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European Commission

2014

Annual Activity Report

Directorate General for Taxation and Customs Union

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INTRODUCTION:

The DG in brief

The Directorate General Taxation and Customs Union's (TAXUD) mission is twofold: develop and manage the **Customs Union**, one of the European Union's earliest achievements, and to develop and implement **tax policy across the EU.** Customs and tax policy are cornerstones of the Internal Market and its smooth and efficient functioning is essential for EU citizens, businesses and the Member States.

TAXUD's **priority** for tax policy and the application of the EU tax law is to work towards a coherent tax strategy and uniform implementation of the EU law in the Member States **limiting** the **distortions** which arise from the interaction of the 28 tax systems of the Member States. TAXUD's **main focus** concerns the **fight against tax fraud and tax evasion, harmful tax practices and aggressive tax planning**. In this context and in full coherence with G20/OECD work, it develops activities to create fair and efficient tax systems and to promote greater cooperation between tax administrations.

In European context, tax initiatives are subject to the **unanimity principle**, an impeding factor conditioning the pace of progress. In the framework of the European Semester, TAXUD recently took on responsibility for the economic analysis of national tax policies and preparing the country-specific recommendations in the field of tax policy.

In the area of customs policy, TAXUD focuses predominantly on **simplifying and modernising the customs environment**, and developing the general customs legislation, tariff, origin and valuation issues, customs control and procedures. TAXUD also handles the day to day management tasks that support the work of Member States, notably through Committee structures with Member States. The DG also works to set out a strategic framework for customs risk management covering all types of transactions and measures against illicit, restricted and prohibited goods and establishing effective risk assessment. This framework is key for controlling and managing the supply chains used for the international movement of goods and therefore includes activities to enhance sharing of risk information among customs authorities and between customs authorities and other governmental agencies. When building the framework TAXUD takes into account the need to facilitate legitimate trade and limiting the administrative burden on the business community, without compromising safety and security of the Union though.

TAXUD manages the multi-annual **Fiscalis 2020** and **Customs 2020 EU programmes.** These aim respectively to improve the proper functioning of the taxation systems and to support the functioning and modernisation of the Customs Union within the internal market. The programmes are implemented through annual work programmes. Programme activities aim to enhance cooperation between participating countries, their tax/customs authorities and their officials. The combined total budget for the period 2014-2020 is EUR 746,3 million (Fiscalis 2020: EUR 223 million; Customs 2020: EUR 522 million). Around 80% of the budget finances the more than 60 trans-European applications and databases operated under the management of TAXUD and the closed and secure trans-European communication network (CCN/CSI) that supports the exchange of customs and tax data within the Internal Market. These IT systems are used by customs and tax administrations of Member States, some neighbouring countries and the business community. They have an impressive user population that runs into thousands of individuals**.** Ensuring the IT continuity is therefore of paramount importance and a major challenge for TAXUD as disruptions would affect national administrations, citizens and businesses across the entire EU and hamper the functioning of the Customs Union and Internal Market in general.

The remaining programme budget finances "joint actions" (e.g. seminars, working visits, workshops, project groups) bringing together tax/customs officials to exchange good practices and to develop training activities with and for national customs/tax administrations (e.g., EU eLearning modules and a Customs competency framework). The programme primarily targets tax/customs officials of EU Member States, but a number of candidate countries and potential candidate countries also participate in the programme.

DG TAXUD reports to Commissioner Moscovici for Economic and Financial Affairs, Taxation and Customs and to Vice- President Dombrovskis.

DG TAXUD personnel add to 458 permanent posts (as of 2014 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 and the IT systems, 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 and related IT systems – i.e. one for indirect and the other one for direct taxation, while 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 and OLAF in the context of its activities. TAXUD has entrusted small shares of its budget to DG DEVCO, DIGIT and DG EMPL (more information in section 2.2).

The year in brief

Taxation

EU tax systems must support the Internal Market and the growth strategy. The Directorate General (DG) for Taxation and Customs Union aims at addressing the concerns of businesses and individuals operating within the Internal Market by endeavouring to eliminate tax obstacles to all forms of cross-border economic activities and by tackling features of Member States' tax laws that are incompatible with the EU Treaty. It also works to enhance cooperation among Member States' tax authorities so as to improve the functioning of tax systems. In this context EU tax activity also supports wider EU policy goals, such as competitiveness, economic growth and sustainable development.

The year 2014 was an important year for the **fight against tax fraud, tax evasion and aggressive tax planning,** finalising agreement on a number of files.

After six years of negotiations, **Member States unanimously adopted** an amendment to the **Savings Directive** in **March 2014**, extending the scope of the initial directive. The amendment strengthens the existing rules on exchange of information on the income from savings of non-resident individuals with the tax authorities where the individual resides, and as such closes an important loophole exploited by tax evaders.

This agreement paved the way in **December** for the **adoption** by the Council of the **Directive on Administrative cooperation in the field of Direct Taxation** that widens the scope of **automatic exchange of information** within Europe in line with global standards. It means that, **from 2017**, Member States' tax authorities will **automatically exchange** information with each other on **most categories of income and capital** held by private individuals and certain entities. EU law is fully aligned with the **global standard for the Automatic Exchange** of Financial **Information** in Tax Matters, as negotiations developed in parallel at EU and OECD levels, thereby minimising burden and costs on the financial industry.

Against this background, the Commission continued negotiations with **Europe's closest neighbours** (Monaco, Andorra, Liechtenstein, Switzerland and San Marino) on the exchange of information on income and capital of EU citizens. These talks will continue in 2015.

Recently, **corporate taxation reform** has gained momentum. In 2014, work to fight **base erosion and profit shifting** mechanisms, under which companies shift their profits to low-tax jurisdictions, progressed.

As a follow-up of the 2012 Action Plan against tax fraud and tax evasion, in November 2013 the Commission proposed amendments to the **Parent-Subsidiary Directive** to block a prevalent form of aggressive tax planning, known as **hybrid loan arrangements,** and to strengthen **the general anti-abuse rule.** The Council agreed in June 2014 to shut off double non-taxation opportunities favoured by hybrid loans mismatches. As a consequence of this amendment, profit distributions shall be taxed at the level of the receiving parent company to the extent that they are deductible by the distributing subsidiary. In December 2014 the Council also agreed to introduce a mandatory common anti-abuse clause as "de minimis" rule in the parent-subsidiary directive. This new legislation, formally adopted in January 2015, requires Member States to refuse the benefits of the parent-subsidiary directive to not "genuine" arrangements (or parts thereof) put in place to obtain a tax advantage (i.e. to arrangements which are not reflecting economic reality). Member States are allowed to apply stricter or more specific domestic provisions or double tax treaty anti-abuse provisions as long as they meet the minimum EU requirements. Both amendments have to be implemented by Member States by 31 December 2015.

In parallel, with the support of the **Platform on Good Governance**, established in **2013**, the Commission **encouraged** in **2014** Member States to base **anti-abuse rules** on common elements and to encourage third countries to respect good governance principles respectively.

The new Commission keeps the introduction of fair taxes high on the political agenda. Its political guidelines, the political contract with the European Parliament, mention explicitly the adoption at EU level of a **Financial Transaction Tax** and a **Common Consolidated Corporate Tax Base** (CCCTB) to ensure a closer link between taxation and economic activity and shutting off major channels of avoidance.

In 2014, the technical discussions on the Financial Transaction Tax went on in Council and among the 11 Member States of the enhanced cooperation. The discussions focused on the definition of the taxable base and the principles of taxation. Following the Finance Minister declaration at the December 2014 ECOFIN, an agreement on a compromise text could be expected by mid-2015.

The technical discussions on the Common Consolidated Corporate Tax Base (CCCTB) went on in Council and focused on the elements of the taxable base (no consolidation), with a special emphasis on the international and anti-avoidance provisions. In parallel to the developments of the OECD-BEPS project, a re-launch of the proposal is foreseen in the 2015 Commission work programme.

