's expenses, meetings of committees and expert groups, training, conferences and other miscellanea expenditure) represents about 3% of the total committed budget (**3,3 million €**).

Besides the above described expenditure, DG TAXUD received the following sub-delegations during the reporting period:

- a cross-sub-delegation from DG ELARG for financing a service contract for IT customs and taxation systems in the candidate countries and for the implementation of the travel, accommodation and conference facility. DG TAXUD committed €47.020,63 and paid €351.876,63. DG TAXUD's AOD issued a report without reservation on the use of these appropriations on 27 January 2014.
- a cross-sub-delegation from DG ESTAT for preparing the use of the Common Communication Network / Common System Interface (CCN/CSI) by application SIMSTAT. DG TAXUD committed €84.600. DG TAXUD's AOD issued a report without reservation on the use of these appropriations on 27 January 2014.
- a cross-sub-delegation from DG ENTR for financing the organisation of meetings and a study in the scope of the "exchange of good practices on the design of tax incentives for research and innovation". DG TAXUD committed €122.000. DG TAXUD's AOD issued a report without reservation on the use of these appropriations on 27 January 2014.

2.1 Management of human and financial resources by DG TAXUD

This section reports and assesses the elements identified by management that support the assurance on the achievement of the internal control objectives. Annex 5 (internal control template) outlines the main risks together with the control processes aimed to mitigate them and the indicators used to measure the performance of the control systems.

2.1.1 Procurement

Financial management and control is grouped around three core processes: 1)

Procurement (from the assessment of needs to the selection of the suppliers – award decision), 2) Financial operations (from establishing the financial commitment to payment, contract monitoring and eventually recoveries) and 3) Supervisory measures (including ‘ex post’ controls and management checks).

Control effectiveness as regards legality and regularity

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

In order to reach this conclusion, DG TAXUD reviews the reporting of exceptions and non-compliance events, defined as control overrides or deviations from policies and procedures.

During the reporting year there were four recorded instances control failure of override, of which none had an impact on the L+R of the transactions. All concerned formal compliance issues which does not have a negative impact on the budget. A fifth instance of control failure was detected at the very end of the reporting period (a budgetary commitment of 717.776,05€, i.e. 0,75% of the total budget, beyond the maximum authorised ceiling of a framework contract). It did not have a negative impact on the budget. Corrective measures and control improvements will be implemented (and reported on) throughout 2014.

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

The correction of the detected erroneous invoicing which involved an amount unduly invoiced, resulted in 45 credit notes for a total amount of 835.819 €. Please refer to table 8 in annex 3 for details. All errors have been discovered before actual payment, that is why no recovery order for unduly paid amount has been issued in 2013.

Control efficiency and economy

The principle of efficiency concerns the best relationship between resources employed and results achieved. The principle of economy requires that the resources used by the institution in the pursuit of its activities shall be made available in due time, in appropriate quantity and quality and at the best price. This section outlines the indicators used to monitor the efficiency of the control systems, including an overall assessment of the costs and benefits of controls.

DG TAXUD has produced an estimation of the costs of the three main control processes. However, since a quantitative estimation of the volume of errors prevented and detected is not available, it is not possible to quantify the related benefits, other than the amounts recovered or discovered as wrongly invoiced as a result of these controls (see previous section). In consequence, it is not possible to determine the cost-effectiveness of controls by comparing costs with benefits; it is necessary to consider the efficiency indicators

retained. To do so, DG TAXUD has defined efficiency measures for the controls associated with the three core processes:

- For Procurements, an estimated 0,415 mil¹⁴ € were invested in controlling 6 procurement procedures for contracts with a total value of 244,026 mil €. Thus 0,17% of the total contract value was dedicated to control and each procurement procedure has an estimated cost of 219.000¹⁵ €. The time to procure¹⁶ was 269,8 days in 2013. The procurement procedures are to a large extent a regulatory requirement which cannot be curtailed. In addition, DG TAXUD considers that the necessity of these controls is undeniable; as shown by the risks outlined in annex 5, as a significant proportion of the appropriations would be at risk in case they would not be in place.
- For payments, an estimated 0,5 mil¹⁷ € were invested in preparing and controlling 839 payments worth 62,8 mil €. Thus about 0,8% of the total payment amount was dedicated to control. In average each financial transaction costs an estimated 600 €. The average time to pay in 2013 was 24 days¹⁸. DG TAXUD considers these controls necessary to be in compliance with regulatory requirements. Otherwise significant proportion of the appropriations would be at risk. For contracts, an estimated 0,5¹⁹ mil € were invested in preparing and controlling about 300 contracts worth about 80,3 mil €. Thus about 0,6% of the total amount contracted was dedicated to control. In average preparation and controlling of each contract costs an estimated 1.700 €. DG TAXUD considers these controls necessary to be in compliance with regulatory requirements. Otherwise significant proportion of the appropriations would be at risk.
- There were no specific ex-post supervisory measures on procurement in 2013. From 2014 onwards, 50% (target) of the public procurement procedures will be scrutinised ex-post by means of lessons learned exercises.