In the **indirect tax field**, a certain degree of harmonisation has already been achieved but the current EU VAT system still has many shortcomings, hindering businesses from reaping the full benefits of a true single market. During 2014, **preparations** were completed for a **major change** in the EU VAT System. On 1 January 2015, the **place of taxation** shifted to destination and VAT on all telecommunications, broadcasting and electronic services is now due where the customer is based, rather than where the supplier is located. This changeover will ensure a more level playing field for businesses, and fairer taxation rights amongst Member States. In parallel, a **mini One Stop Shop** (MOSS) IT system has been launched, greatly reducing costs and administrative burdens for businesses concerned. With the mini One Stop Shop, businesses supplying e-services to customers in more than one EU country will be able to declare and pay all their VAT in their own Member State. In 2014, TAXUD invested significantly in informing the business community with guidelines and explanatory notes published amongst others in all EU languages as well as Chinese, Japanese and Russian, and organising 10 dedicated events in Europe, Japan and the US. These efforts were particularly welcomed by business representatives.

On 2 February 2014, the Commission adopted its first report on **the application of Council**

Regulation (EU) No 904/2010 concerning administrative cooperation and combating fraud in the field of value added tax. The **VAT GAP study** was **updated**. VAT revenues lost to non-compliance or non-collection equates to 16% of total expected VAT revenue of 26 Member States in 2012.

In this anti-fraud context TAXUD continued to support the work of **EUROFISC**, the Member States' network to fight VAT fraud. In 2014 the Benelux countries conducted a pilot project for a Social Network Analysis (SNA) data mining tool, analysing data available from Eurofisc and VIES. The results were very promising and the Commission was requested by the pilot countries to provide technical and financial support to extend the use of this tool to all Member States. The Commission is now looking for political support from Member States in Council before responding to the request.

As VAT fraud is not limited to the EU Member States, the Commission had requested from Council **a mandate to negotiate a bilateral agreement** on administrative cooperation and fight against VAT fraud with Norway and Russia. The Commission obtained in December 2014 the mandate to start negotiations with **Norway**, whereas the mandate with **Russia** was put on hold for political reasons.

For the Value Added Tax System, the Commission in 2014 also published a **paper** setting out five options for shaping the **future VAT regime**, being simpler, more effective and more fraud-proof than the temporary and out-dated VAT system. In October, a Staff Working Document on the definitive VAT system based on the destination principle was published.

For the Commission, citizens and businesses must enjoy the benefits of operating across borders within the Internal Market without facing tax obstacles and being burdened with high compliance costs. As such the work towards **simplification** was pursued in 2014. The proposal for a **standard VAT return**, one of the initiatives set out in the Commission **REFIT programme** for simplifying rules and reducing administrative burdens for businesses, was discussed in Council in 2014, but negotiations are difficult because not all Member States agree to amend their own declaration in this context.

During 2014, the Council position for the **revised energy tax Directive** denatured the initial Commission proposal and the Commission decided to withdraw its proposal.

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 EU-wide compliance reviews and horizontal application of judgments 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

Customs continues to play a prime role in the Internal Market. Customs operations in the EU now account for around 15 % of world trade, handling imports and exports worth over €3 400 billion every year: every minute, on average, 4 200 tonnes of goods are imported or exported, with over 500 customs declarations. Although no longer the most important task, Customs import duties collected by customs represented nearly 11 % of the EU budget.

In 2014, the Commission progressed with the preparation of the Union Customs Code (UCC) delegated and UCC implementing acts. Their adoption is planned for May 2015 to ensure the application of the UCC as from 1 May 2016. In April 2014, the **Work Programme** including the description of the UCC electronic systems and the target dates for starting operations was adopted.

Discussions on the Commission proposal for a Union legal framework for customs **infringements and sanctions continued at a slow pace** in the Council and work needs to be re-started in the European Parliament. The initiative aims at harmonising customs infringements and approximating the 28 national sets of sanctions for those infringements, removing any national measures contrary to EU rules.

The **Common Customs Tariff** (CCT) applies to the import of goods across the external borders of the EU and is common to all 28 EU Member States. To ensure uniform application of the CCT it is essential to adopt the **Combined Nomenclature** (CN) every year and ensure that it is used by all Member States in a uniform manner. Differing views should be solved as soon as possible. In 2014, DG TAXUD published the CN in time and progress was made on the update of the CN Explanatory Notes. The correct and uniform application of the CN for the classification of goods was again monitored. DG TAXUD continued to implement successfully the new strategy streamlining the classification cases solving procedure. As a consequence, the backlog of cases has been almost completely depleted and the result is in fact remarkably good compared to previous years (*see result indicator 36*).

During 2014 TAXUD integrated and encoded all measures relating to the CCT (e.g. commercial, agricultural, etc. legislation) into TARIC, the **database of the integrated Tariff of the European Union**. As a result, economic operators had a clear view of all measures to be undertaken when importing into the EU or exporting goods from the EU and all Member States' customs authorities had the same CCT data for customs clearance. DG TAXUD also ensured daily allocation of tariff quotas following the "first come, first served" principle.

One of the supporting databases, the **European Customs Inventory of Chemical Substances** (ECICS) which covers almost all traded chemicals and chemicals controlled by legislations celebrated its 40th anniversary in 2014. This freely-available inventory is a cornerstone in the customs control of chemicals, providing all the actors in the trade of chemicals (producers, importers, transporters, customs officers and experts from the customs laboratories) easily the correct classification and safety information.

Protecting citizens from the risks posed by international trade remains one of the key tasks of Customs. Following the 2013 Communication on customs risk management and security of the supply chain, the Commission adopted in August the EU **strategy** and Action Plan to improve **customs risk management** assisting EU Customs authorities to receive accurate and timely data, improve risk analysis and encourage systematic cooperation between customs and other agencies and with economic operators. The Strategy includes a detailed **action plan**

laying down for the Commission, Member States and economic operators clearly defined roles to play to ensure the successful implementation of the new strategy. The actions will be deployed from 2014 to 2020 and where appropriate linked to the implementation of the UCC. For 2014, results can be mentioned in the area of recognition of AEOs both by other authorities (civil aviation) and by other countries (China) or in the area of improvement of data quality and data availability where both a cost-benefit study and a first feasibility studies were successfully concluded in collaboration with Member States and trade representatives and the follow-up is already on-going.

The Commission followed the implementation of Regulation No. 608/2013 on the **customs enforcement of IPR**. It also continued to implement the EU Action Plan to address infringements of **intellectual property rights (IPR)** at the EU borders. The Commission developed a lot of activities to support Member State customs in enforcing the numerous legislations for the protection of health, safety, the environment, cultural heritage, etc. This was done in close cooperation with other Directorates-General and with national customs and other competent administrations, in the context of the PARCS group and the Expert Group on product safety.

The Commission also prepared the implementation of the recently-amended Regulations on the control of trade in **drug precursors** and attended several key international meetings under UN and EU international agreements. The preparatory work for the review of Regulation No. 1889/2005 on **controls of cash** entering or leaving the Community was launched.

The **EU Customs Competency Framework** (EU Customs CWV) was formally launched on 31 March 2014. The EU Customs CFW describes the knowledge, skills and behaviors required by customs professionals in the EU and defines public and private sector Customs roles ('Job profiles'). Since October 2014, the EU Customs CFW is available in 22 EU languages for national implementation. A major goal of the EU Customs CFW is to help harmonize and raise customs performance standards throughout the EU. Therefore competency-based management will be integrated in the Human Resource processes of the national administrations, notably for recruitment, training, strategic staff management and performance management.

International cooperation has remained an important element of the EU efforts to facilitate trade and strengthen supply chain security and safety. Preparations for the implementation of the World Trade Organisation's (WTO) Trade Facilitation Agreement have intensified, in particular in the World Customs Organization (WCO). In the framework of the WCO's Globally Networked Customs initiative, the EU/Commission has actively promoted exchange of information between customs administrations worldwide.

Work to establish and implement **Mutual Recognition** of **Authorised Economic Operator** programmes with China and Canada continued. Such an initiative is operational with the USA since 2013. DG TAXUD also contributed significantly to the negotiations and implementation of the EU's trade agreements with its trading partners.

In 2014, the **dialogue with Russia** proved to be challenging in the light of the current state of EU-Russia relations. Russia continued to implement a range of trade-restricting measures against the EU, some of them being contrary to their commitments in the framework of the WTO and the International Road Transit Convention (TIR). The Commission raised the issue in the appropriate multilateral and bilateral fora to ensure that the impact of these measures for EU operators remain as limited as possible and to put an end to them.

In the framework of the **'Blue Belt' initiative**, the Commission completed the harmonised electronic customs cargo manifest to facilitate the proof of the Union status of goods. This initiative is a key action of the Single Market Act II, aiming to ease customs formalities for intra-EU shipping, and as such allowing Union goods to move easily by sea between Union ports. From a technical perspective, this initiative was integrated into the existing Regular Shipping Service (RSS) IT system. The eManifest is the only remaining task under the Blue Belt initiative and will be submitted to the Customs authorities as one of the types of Proof for EU Status being part of the UCC Delegated Act and Implementing Act, currently awaiting adoption.

EU Funding Programmes

After the adoption of the **Customs and Fiscalis 2020 programmes** in December 2013, the respective annual work programmes were adopted in February 2014, allowing for a smooth continuation of the IT operations. The grants supporting the joint actions in the Member States were finalised in spring. The final evaluations of the 2013 programmes were also completed.

Throughout 2014, TAXUD invested considerably in establishing the performance measurement frameworks (PMF) for both programmes. The PMF is a comprehensive "results based monitoring system": it follows the progress of the programmes' activities towards the objectives in terms of outputs, mostly the results and when possible, the impact of the programmes' activities in the participating countries and at the EU level at all levels of the established programmes' intervention logic (from inputs to impacts).

The collection of monitoring data is done systematically and covers a wide-range of stakeholders as well as all eligible actions financed by the programmes:

- monitoring data for the European Information systems;
- on-line feed-back from the participants in programmes' joint actions and from the action managers;
- data from other sources such as administrative statistics (Fiscalis 2020), monitoring actions reports and Customs Union performance measurement (Customs 2020),
- extensive studies done by DG TAXUD (e.g. VAT gap study) or other institutions (e.g. World Bank).

Compared with the monitoring in place under the previous generation of programmes, the current PMF allows for a more streamlined approach across various eligible actions, for regular obligatory reporting and for collection of information at all levels of programme intervention at the right time. It supports an agile reaction from the programme management to timely address issues and more valuable contribution to the evaluation exercises.

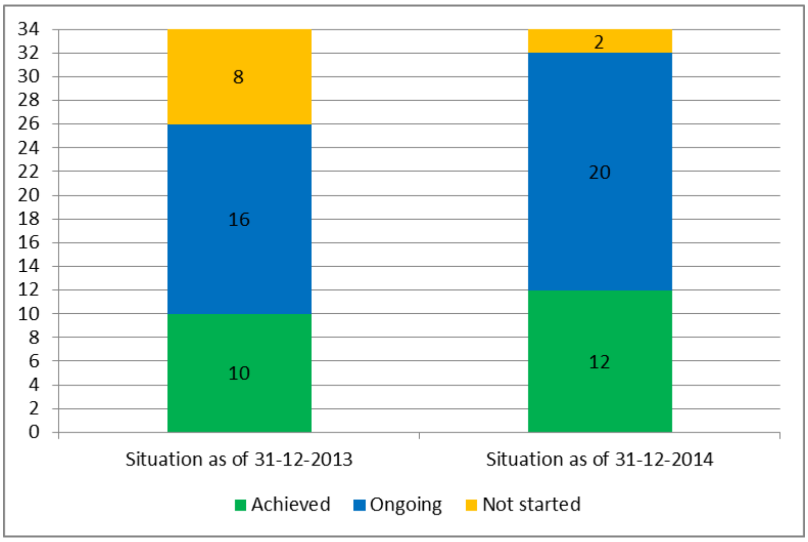
Expenditure

DG TAXUD committed 106,3 million € in 2014 divided as follows: procurement contracts (85,4% of committed budget), grants in direct management mode (10,4% of committed budget), administrative expenditure (3% of committed budget) and contributions to international organisations (1,1 % 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 by reference to the objectives set in the management plan and the efficiency and effectiveness of internal control systems, including an overall assessment of the costs and benefits of controls.

Key Performance Indicators

KPI 1 Effectiveness of the legal framework with regard to the fight against tax fraud and tax evasion	☺ ☺ ☺	 *Note: for the details of the state of play of the 34 actions of the Action Plan, please refer to section "Result indicator 3".* Anti-abuse provisions in corporate tax directives: - mergers – existing provision is currently satisfactory - parent-subsidiary directive – agreed at ECOFIN on 27.01.2015 - interest and royalties directive – on-going discussion in Council
KPI 2 Degree of simplification of rules due to the application of the Union Customs legislation		The UCC entered into force on 30.10.2013 and will be applied as of 1.05.2016 with 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 date. In 2014, the UCC has not yet been applicable and even for those provisions that would not depend on an IT system, the degree of simplification will be assessed as of June 2016. The full impact of simplification will occur once the entire UCC comprising all relevant IT systems has been implemented, which will be at the end of 2020.

KPI 3
Availability of Taxation and Customs IT systems

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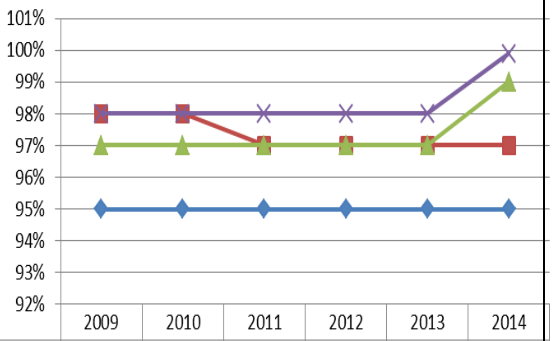
Availability during working hours:

Targets:



	2009	2010	2011	2012	2013	2014
Taxation IT systems (VIES on the web - 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%

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KPI 4
Collaboration robustness between programme stakeholders resulting from Joint Action activities in the Fiscalis 2020 and Customs 2020 programmes