DG TAXUD quantifies the costs of the resources and inputs required for carrying out the controls described in annex 5 and estimates, in so far as possible, their benefits in terms of the amount of errors and irregularities prevented, detected and corrected by these controls. Most benefits however are non quantifiable. Indeed, the benefits of control in non-financial terms cover: better value for money, deterrents effects, efficiency gains, system improvements, protecting from reputational damage and, above all, compliance with regulatory provisions.

¹⁴ 3,15 FTE, representing the efforts of all actors involved in the control of the public procurement procedures (i.e. the actors in the financial unit, the committee on public procurement, the AOS, etc.).

¹⁵ 1,65 FTE, representing the combined efforts of actors in the operational and financial units in preparing and running a public procurement procedure

¹⁶ Elapsed time between the publication of the procurement procedure in the Official Journal and the signature of the award decision.

¹⁷ 3.8 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

¹⁸ The average time to pay comprises all payments executed by DG TAXUD.

¹⁹ 3.8 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 1,415 mil²⁰ € and are considered cost effective (in particular as the cost of these controls represents only 1,49% of the total appropriations).

DG TAXUD considers that the necessity of these controls is undeniable, as the totality of the appropriations would be at risk in case they would not be in place.

See also internal control templates in [Annex 5](#).

2.1.2 Grants

Control effectiveness as regards legality and regularity

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 ICOs) 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%.

DG TAXUD relies on the best estimate of the error rate because in the view of the volume of transactions it would not be cost effective to have a representative error rate from a fully statistically representative sample. The strategy implemented aims to detect and correct the most important errors, rather than determining a representative error rate. In order to have a representative error rate it would have been necessary for DG TAXUD to carry out about 35 audits per year and per programme, which is not justified from a cost/benefit point of view (for more details see section on control efficiency/cost-effectiveness).

The control strategy of DG TAXUD takes into account the specificities of the grants, where the beneficiaries are clearly defined by the programmes. More concretely the beneficiaries of the grants are Member States customs and tax administrations and (potentially) Candidate countries customs and tax administrations.

Other key elements shaping the control strategy are the following:

1. Existence and obligatory use of the IT system ART2, which comprises several embedded controlling measures.

²⁰ A total of 10,71 FTE

2. Many individual actions with relatively small amounts involved for each of the action (reimbursement of travel and subsistence expenditures)

The assessment by management is based on the results of key controls performed in 2013, notably ex-ante controls, monitoring of projects, and desk reviews. The desk reviews are controls performed before the final payment/recovery. In this way it better reflects the specificities of the grants and enables better distinction with other controls. The desk reviews focus mainly on the more risky transactions and on the higher value transactions. Ex-post audits are only performed when indicated by the risk analysis or resulting from the desk reviews. As the value of the eligibility errors discovered during the desk reviews was insignificant, no ex-post audit has been organized in 2013 as they were considered not cost-efficient.

The main indicators from the ex-ante and desk reviews controls are reported below:

	Indicator	Results 2013	Cumulated for the program
Ex-ante controls	% of the projects authorized by TAXDUD	100%	
	of rejected project proposals	5%	4.5%
	% of actions authorized by TAXUD	100%	
Desk review controls	Detected Errors from desk reviews (number of cases)	16	
	Detected Errors from desk reviews (€)	21K €	
	Detected Errors from desk reviews (% over the total value of the grants)	less than 0.01%	
"Recoveries"	Value of "official" recoveries as per the Communication on the protection of EU financial interests – representing recovery of unused pre-financing	1.3 mil €	

The fact that the beneficiaries of the grants are clearly defined by the programmes and that all projects and actions are ex-ante approved by TAXUD, we can conclude that the controls related to the selection and contracting phases ensures the legality and regularity of the grants commitments.