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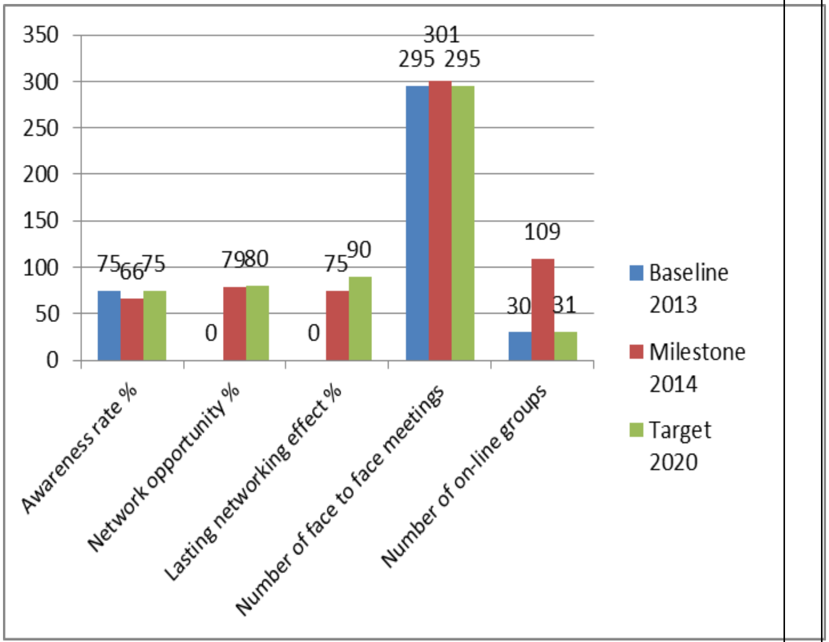
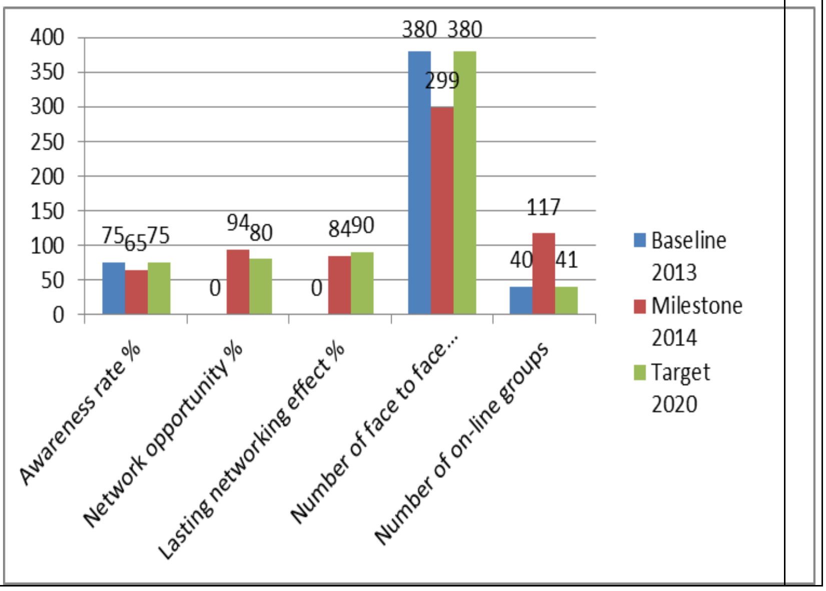
FISCALIS 2020 Programme



CUSTOMS 2020 Programme



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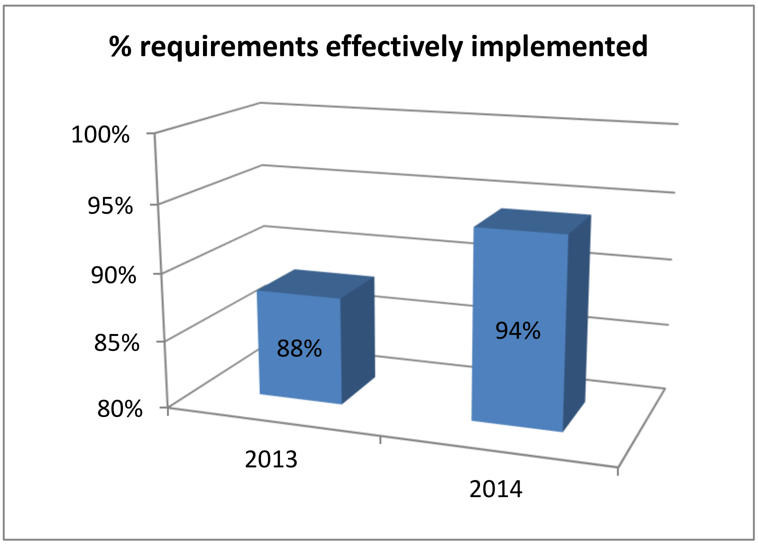
KPI 5 Percentage of requirements of all internal control standards effectively implemented	☺	**Target**: >90% (all years) 

Policy highlights of the year (executive summary of part 1)

In its political guidelines **for Jobs, Growth, Fairness and Democratic Change,** the **new Commission** explicitly points to the need to step up the efforts to fight tax evasion and tax fraud to ensure all contribute their fair share of taxes in a deeper and fairer internal market.

The cornerstone for the EU fight against **tax fraud, tax evasion and aggressive tax planning** is the **2012 Action plan**[1] which identifies 34 actions to combat fraud and evasion in a coordinated manner at national, European and global level. The actions are to be implemented by 2015. At present 12 actions are completed, 20 in progress and 2 still need to start ***(KPI 1)***. The key activities in **2014** related to the work on the **automatic exchange of information** for **direct taxation** Directive in Council and the related work at **OECD level** on the **Global Standard.** The Commission ensured the global standard took into account the existing EU automatic information exchange arrangements and to be compatible with EU law (e.g. data protection). The newly adopted EU Directive ensures the EU has a solid legal framework to apply the new Global Standard of automatic exchange of information amongst its Member States, providing European financial institutions and tax administrations full **legal certainty** and **no unnecessary compliance costs**.

As this Administrative Cooperation Directive is comprehensive and largely covers all areas that had previously been covered by the Savings Directive, the Commission will consider the repeal of the Savings Directive in the near future.

Fighting tax fraud and identifying fraud and fraud schemes is literally paying off. Multilateral Control activities organised in the context of the Fiscalis 2013 programme, helped to identify an additional VAT due of approximately 3.26 billion EUR. These activities also created a compliance effect amongst taxpayers making fraudulent behaviour more difficult, risky and costly[2]. As an example, Member States also informed the Commission that the mere perspective of the introduction of the automatic exchange of information between the Member States as from 2015 as regards 5 categories[3] of income and capital has already had an important deterrent effect with a significant increase in the number of self-declarations of income earned and assets owned in other Member States that were not declared in the past by the taxpayers to the tax authorities of their residence country.

Countries around the world have traditionally treated **tax planning** as a legitimate practice. Over time, however, the tax planning structures became ever-more sophisticated eroding the

[1] Commission communication, Action Plan to strengthen the fight against tax fraud and tax evasion, COM(2012)722 of 6.12.2012

[2] Fiscalis 2013 Final evaluation report

[3] Article 8 of Directive 2011/16/EU foresees as from 1.1.2015 the mandatory automatic exchange between Member States of information available on income from employment, director's fees, pensions, life insurance products and ownership of and income from immovable property will be exchanged automatically.

national tax bases. Therefore the Commission continued its work on base erosion and profit shifting, dealing in particular with the international aspects, the so called tax havens[4]. The work undertaken in 2014 will amongst others allow the Commission in **2015** to promote the **EU position** on the **BEPS action plan** at **OECD** level.

One of the ten priorities of the **new Commission** includes the establishment of a connected Digital single Market. In this context, the **expert group** on **Taxation** of the **Digital Economy** analysed the allocation of the **tax base** of some multinational enterprises (MNE) in the Digital economy. It recommended in its May 2014 report short and medium/long term solutions to address the tax challenges of the digital economy in both direct and indirect taxation. This will be followed up in the context of the work on fair tax competition in the single market. Following another recommendation of the expert group on VAT, a study was launched in December 2014 on options to modernise **cross-border E-Commerce**. This file is also under consideration for inclusion in the **Commission's Digital Single Market Strategy** to be published in May 2015

In its Communication on the State of the Customs Union in December 2012, the Commission set out a course of action to modernise, strengthen and rationalise the Customs Union in the years ahead. The first priority concerned the modernisation of the Customs Union which resulted end-2013 in the adoption of the **Union Customs Code** (UCC), the legal framework to shift customs towards a paperless and fully electronic environment. Throughout 2014, work on the implementation of the UCC progressed, notably to ensure all UCC electronic systems are deployed by 31 December 2020. As some delays cannot be excluded, discussion on electronic transitional measures started mid-2014 and foresee adoption of a Transitional Delegated Act by end-2015. Until 1 May 2016 the Community Customs Code and its implementing provisions continue to apply.

By 2020-2021, the application of the UCC should result in reduced administrative burden for business which will be measured through the second key performance indicator (***KPI2***). The 2014 evaluation of the electronic customs implementation in the EU[5] confirms that e-Customs systems introduced in recent years have delivered administrative costs reductions and more harmonised exchange of information among both authorities and economic operators. The development of an e-Customs environment has helped Member States' customs administrations to perform their key tasks more effectively and efficiently. Processes were carried out faster, more efficiently, and with less scope for human error. The direct impacts of the e-Customs environment for economic operators fall mostly under the broad heading of changes that 'made life easier' for them. Economic operators interviewed for the evaluation found that recent changes in the e-Customs environment have delivered cost savings to their businesses through more streamlined customs processes, fewer errors when filling customs

[4] Commission recommendation regarding measures intended to encourage third countries to apply minimum standards of good governance in tax matters, C(2012)8805 of 6.12.2012

[5] Evaluation of the electronic customs implementation in the EU

declarations and the relative ease of transmitting information.

Another priority concerns the review of the governance of how the Customs Union functions internally: an exclusive competence of the Union with Member States having important responsibilities for implementing the relevant legislation. In 2014, the Council adopted its conclusions for a **customs governance blueprint**.

Work on addressing existing gaps in risk management and setting priorities in a strategic context continued and a second Communication on **customs risk management** detailing the full strategy and a comprehensive action plan was adopted by the Commission in August 2014 and endorsed by the Council in December. While work continues on a detailed road map to allow the appropriate allocation of resources for which a first draft is already on the table, work has proceeded and it is on-going on the critical priorities such as the quality and availability of data in order to integrate the deployments in the UCC implementation.

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 measured in the Annual Management Plan by the percentage of infringement cases proposed for a Commission decision and the compliance of the benchmarks set by the Secretariat General. The performance of the DG in both taxation and customs is well above the target.

Union Programmes

The **final evaluation of the Fiscalis 2013** confirmed that the programme's activities through cooperation amongst national tax officials, on the one hand, and IT cooperation, on the other hand:

a) **reduced tax fraud, evasion and avoidance**. The IT systems developed and maintained under Fiscalis 2013 were available in accordance with the targets included in the Service Levels Agreements with the Member States. The high availability and robustness of the IT systems allowed reducing the tax fraud, evasion and avoidance. Evidence collected from the IT monitoring applications, questionnaires and surveys with users and desk research proved that, for example the VIES system reduced retroactive corrections and discrepancies and provided more reliable turn over data with more than 500 million messages per year exchanged by the national administrations on EU cross border transactions; the tax officials were supported to calculate the correct tax liability via more than 650.000 messages exchanged via CCN mail; EMCS ensured real time monitoring of the movements of duty suspended goods. Under joint actions, approximately 3,26 billion EUR of additional VAT due was identified through multilateral controls and accelerated exchange of information between VAT anti-fraud units was supported via Eurofisc.

b) **reduced administrative burden.** The use of IT systems, such as the CCN/CSI platform, EMCS, VAT Refund, VIES, VIES on the web and e-forms, limited the resource-extensive paper-based procedures and tax administrations considered that they made the detection of irregularities faster, more effective and efficient. For example, the VAT refund system was deployed during the lifetime of the programme allowing businesses to directly apply for a VAT refund in the Member State of establishment and the VIES on the web system allowed businesses and tax administrations to reduce the cost of VAT verifications with more than 160 million EUR.

c) **enhanced the uniform and effective application of EU tax law**. The Member States exchanged information and views on interpretation of EU law, national best practices during programme joint actions which allowed not only a better understanding of EU law but also a durable informal network among tax officials. 64% of National Coordinators stated that the average tax officials' understanding of the EU law would have been significantly lower without Fiscalis 2013. 61 % of National Coordinators thought that Fiscalis 2013 contributed to a high degree to the exchange of good administrative practices in taxation

The **final evaluation of Customs 2013** - with more than 39.900 customs officials participating in approximately 7500 joint actions and around 50 central and decentralized IT applications, amongst which the CCN/CSI platform which ensures the inter-operability of national customs information systems - evidenced that the programme activities:

a) **supported the protection of EU's financial interests**. The correct calculation of tariffs and the fight against fraud are crucial to the protection of EU's financial interests. The IT systems like the NCTS allowed to monitor the movement of goods within the EU territory and identify cases of fraud or non-payment of customs duties. NCTS systems also allowed creating traceable records for each transit transaction reducing the deviation from standard procedures. Two thirds of the national administrations indicated that the Information system on the integrated tariff of the Community and the Tariff quotas and ceilings database contributed to help traders and authorities to obtain correct classification and tariff rate of imported goods.

b) **strengthened the safety and security.** The harmonisation of the risk management processes for customs was ensured via new systems amongst others by the Import Control System which was fully rolled out in 2011 allowing the enhancement of the risk analysis that national administrations perform. The Customs Risk Management system, that also became fully operational during the lifetime of the programme, introduced a minimum standard for risk analysis by institutionalising the sharing of risk information forms between Member States.

c) **facilitated trade.** The paperless customs environment that now exists thanks to the IT systems under the programme allowed the Customs Union to become more secure while carrying out fewer manual controls decreasing the waiting times at the borders. The eCustoms environment also speeded up the transit process reducing the time of withholding guarantees from economic operators. The systems regarding the economic operators were reinforced and mainstreamed increasing the ability for customs authorities to pool information about individual economic operators and increasing the information available for risk analysis.

The joint actions provided administrations with a flexible set of tools which created sustainable human networks and facilitated the sharing of experience and best practices.

Since disruptions in the operation of the European Customs and Tax IT systems would affect national administrations, citizens and businesses across the entire EU and hamper the functioning of the Customs Union and Internal Market, ensuring the business and IT systems' continuity is a major responsibility for TAXUD. All the centralised Customs and Tax IT systems, as well as the underlying infrastructure (CCN/CSI) were available in 2014 as scheduled, with more than 99% of the time during working hours, meeting the expected targets (***KPI 3***).

Collaboration between customs and tax officials is a key sustainable success factor for implementing a customs and tax policy in Europe. Not only does it contribute to a uniform application of the customs and tax law, it also ensures the exchange of best practices and knowledge or joining efforts when developing IT solutions. Therefore the fourth key indicator measures the collaboration robustness between programme stakeholders (Customs and Tax administrations and their officials) in the context of the Customs and Fiscalis 2020 programmes (***KPI 4***) and shows progress towards achieving the objectives of the 2 programmes in 2014.

Results measured for 2014 indicate that the overall implementation of both programmes is on track. As far as data from the PMF is available, indicators from 19-21 and 43-47 show progress as planned towards the achievement of the objectives.

Key conclusions on resource management and internal control effectiveness (executive summary on part 2 and 3)

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

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 standard ICS1 which is resulting from the recent re-organisation in DG TAXUD. ***Please refer to Part 3 for further details*****.**

In addition, DG TAXUD has systematically examined the available control results and indicators, including those aimed to supervise entities to which it has entrusted budget implementation tasks, 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(s)

The main elements of this report and assurance declaration, have been brought to the attention of Commissioner Moscovici, responsible for Economic and Financial Affairs, Taxation and Customs.

1. POLICY ACHIEVEMENTS[6]

1.1 Achievement of general and specific objectives

1.1.1 Policy area Taxation Policy

General objective 1: **To create a simpler, more efficient and fair tax environment in order to fully exploit the economic potential of the Internal Market and foster growth**			☐Spending programme ☒ Non-spending
Impact indicator 1: Ease of paying taxes indicator *Source: "Paying taxes 2015: The global picture", World Bank and Pricewaterhouse Coopers Report – 2014*			
Baseline 2010 / **Result** 2014	Milestone		Target **2020**
	2014	**2016**	
– 10 / **13** MSs within the top 50 – 10 / **13** MSs between the ranks 51-100 – 2 / **1** MSs between the ranks 101-120 – 5 / **1** MSs below the rank of 120	The indicator has improved marginally in 2014. All but two countries exhibited some changes. A number of reforms introduced in 2013 are expected to affect the indicator in 2015.	No Member State below the rank of 120	All Member States within the top 100, those Member States which are already in the top 100 in 2010 move to the top 50

[6] See footnote 1.