All payments requests and recovery orders are verified by the ex-ante controls embedded in the financial circuits. Moreover, before each payment request or recovery order the desk reviews are performed. The desk reviews enabled detecting and preventing cost eligibility errors of about € 21 thousand or less than 0.01% of the total costs declared.

Throughout the year, DG TAXUD has analysed the main causes and types of error most commonly detected and concluded that they not call into question the assurance.

Control efficiency and cost-effectiveness

The principle of efficiency concerns the best relationship between resources employed and results achieved. The principle of economy requires that the resources used by the institution in the pursuit of its activities shall be made available in due time, in appropriate quantity and quality and at the best price. This section outlines together with the ICT in Annex 5 the indicators used to monitor the efficiency of the control systems, including an overall assessment of the costs and benefits of controls.

	Indicator	Results 2013	Cumulated for the program
Ex-ante controls	Total estimated HR costs of ex-ante controls linked to programming stage	270K €	
	Total estimated HR costs of ex-ante controls linked to contracting stage	90K €	
	Total estimated HR costs of ex-ante control linked to monitoring and execution stage	500K €	
Desk review controls	Total estimated HR costs of desk review controls linked to desk reviews	90K €	
	Detected Errors from desk reviews (€)	21K €	

The focus on the ex-ante controls ensures that the detected desk reviews errors are kept at minimum level. The main benefits of the control strategy are not quantifiable as it mostly responds to the compliance obligation with the regulatory framework.

Overall control system (all stages combined)

Total cost of financial management & control FTE²¹ / total value of operational payments made	10%	
Total benefits of financial management and control (excl. the non-quantifiable benefits) /total value of operational payments made	Mainly non-quantifiable (see assessment in the text)	
Total benefits of financial management and control (excl. the non-quantifiable benefits) /total costs of financial management and control	Mainly non-quantifiable (see assessment in the text)	

DG TAXUD quantifies the costs of the resources and inputs required for carrying out the controls described in annex 5 and estimates, in so far as possible, their benefits in terms of the amount of errors and irregularities prevented, detected and corrected by these controls (as per Annex 3, table 8). In addition, there are also a number of non-quantifiable but undeniable benefits resulting from the controls operated. DG TAXUD considers that the necessity of these controls is undisputable, as the totality of the appropriations would be at risk if the above controls were not in place.

In terms of costs/benefits analysis of certain controls, it has to be kept in mind that while most costs of controls are quantifiable in monetary terms, most of their undeniable

²¹ 7,2 FTEs, representing the combined efforts of actors in the financial and operational units involved in the whole lifecycle of the grant agreements (programming, contracting, monitoring, executions, controls, reviews etc.)

benefits are not. The selection controls ensure that the most meriting projects are funded, which is a very significant but mostly qualitative benefit. The main qualitative benefit is the assurance of the legality and regularity of transactions.

In terms of overall control cost-effectiveness, the cost of FTE staff involved in financial management and control of the grant programme represents about 10% of the total value of operational payments made.

Fraud prevention and detection

DG TAXUD has developed its anti-fraud strategy²² as foreseen in the Commission's overall anti-fraud strategy.²³ The implementation of the actions defined in the action plan enclosed to the adopted strategy progress according to the plan and will be fully implemented by end of 2015.

The controls aimed at preventing and detecting fraud are not essentially unlike those intended to ensure the legality and regularity of the transactions. Each year DG TAXUD assesses the risk of fraud in the context of its risk management exercise. The fraud risks are mitigated by the specific measures implemented to mitigate these risks. Activities and operation that are at a higher risk of fraud are subjected to more in-depth monitoring and control. These measures are related in case of procurement to information and document security, in case of Joint Actions the risk-based sample ex-post controls of financial reports and if necessary on-the-spot audits (see Annex 5). Given the low risk nature of beneficiaries / contracts, the controls aiming fraud prevention are fully embedded in the control strategy of the DG. More information on the fraud related controls in place can be found in DG TAXUD's anti-fraud strategy (Ares(2013)3655698).

During the reporting year, no cases were transmitted to OLAF/IDOC²⁴ for investigation. In addition, during the same period, OLAF did not initiated any cases which concern the activities of DG TAXUD based other sources of information.

Both OLAF and IDOC reports annually on the follow up of their investigations.