1.1.2 Policy area Customs Policy

<table>
<tr><td colspan="3">General objective 2:
To ensure that EU customs policy protects society, facilitates trade and supports the competitiveness of the European economy</td><td>☐Spending programme
☒ Non-spending</td></tr>
<tr><td colspan="4">Impact indicator 2: International Logistics Performance Index[7]
Source: "Connecting to Compete – Trade Logistics in the Global Economy, 2014", World Bank Report - 2014</td></tr>
<tr><td rowspan="2">Baseline
2010</td><td colspan="2">Milestone</td><td rowspan="2">Target
2020</td></tr>
<tr><td>2014</td><td>2016</td></tr>
<tr><td><u>Overall LPI:</u>
– 15 MSs within the top 30
– 10 MSs between the ranks 31-60;
– 2 MSs below the rank 60

Dimension of LPI focused on customs and border management clearance
– 15 MSs within the top 30
– 9 MSs between the ranks 31-60;
– 3 MSs below the rank 60</td><td><u>Overall LPI:</u>
• 14 MSs within the top 30
• 14 MSs between the ranks 31-60;
• no MSs below the rank 60

Dimension of LPI focused on customs and border management clearance:
• 15 MSs within the top 30
• 12 MSs between the ranks 31-60;
• 1 MSs below the rank 60

<u>2014 Results</u>
The ranking of individual EU Member States improved in both the overall LPI and the LPI dimension focused on customs and border management clearance. In 2014 all EU MSs were in the top 60 for the overall LPI and only 1 MS was below 60 in the specific LPI dimension.</td><td>No Member State below the rank 60</td><td>All Member States within the top 50</td></tr>
</table>

[7] The index consists of both qualitative and quantitative measures and helps build profiles of logistics friendliness. It measures performance along the logistics supply chain within a country and provides qualitative evaluations of each country in six areas by its trading partners - logistics professionals working outside the country.

General objective 2: To ensure that EU customs policy protects society, facilitates trade and supports the competitiveness of the European economy		☐Spending programme ☒ Non-spending
Impact indicator 3: Standardised customs enforcement of policies for the protection of citizens and the environment *Source: Information provided by DG TAXUD*		
Baseline **2010**	Milestone **2014**	Target **2017**
Common approaches for the implementation of import and export control procedures for the protection of citizens and the environment exist only in the areas of IPR enforcement, drug precursor or cash controls	Adoption of a strategy for a joint customs approach to protect health, safety and the environment, and Guidelines in four policy areas (including Toolbox) **2014 Results** Throughout 2014, work concentrated on realisation of concrete progress rather than discussing an overall strategy. This allowed to: (a) Publish the Staff Working Document on the customs enforcement of Regulation No. 669/2009 on official controls on certain feed and food of non-animal origin; (b) To adopt the guidelines on FLEGT , (c) to finalise the guidelines on waste shipments, (d) To complete the preparatory work within the Customs 2020 Project Group on the Toolbox .	Border controls for the protection of citizens and the environment in eight policy areas are standardised, cooperation with other authorities is established and support tools for customs enforcement are in place

1.1.3 ABB activity 05 – 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

The measures of the 2012 Action Plan to fight against tax fraud and evasion need to be implemented in a coordinated way to be efficient. Besides the main eye-catching actions mentioned in the Year in Brief, TAXUD has worked on various equally important actions (R.I. 3). Other speaking activities were:

- Completing the preparatory work for **developing** the **formats** for automatic exchange of information under Directive 2011/16/EU *a*s well as for the standardised form for the Quick Reaction mechanism.
- Progressing work on an **EU Tax identification Number (TIN)** launching a cooperative project whereby Member States who choose to publish information about TINs do so in one single internet page "the European **TIN Portal**".
- Re-opening in Council in September 2014 the discussion on the recast of the proposal on the **Interest and Royalties Directive** with a focus on the anti-abuse provisions. Discussions will continue in 2015 with the aim of agreeing at least a common anti-abuse clause similar to the one just adopted for the Parent-Subsidiary Directive.
- The Council endorsed the 6 month report of the working group overseeing the implementation of the **Code of Conduct for business taxation**. TAXUD contributed to the results referred to in the reports through its contributions to the work of the Code of Conduct Group and its subgroup resulting in an agreement on the treatment of patent boxes and guidelines on the treatment of hybrid entities. TAXUD also successfully carried out discussions with Switzerland leading to the signature of a Joint Statement on company taxation signed by the EU Member States and Switzerland.

In the same context, the **report on VAT collection** concluded that Member States need to modernise VAT collection and control procedures in order to reduce the VAT Gap addressing recommendations to individual Member States on where they could make improvements in their procedures. The **report on VAT Administrative cooperation** looked at how effectively administrative cooperation and other available tools are being used in order to combat VAT Fraud in the EU and recommended to enhance cross border cooperation, applying solutions such as joint audits, administrative cooperation with third countries, more resources for enquiries and controls and automatic exchange of information amongst all Member States on VAT.

<table>
<tr><td colspan="3">Relevant general objective 1:
To create a simpler, more efficient and fair tax environment in order to fully exploit the economic potential of the Internal Market and foster growth</td></tr>
<tr><td colspan="2">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</td><td>☐ Spending programme
☒ Non-spending</td></tr>
<tr><td colspan="3">Result indicator 1: Monitoring of the VAT gap indicator
Source: Study to Quantify and Analyse the VAT Gap in the EU-27 Member States July 2013</td></tr>
<tr><td>Baseline 2006
Results 2011 / 2012</td><td>Milestone
2014</td><td>Target
2017</td></tr>
<tr><td>Monitoring of the VAT Gap[8] s.
2006:– 12%, around EUR 107 billion
2011: 18%, around 193 billion EUR
2012: 16%, around 177 billion EUR</td><td>Annual results of the study on the monitoring of the VAT Gap – Study published (2012 figures)</td><td>Update by means of a study performed by an external contractor, followed by a peer pressure event</td></tr>
<tr><td colspan="3">Main outputs</td></tr>
<tr><td colspan="3">➢ Directive amending Directive 2006/112/EC on the common system of VAT with a view of introducing anti-fraud measures (joint and several liability): Adoption by the Council – 2014 (Discussions currently stalled in the Council)
➢ Adoption of the Commission Implementing Regulation (EU/17/2014) on a standardised form for the Quick Reaction Mechanism on 10 January 2014.
➢ Study on the VAT Gap in the Member States: Study published in Q4 2014. Update of the VAT gap study including 2013 figures to be published Q3 2015</td></tr>
<tr><td colspan="3">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)</td></tr>
<tr><td>Baseline 2011 / Results 2014</td><td colspan="2">Target 2014</td></tr>
<tr><td>– Multilateral controls initiated:
52 (2011) / 34 (2014);

These are the latest known results (based on figures for 2013, received in 2014)

– Requests for information sent between MSs
35.624 (2011) / 48.989 (2014)</td><td colspan="2">– Target 2014
Increase the number of multilateral controls, especially in the field of excise duties;
– Results 2014
The Member States decreased their number of initiated MLC's due to domestic issues (ex. local auditors not skilled to perform MLC's). In the report on administrative cooperation issued in February 2014, the Commission asked already for a renewed engagement from the Member States. Throughout 2014 the tool was promoted in different fora (SCAC, CACT, G20) Currently the number is increasing again.
– Target 2014
Similar level of requests for information</td></tr>
</table>

[8] The difference between theoretical VAT liability and the actual VAT receipts.

	– **Results 2014** The number is above target level. The increased use of automated access to databases may have a downward impact on these figures number in the future.