2.2 Budget implementation tasks entrusted to other services and entities

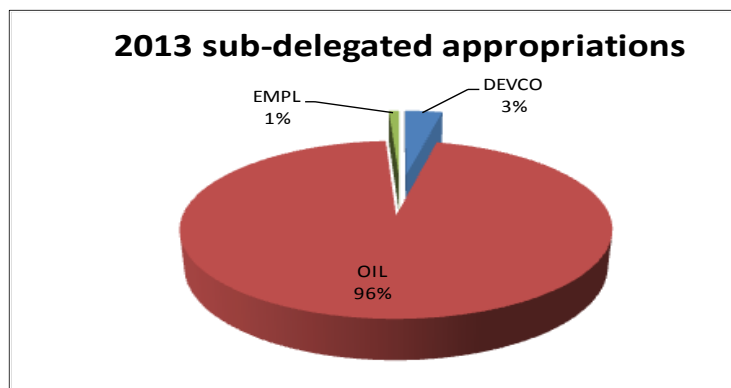
This section reports and assesses the elements that support the assurance on the achievement of the internal control objectives as regards the results of the DG's supervisory controls on the budget implementation tasks carried out by other Commission services.

²² Ares(2013)3655698

²³ COM(2011) 376 24.06.2011

²⁴ Investigation and disciplinary Office (IDOC) is to ensure compliance by (former) officials and other agents with their obligations as laid down in the Staff Regulations (SR) by conducting administrative inquiries and disciplinary procedures in a fair, transparent and timely manner.

As in previous years, DG TAXUD has cross-sub-delegated appropriations (a total of 3,2 mil €) to DG DEVCO, OIL and DG EMPL. Being a Commission service itself, the AOD is required to implement the appropriations subject to same rules, responsibilities and accountability arrangements.



- A cross-sub-delegation was given to DG DEVCO in the scope of the "Tax and Development" Communication. DG DEVCO paid €111.946,63. The DG DEVCO AOD submitted a report without reservation on the use of these payment appropriations on 3 February 2014.
- A cross-sub-delegation was given to OIL in the scope of the IT data centres in Luxembourg (rental fees, outfitting of the rooms, cabling works, etc.). OIL paid €3.073.958,90. The OIL AOD issued a report without reservation on the use of these payment appropriations on 31 January 2014.
- A cross-sub-delegation was given to DG EMPL in the scope of the "Tax Wedge and Effective Tax Rates on Labour" action. DG EMPL paid €30.371,43. The DG EMPL AOD issued a report without reservation on the use of these payments on 5 February 2014.

The cross-delegation agreement requires the AOD of DG DEVCO, OIL and EMPL to report on the use of these appropriations. As reported above, the AODs did not communicate any events, control results or issues which could have a material impact on assurance.

These reports have been submitted to a desk review, which did not result in any observations.

For the 2013 reporting year, the cross-delegated AODs have themselves reported reasonable assurance on the delegated budget managed by them on our behalf. They have signalled no serious control issues.

2.3 Assessment of audit results and follow up of audit recommendations

This section reports and assesses the observations and conclusions reported by auditors which could have a material impact on the achievement of the internal control objectives, and therefore on assurance, together with any management measures taken in response to the audit recommendations.

The DG is audited by both internal and external independent auditors: its internal audit capability (IAC), the Commission internal audit service (IAS), DG Budget and the European Court of Auditors (ECA).

Performed audits in 2013

During the period of reference, the IAS started two audits; one horizontal multi-DG audit on the “Planning stage of the selection process” and a performance audit on “Customs activities”. These two audits were not yet finalised by the end of the reporting year.

DG Budget performed an audit on the validation of local systems in TAXUD. Furthermore, the IAC carried out a total of 3 new and 3 follow-up audit assignments in accordance with its annual audit work plan which is established following a risk assessment of the auditable entities and which is coordinated with the Internal Audit Service (IAS) of the Commission.

2.3.1 Internal Audit Service (IAS) audits

There were no finalised IAS audits during the reporting period. The two on-going audits are:

2.3.1.1 Planning stage of the selection process

This horizontal multi-DG audit covers the definition of recruitment needs by Commission and DGs/Services, the coordination and monitoring role played by DG HR and the planning processes implemented by EPSO. Beside DG HR and EPSO, the audit covers a sample of operational DGs/Services, among them DG TAXUD. The audit started in DG TAXUD with an opening meeting in October 2013 and is currently on-going.

2.3.1.2 Performance audit on Customs Activities in DG TAXUD

The audit started with a limited review on Customs activities and has been converted into a performance audit which is started in 2013 and will normally be finalized early 2014.

2.3.1.3 Follow-up of IAS audit recommendations and impact on assurance

There are no open recommendations issued by IAS. All recommendations related to the 2012 finalised IAS audit on “Monitoring implementation of EU law” are considered as implemented. Consequently, the current state-of-play does not lead to assurance-related concerns.

2.3.2 Internal Audit Capability (IAC) audits

2.3.2.1 Audit on the capitalisation of intangible assets in DG TAXUD

The audit started end of 2012 and has been finalised in July 2013. The scope of the audit covered the accounting of internally developed intangible (IT) assets or purchased

existing technologies adjusted to EC environment.

The report was finalised in July 2013 and contains all together 8 recommendations (4 very important, 3 important and 1 desirable recommendations). The auditors came to the conclusion that the internal control system in place does not provide reasonable assurance regarding the achievement of the business objectives set up for the accounting of DG TAXUD intangible assets. The following major observations lead the auditors to this opinion:

1. Capitalising projects that should have been expensed or not capitalising projects early enough to give a true and fair view of their value,
2. Failure to define and take properly into account the project milestones as required to apply the accounting rules,
3. Capitalising costs that do not meet capitalisation criteria,
4. Lack of supporting documents and audit trail.

An Action Plan has been elaborated and accepted by IAC. The implementation of the recommendations is ongoing and will be finalised by the end of 2014. Resulting from the findings of this IAC audit and the audit performed by DG Budget “Validation in the local systems”, the management decided – beyond the implementation of the audit action plans throughout 2014 – to prioritise ICS13 “Accounting and Financial Reporting” for further monitoring in 2014.

2.3.2.2 Audit on intra-muros

The audit focused on the management process that governs the intra-muros consultants working for DG TAXUD and the application of these rules in the daily management of and work relations with intra-muros.

The audit report was finalised in October 2013 and contains one very important and three important recommendations. It concludes that the internal control system in place provides reasonable assurance regarding the use and management of intra-muros, except the management of the daily activities of intra-muros.

The Action Plan contains two accepted important recommendations which will be implemented in course of 2014.

2.3.2.3 Audit on Ethics in DG TAXUD

The objective of the audit was to check that units in charge of ethical matters put in place adequate measures concerning ethics and integrity. Furthermore, the audit assessed whether TAXUD staff is aware of and adheres to the rules laid out in the ethics framework of the Commission.

The audit started in the second half of 2013 and contained - among others – a staff survey. The final audit report was issued in February 2014.

2.3.2.4 Follow-up audits performed and audits closed in 2013

As regards the following audits, IAC came to the conclusion that the following audits **can be closed**:

- Follow-up audit on Impact Assessment (audit conducted in 2010)
- 2nd follow-up audit on Joint Actions (original audit 2006, 1st follow-up 2010)
- 2nd follow-up audit on the Execution of Operational Budget line 140201 'Implementation and development of the Internal Market'- follow-up audit (original audit 2007, 1st follow-up audit 2011).

2.3.2.5 Follow-up of IAC audit recommendations and impact on assurance

Management has accepted the auditors' recommendations except two recommendations concerning the audit on intra-muros consultants. Action plans have been submitted which have been assessed favourably by the auditors. The implementation of the action plans to the audits finalised in 2013 are on-going and shall be completed by end of 2014. As regards the implementation of recommendations issued in previous years, the relevant action plans are implemented as foreseen. The recommendations that are still open do not undermine the declaration of assurance²⁵.

In its opinion on the state of control in DG TAXUD in 2013 (*Ares(2014)209707 - 30/01/2014*), the IAC found that based on the results of the audits the internal control system in place provided reasonable assurance regarding the achievement of the business objectives set up for the processes audited except for a number of (very) important qualifications related to the accounting of DG TAXUD's intangible assets, daily management of intra-muros consultants, the extent of externalisation of IT tasks and the risk related to tighter procedures at the year-end bottleneck on the "Internal Market" budget line. These observations though assessed as (very) important by the auditors in the context and the scope of the audits did not have a material impact on the accounts of the DG.