Main outputs

- IT system for the Implementation of Council Regulation (EU) No 904/2010 on administrative cooperation and combating fraud in the field of value-added tax[9]: *IT systems related to the mini-one-stop-shop fully operational – January 2015.* ***Achieved for all Member States with 2 Member States relying on the fallback solution provided by the Commission whilst they develop their own system.***
- Functioning of Regulation (EU) No 904/2010 on administrative cooperation: *Report delivered – Q4 2014.* ***The report was adopted by the Commission on 2 February 2014 (COM2014)71final)***

Result indicator 3: Effectiveness of the legal framework with regard to the fight against tax fraud and tax evasion
Source: Action Plan to strengthen the fight against tax fraud and tax evasion (COM(2012)722)

Baseline **2012**	Milestone **2014**	Target **2015**
34 Actions identified in the Action Plan of 6 December 2012	First analysis in the group of the state of play of implementation of the recommendations **2014 Results** See KPI2 and below for details on each action	All 34 actions implemented (Action Plan - see annex)

Main outputs

- *Adoption on 24 March 2014 of Council Directive 2014/48/EU, on the basis of a Commission proposal of 2008, amending Directive 2003/48/EC on taxation of savings income.*
- *Adoption on 9 December 2014 of Council Directive 2014/107/EU which incorporates in Council Directive 2011/16/EU on Administrative cooperation in direct taxation the OECD Global Standard on automatic exchange of financial account information, on the basis of a legislative process initiated by a Commission proposal of June 2013. The adoption of this more comprehensive instrument for automatic exchange will lead in 2015 to the repeal of Council Directive 2003/48/EC on taxation of savings income, including its aforementioned last amendment made through Council Directive 2014/48/EU, making the planned third review Council Directive 2003/48/EC, due to its repeal, no longer necessary..*
- *First meeting on 30 October 2014 of the Commission Expert Group on Automatic exchange of financial information, created to provide guidance for the implementation by financial institutions of Council Directive 2014/107/EU amending Council Directive 2011/16/EU on Administrative*

[9] Financed under the Fiscalis programme

cooperation in direct taxation. .

- Follow up to the Commission Recommendations on tax havens and aggressive tax planning: *Acceptance and implementation of the conclusions of the platform on good governance*[10] *– 2013-2015. Discussions within the Platform were held during the 3 meetings in 2014 and will be finalized during the 1st semester 2015 to prepare the Commission report on implementation of the Recommendations, to be adopted by June 2015.*
- Preparatory work on developing formats for automatic exchange of information under Directive 2011/16/EU: *Completed – 2014.*
- Contribution to development of a global standard for automatic exchange of information: *Completed – 1st half of 2014.*

Implementation of the Commission 2012 Action Plan to strengthen the fight against tax fraud and tax evasion:

- Better use of existing instruments and Commission initiatives to be progressed
  1. New framework for administrative cooperation : *ongoing*
  2. Closing Savings taxation loopholes : *achieved*
  3. Draft anti-fraud and tax cooperation agreement : *discussions ongoing*
  4. Quick reaction mechanism against VAT fraud : *achieved*
  5. Optional application of the VAT reverse charge mechanism : *achieved*
  6. EU VAT forum : *achieved*
- New Commission initiatives
  7. Recommendation regarding measures intended to encourage third countries to apply minimum standards of good governance in tax matters : *review implementation by June 2015, discussion started in Platform for Tax Good Governance*
  8. Recommendation on aggressive tax planning : *review implementation by June 2015, discussion started in Platform for Tax Good Governance*
  9. Creation of a Platform for Tax Good Governance : *achieved, mandate to April 2016*
  10. Improvements in the area of harmful business taxation and related areas : *MoU with CH signed in 10/2014, talks to be initiated with LI in 2015*
  11. “TIN on EUROPA” portal : *achieved*
  12. Standard forms for exchange of information in the field of taxation : *achieved*
  13. A Euro denaturant for completely and partly denatured alcohol : *ongoing*
- Future initiatives and actions to be developed (short term – 2013)
  14. A revision of the parent subsidiary directive (2011/96/EU) : *achieved*
  15. A review of anti-abuse provision in EU legislation : *achieved*
  16. Promote the standard of automatic exchange of information in international fora and the EU IT tools : *ongoing, almost achieved*
  17. A European taxpayer's code (ETPC): *ongoing , almost achieved (consensus on the guidelines for a model for a ETPC at WG level in November 2014; further checks and contacts to be taken for authorization to publish on TAXUD's website)*
  18. Reinforced cooperation with other law enforcement bodies : *achieved*
  19. Promote the use of simultaneous controls and the presence of foreign official for

[10] Work programme for 2013- 2015 adopted on 16.10.2013

audits : *achieved*

20. Obtain an authorisation from Council to start negotiations with third countries for bilateral agreements on administrative cooperation in the field of VAT : *ongoing*

- Future initiatives and actions to be developed (mid-term – 2014)

21. Develop computerised format for automatic exchange of information : *achieved at Commission level*
22. Use of an EU Tax Identification Number (TIN) : *ongoing*
23. Rationalise IT instruments : *ongoing*
24. Guidelines for tracing money flows : *ongoing*
25. Enhance risk management techniques and in particular compliance risk management : *ongoing*
26. Extend EUROFISC to direct taxation : *ongoing*
27. Create a one-stop-shop approach in all Member States : *public consultation ongoing*
28. Develop motivational incentives including voluntary disclosure programmes : *aspects taken on board in the European Taxpayers' code*
29. Develop a tax web portal : *ongoing*
30. Propose an alignment of administrative and criminal sanctions : *this topic could be postponed or abandoned in the absence of a consensus of the MS on the added value*
31. Develop an EU Standard Audit File for Tax (SAF-T) : *ongoing*

- Future initiatives and actions to be developed (long term – 2015+)

32. A methodology for joint audits by dedicated teams of trained auditors : *ongoing*
33. Develop mutual direct access to national databases : *ongoing*
34. Elaborate a single legal instrument for administrative cooperation for all taxes : *not started.*

Conclusion

As evidenced above, the policy managed by the DG is on course to meet its multiannual objectives for this objective and has achieved the annual performance indicators or outputs and milestones in the reporting year

1.1.4 ABB activity 05 – Specific objective 2
To reduce administrative costs and to tackle tax obstacles in the Internal Market by simplifying and enforcing EU law and strengthening coordination amongst Member States

In the area of direct taxation, work continued on the follow-up to the Communication on removing cross-border tax obstacles for EU citizens, with the completion of two studies and two public consultations to obtain more information on the extent of the problems in this field.

In addition, work continued on the implementation of the EU-wide compliance reviews on the taxation of cross-border inheritances (IP/11/1551) and taxation of cross-border workers (IP/12/340). Where discrimination or breaches of the EU's fundamental freedoms were found, DG TAXUD flagged them to the national authorities and, if necessary, the Commission initiated formal infringement procedures.

In the context of the compliance review on the taxation of cross-border inheritances, 27 procedures have thus far been launched against 14 Member States and six cases are still pending, all of them at the stage of formal infringement procedures.

In respect of the compliance review on the taxation of cross-border workers, 37 infringement procedures have thus far been launched against non-compliant Member States. During 2014, of the 15 cases open at the beginning of the year, five cases have been closed and in another five cases Member States have promised to change their law.

On 20 January 2014 (IP/14/31), the Commission launched a new EU-wide compliance review of national direct taxes to determine whether they create unfair disadvantages for EU mobile persons. Thus far, it appears that in certain instances national tax rules, such as those on the taxation of income/capital gains from securities or the tax deductions related to personal circumstances, remain potential tax obstacles for the mobility of EU citizens. Where discrimination or breaches of the EU's fundamental freedoms are found, DG TAXUD is flagging them to the national authorities and, if necessary, the Commission initiates formal infringement procedures. In three cases, MS have agreed to change their legislation and two cases were closed after clarifications were received from the Member States concerned. On-going are 15 EU Pilot exchanges with Member States and more are expected to be initiated in 2015 as a result of the checks already undertaken.

The follow up on the work of the Joint Transfer Pricing Forum evolved as planned. The report of activities for the years 2012-2014 was submitted to the ECOFIN Council and furthermore Croatia's accession to the Arbitration Convention was agreed.

<table>
<tr><td colspan="2">Result indicator 4: Reduction of compliance costs and compliance time for companies engaged in intra-Community business
Source: Commission Staff Working Document Impact Assessment accompanying document to the proposal for the Common Consolidated Corporate Tax Base (CCCTB)</td></tr>
<tr><td>Baseline
2012</td><td>Target
2014</td></tr>
<tr><td>Compliance costs in paragraph 5.3 of the Impact Assessment of the CCCTB (for example costs of establishing a new subsidiary for a large company of 141,000 Euro and a small company of 128,000 Euro and overall compliance costs of 4% of company tax payments), which encompasses companies' tax related compliance costs including time.</td><td>2014 Target
Compliance costs for companies engaged in intra-Community business reduced by between 1% and 5% and compliance time reduced by 8%.