2.3.3 DG BUDG audit

2.3.3.1 Validation of the local systems

DG BUDG C3 performed an audit on the validation of the local financial systems in TAXUD. The scope of the audit was to evaluate the local accounting systems which include both of the administrative processes designed to ensure the quality and completeness of data entered into the Commission's accounts and the IT systems supporting these processes. The evaluation focused on the following areas: cut-off; IT expenses and intangible fixed assets; expenses done via cost claims; implementation of

²⁵ Audit on the management of the implementation of recommendations of the European Court of Auditors and Discharge Authority (2012)

the ex-post controls strategy for 2012-2013; recovery orders.

The validation findings stated that the financial management system meets the validation criteria drawn up by the Accounting Officer, except for the effects of the accounting treatment of internally developed intangible assets (ITFAs). This finding resulted in one very important recommendation “*Strengthen the internal control systems for the accounting of ITFAs*” which refers to the recommendations issued by IAC in course of its audit on the capitalisation of intangible assets.

As it is already mentioned among the IAC audit findings “Audit on the capitalisation of intangible assets”, the findings of these two audits led to the prioritisation of ICS13 for further monitoring in 2014.

2.3.4 European Court of Auditors (ECA) audits

In 2013 the ECA did not issue any special report concerning DG TAXUD's activities. With regard to the ECA's Annual Report concerning the financial year 2012, there are no new recommendations for DG TAXUD issued in 2013.

A new performance audit was launched by the Court of Auditors on Preferential Trade Arrangements in 2012 which continued in 2013. Potentially relevant issues for DG TAXUD are monitoring visits in countries benefiting from preferential trade arrangements, and REM/REC cases (i.e. decisions concerning requests for non-recovery of duties and requests for remission or repayment of duties). The Special Report is expected to be finalised in 2014 and its impact on assurance will be estimated in the 2014 AAR.

The ECA visited TAXUD in December 2012 and used TAXUD's IT systems as a benchmark in its audit conducted in DG HOME on the Schengen Information System (SIS II). The Special Report is expected to be published in 2014.

2.3.4.1 Follow-up of open recommendations and impact on assurance

There are two Special Reports of the European Court of Auditors which concern DG TAXUD and contained open recommendations in 2013. These Special Reports are:

- **The ECA's Special Report 1/2010 on simplified customs procedures for imports**

The Special Report released on 7 June 2010 contains 12 recommendations accepted by the Commission. 9 of them were completed by end of 2013. The implementation of the remaining 3 is on-going:

- 1 very important recommendation “to urge MS to implement the recently-created regulatory framework” is expected to be completed by end February 2014 when the revision of the Customs Audit Guide should be ready;
- 1 important recommendation requiring computerisation by end of 2015;
- 1 important recommendation requiring further simplifications by May 2016.

- **The ECA's Special Report 13/2011 on VAT evasion – Customs Procedure 42**

The Special Report published on 13 December 2011 contains 8 recommendations, out of which the Commission accepted 5. 4 out of 5 accepted recommendations have been implemented before the completion date of 31/12/2012; the implementation of the remaining one (Recommendation 3 - guidance to MS clarifying when to use mutual assistance or administrative cooperation) was completed on 25/09/2013.

2.3.5 Conclusion of the chapter

As a result of the assessment of the risks underlying the auditors' observations together with the management measures taken in response, the management of DG TAXUD believes that the recommendations issued do not raise any assurance implications and that they are being implemented as part of the on-going continuous improvements efforts. Still, inter alia, taking into account some of the audit results, ICS 13 has been selected as one of the priority ICSs for further improvement of its effectiveness.

3. ASSESSMENT OF THE EFFECTIVENESS OF THE INTERNAL CONTROL SYSTEMS

The Commission has adopted a set of internal control standards, based on international good practice, aimed to ensure the achievement of policy and operational objectives. In addition, as regards financial management, compliance with these standards is a compulsory requirement.

DG TAXUD has put in place the organisational structure and the internal control systems suited to the achievement of the policy and control objectives, in accordance with the standards and having due regard to the risks associated with the environment in which it operates.

DG TAXUD annually assesses the effectiveness of its key internal control systems. The assessment relies on a number of monitoring measures and sources of information.

The annual review of the Internal Control Standards (ICS- 15) was based on an initial desk review followed by a screening exercise of the 16 standards involving the relevant horizontal units responsible for the implementation of the ICSs. For the prioritised ICSs in the reporting year, a detailed examination of the standards took place with special attention to the aspect which led to the prioritisation of the standard. Furthermore, the declaration of AOSDs' has been checked and the register of exceptions and non-compliance events were analysed in order to identify the underlying causes behind these events. When necessary, corrective and alternative mitigating controls have been implemented. The outcome of the yearly risk assessment exercise, audit reports and recommendations were analysed and the IAC's Opinion has been taken into account as well.

3.1 Review of the prioritised ICS in the reporting year

In its management plan for the reporting year, DG TAXUD has prioritised ICS 3 “Staff Allocation and Mobility” and ICS 11 “Document management” for further monitoring. By the end of the reporting year, the measures taken to further improve the effectiveness of both standards were satisfactorily implemented.

As regards prioritised standard ICS 3“Staff allocation and mobility”:

In the context of the annual risk assessment exercise in 2012, the issue of staff cuts have been identified as a challenging area for the coming years and highlighted the need for a DG-wide discussion.

In this respect, several Heads of Unit working groups have been established in order to explore possible ways and means to increase efficiency whilst facing possible cuts in human and financial resources.

Further actions taken:

- Further action was taken concerning vacant posts. They were only released for publication if it was duly justified and considered in line with the priorities of the

DG. Moreover, from the redeployment pool, posts were distributed to prioritized areas.

- In order to further increase the efficiency, the review of the organisational structure and several minor changes took place in September 2013.

These changes allowed efficiency gains with the DG in two ways. First of all, current coordination requirements between customs units have been substantially reduced. Secondly, the merges allowed more flexibility among the staff and reinforced the impact of the DG TAXUD policy in these areas, notably in the trade facilitation area.

- **As regards prioritised standard ICS11 “Document management”**

This standard has been prioritised in view of the correct use of Ares and the attribution on inter-service consultations.

Actions taken:

- Meetings with Heads of Unit and DMO correspondents took place in order to clarify their responsibility in document management, including appropriate security measures (markings file restrictions, paper storage and document retention).
- Regular meetings with DMO correspondents and regular information to all users on concrete subjects.
- Information on different eDomec training sessions proposed by DIGIT/SG was provided to users.
- For newcomers, the link to the “eDomec Toolkit” and “Search Ares Quick Wins” document has been included in the welcome e-mail send by TAXUD HR in order to enable quick start of new staff by providing a brief overview about the most important document management tools and rules.
- The AST Network organised 4 Ares training sessions “Ares for dummies” in the DG in order to enhance the practical knowledge about the functionalities of Ares.
- The DMO regularly performed monitoring actions concerning the filing of documents and document registration quality.
- As for problems related to errors in the attribution of inter-service consultations and other documents, it was pointed out that the number of errors is rather small compared to the total volume of attributions. Generally attribution errors are detected and corrected quickly.

3.2 Risk environment and challenges in 2013

DG TAXUD is a policy DG with a relatively small budget (94,5 million Euro) that mainly serves to finance the trans-European customs and taxation IT systems.

The inherent risk associated with the DG’s activity and the impact on controls are mainly related to IT (business) continuity issues (ICS10 Business continuity and ICS12 requirement 6, ICS7 IT governance), and dealing with sensitive information (ICS11

Document management, ICS 2 Ethical and organisational values – especially dealing with external stakeholders such as lobbyists, tenderers, contractors and potential conflict of interest issues). This particular risk environment is fully reflected in the identified risks during the annual risk assessment exercise, in the audit work performed during the reporting year (see 2.3), described in DG TAXUD's Anti-fraud strategy (*Ares(2013)3655698*) and underlined in the selected priority IC standards for 2014 (see below).

In 2013 the challenges in this risk environment were related to the renewal of all major IT Framework contracts which resulted in long and complex transitions between the incumbent and the new contractors. The two new data centres of the DG in Luxembourg started to become operational during the reporting period. A minor organisational change in the DG took place in September. Apart from these circumstances, no major event influenced the risk environment of the DG.

In order to follow-up on the IT contractor changes and to closely monitor the risks related to IT continuity, ICS10 and ICS12 have been prioritised for further monitoring in 2014. Two critical risks have been identified in the scope of the 2013 risk assessment exercise. Both of these risks are related to the long term assurance of IT continuity and are reported in the 2014 Management Plan.

3.3 The overall conclusion of the annual review and the prioritised ICS for 2014

As already mentioned at the beginning of this chapter, the annual assessment of the effective implementation of the Internal Control Standards was based on the following information sources:

- initial desk review,
- screening exercise of the 16 standards involving the relevant horizontal units responsible for the implementation of the ICSs,
- the declaration of AOSDs',
- the analysis of the entries in the register of exceptions and non-compliance events (ICS 8),
- the outcome of the yearly risk assessment exercise, and
- the analysis of audit reports and recommendations and taking into account IAC's opinion.

Based on the results of the screening exercise and the annual risk assessment exercise, and taking into account the current risk environment, the management has decided to prioritise ICS10 and ICS12 in 2014. Audit results revealed that in case of ICS13 further efforts are needed concerning the accounting treatment of internally developed intangible fixed assets in order to be fully compliant with the standard. Therefore ICS13 is also prioritised in the Management Plan 2014 for closer monitoring. Furthermore, in order to increase the effectiveness of the implementation of ICS6, more risk management awareness raising measures will take place in the DG during 2014.

Concerning the overall state of the internal control system, generally the DG complies

with the three assessment criteria for effectiveness; i.e. (a) staff having the required knowledge and skills, (b) systems and procedures designed and implemented to manage the key risks effectively, and (c) no instances of ineffective controls that have exposed the DG to its key risks.

The declarations of the AOSD's and the auditors' opinion on the state of the internal control system do not raise any assurance implications.

In 2013, no fraud case was referred to by OLAF and no important incident or major event affecting the internal control system took place.

The internal control standards are effectively implemented with the exception of standards ICS10, ICS12 and ICS13. Even though these standards are subject for further monitoring in 2014, the degree of non-effective implementation only relates to some requirements affecting certain units and not the entire standard / DG.

Furthermore, DG TAXUD has taken measures, throughout the reporting period, to further improve the efficiency of its internal control systems in the area of staff allocation and document management.

In conclusion, the control procedures put in place in DG TAXUD provide reasonable assurance that the key objectives are met and that the activities are carried out as intended taking into account the allocated resources and the identified risks.

4. MANAGEMENT ASSURANCE

This section reviews the assessment of the elements reported in Parts 2 and 3 and draw conclusions supporting of the declaration of assurance and namely, whether it should be qualified with reservations.

4.1 Review of the elements supporting assurance

The information reported in Parts 2 and 3 stems from the results of management and auditor monitoring contained in the reports listed. These reports result from a systematic analysis of the evidence available. This approach provides sufficient guarantees as to the completeness and reliability of the information reported and results in a complete coverage of the budget delegated to the Director-General of DG TAXUD.

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

In part 2.1 these two expenditure areas were analysed. 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 and ex-post controls of financial transactions 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 1,4 M€ for procurement and 0,950 M€ for grants, is considered cost-effective. The control strategy for grants is fit for purpose and in line with the specificities of the grant agreements (beneficiaries directly identified in the legal base (no calls for proposal), mostly reimbursement of pre-agreed projects and actions, relatively small amounts). The overall procurement and grant control procedures put in place give the necessary guarantees concerning the legality and regularity of the underlying transactions and also aim to prevent and detect fraud.

DG TAXUD has cross- sub-delegated a relatively limited amount to other Commission DGs. Information received from other Authorising Officers gives reasonable assurance that the resources allocated to the activities covered by the crossed sub-delegations were used in accordance with the purposes and the principle of the sound financial management.

Furthermore it was demonstrated in chapter 2.3 that the results from the audits performed in the past year, their recommendations and follow-ups support the above mentioned reasonable assurance about the correct use of the resources.

Concerning the overall state of the DG's control system, the DG generally complies with the ICSs. The chosen prioritised standards for further monitoring and derived actions clearly reflect and respond to the current risk environment of the DG. There is a continuous effort to improve the effectiveness of the internal control system.

In summary, the information reported in parts 2 and 3 covers the entire budget delegated to DG TAXUD in 2013. 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 conclusions of each chapter in parts 2 and 3 support the declaration of assurance.

4.2 Reservations and overall conclusion on assurance

Not applicable

DECLARATION OF ASSURANCE

I, the undersigned,

Director-General of the Directorate General for 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 view²⁶.

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 capability, the observations 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, 26/03/2014

(signed)

Heinz ZOUREK

²⁶ True and fair in this context means a reliable, complete and correct view on the state of affairs in the service.