2014 Results
Target for 2014 was not reached following the ongoing technical discussions in Council.

Future Target
The target may be revisited as a consequence of the relaunch of the CCCTB foreseen in the Commission Working Programme for 2015.</td></tr>
<tr><td colspan="2">Main outputs</td></tr>
</table>

- A proposal for a CCCTB: technical discussions focused on the common taxable base (no consolidation) took place in Council in 2014. A re-launch of the proposal is foreseen in the Action Plan and Communication to be adopted by the Commission mid-2015.
- Follow-up on the work of the EU Joint Transfer Pricing Forum in the period July 2012 to June 2014 and related proposals: *Communication adopted – Submitted to the Ecofin Council in Q2 2014.*
- Recommendation for a Council Decision concerning the accession of Croatia to the Convention of 23 July 1990 on the elimination of double taxation: *Adoption by the Council – Q2 2014.*

Result indicator 5: Reduction of cross-border tax obstacles facing citizens and businesses *Source: Communication on removing cross-border tax obstacles for EU citizens (COM (2010)769)*	
Baseline **2012**	Target **2014-2015**
Initiatives identified by the Commission (Communication (COM/2010/769) to tackle problems in some specific areas (double taxation, cross-border inheritance tax problems)	Launch of initiatives on the basis of the Commission's Communication (see main outputs below). **State of Play 2014** Progress has been made on the actions identified in the Communication. The Commission has further increased the amount of tax information on the Your Europe website. It has launched two public consultations and two studies to obtain more information on the extent of cross-border tax obstacles in the EU and it has established an Expert Group to deliver findings on the same subject. The Commission will in due course, on the basis of this work, make a decision on next steps.
Main outputs	

- Council Directive amending the Directive on a common system of taxation application to interest and royalty payments between associated companies of different Member States (recast version): *The discussion in Council was re-opened in September 2014. The discussion will be ongoing in 2015.*

- Simplification of cross-border withholding tax relief procedures for securities income: *Adoption of Communication and Recommendation – 2nd half of 2014 This initiative was postponed on account of the work in the field of Automatic Exchange of Information on financial accounts, notably the adoption of Directive 2014/107/EU at the end of the year. This was because agreement on automatic exchange could, possibly, make it easier to reach agreement on the simplification of withholding tax relief procedures. Work on withholding tax relief procedures will now resume.*
- Proposal for a binding arbitration in cross-border tax disputes: *Adoption – Ongoing fact-finding exercise.*
- Guidelines on excise relief thresholds for travellers: *Adopted by the Excise Committee – Q4 2014*
- New actions as a follow-up to the Citizens Communication of 2010 including:
    - *Creation of an Expert Group on Removing cross-border tax obstacles for citizens – Q1*

2014. The first meeting of the Expert Group took place on 9 September 2014, the second on 20 October 2014, and a third on 17 December 2014. • *Public consultation on best practices for avoiding cross-border direct tax obstacles for EU citizens – Q1 2014. The public consultation was launched in April 2014 and concluded in July 2014 and the responses are available online.* • *Study on best practices in Member States in dealing with cross border tax issues – Q2 2014. The study was published in December 2014.* • *Study on tax compliance costs facing citizens in cross-border situations – Q3 2014. The study was published in December 2014.* • *Report on best practices in Member States in dealing with cross-border tax problems – Q4 2014. Not completed due to the ongoing work on collecting evidence of problems. The Commission will, following the completion of the work of the Expert Group, consider next steps, taking account also of the outcome of the public consultation dealing with cross-border tax issues completed in 2014 and the findings of the 2 studies published in December 2014.* ➢ Effective tax rates in the context of an enlarged European Union and related supporting services: *Report published – Q3 2014* ➢ Report on Member States' follow up to the Recommendation to tackle cross-border inheritance tax problems: *Evaluation report based on a public consultation to be carried out in 2014 together with the conclusions of the Expert Group on Removing cross-border tax obstacles for citizens as well as on the studies on Best practices for avoiding cross-border direct tax obstacles and Compliance costs facing citizens in cross-border situations – Q4 2014 The public consultation was concluded in July 2014 and the results are available on line. The report on Member States' follow up to the Inheritance tax Recommendation is postponed to 2016 in order to take into account the findings of the Expert Group's report due in mid-2015 and the findings of the two studies published in December 2014.* ➢ The functioning of Council Directive 2008/7/EC of 12 February 2008 concerning indirect taxes on the raising of capital: *Report prepared – Q4 2015 – are we on schedule with the preparations?*

Result indicator 6: Level of progress made in executing the Code of Conduct work programme agreed at December 2012 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*	
Baseline **2013**	Target **2014**
Work Programme – state of play as at end 2013 as per Code Group Report (ECOFIN 10.12.2013)	**Target 2014** Completion of the work on hybrid mismatches, patent boxes and dialogue with 3rd countries. **Results 2014** The planned work for 2014 on hybrid mismatches, patent boxes and dialogue with 3rd countries has been completed.
Main outputs	

➢ Commission inputs to all areas of the Code of Conduct (business taxation) work programme and the Code Group report: This includes the 2011 Work package: • *Report to Council on the report of a sub-group on hybrid mismatches (entities and Permanent Establishments). Guidance note agreed on hybrid entities. Further work is required to the draft guidance on hybrid permanent establishments. – Q4 2014* • *Dialogue completed with Switzerland. Joint Statement signed by the Member States and Switzerland – Q4 2014.* • *Patent boxes review in Code Group of schemes in existence - Agreement by Group to adopt the Nexus approach and that none of the existing schemes are in conformity with it – Q4 2014*

Result indicator 7: Level of simplification and rationalisation of VAT and other indirect tax legislation *Source: Final report "EU project on baseline measurement and reduction of administrative costs", 5 March 2009*	
Baseline **2012-2013**	Target **2014-2016**
Administrative burden for business linked to VAT estimated at EUR 69 billion (measured by EU Standard cost model)[11] Objective of 25% reduction already achieved in 2010.	Implementation by Member States of legislative proposals in the follow-up to the Green Paper on the Future of VAT which could lead to up to EUR 15 billion annually of **administrative burden reduction** (estimated for the standard VAT declaration proposal) **2014 Results** As the discussions on the legislative proposals will be ongoing in 2015, in particular for the standard VAT declaration proposal, no reduction of administrative burden has been achieved yet.
FTT: Some Member States have a FTT in place or intend to establish one	Application of a **FTT** in the enhanced cooperation area which will exclude double taxation in this area (target measured by level of exclusion from harmonisation). **2014 Results** As the discussions on the legislative proposals will be ongoing in 2015, no reduction of administrative burden has been achieved yet.
Main outputs	

[11] In terms of reducing burdens on business, VAT proposals have been estimated at EUR 24 billion towards reducing burdens on business (Electronic invoicing EUR 18.8 billion, VAT refund Directive EUR 447 million, change to place of supply of services EUR 463 million, One Stop Shop and increased thresholds for SME and distance sales EUR 4.4 billion). See Communication (COM(2009)544) and accompanying annex for details. [Communication of the Commission on administrative burdens (22 October 2009), Annex]

- VAT standard declaration: *Discussions in Council will be ongoing in 2015.*
- Commission proposal on the VAT treatment of transactions involving vouchers: *Discussions in Council will be ongoing in 2015*
- Follow-up of the proposal for a directive on a common system of Financial Transaction Tax (implementation under the enhanced cooperation procedure): *Adoption by the Council – Q3 2015*
- Revision of the Tobacco taxation Directive (main subjects planned to be addressed are: scope, classification of taxed products, clarify rules for Minimum Excise Duty, inconsistencies between the definitions of Directive 2011/64/EU and the Explanatory Notes to the CN): *Adoption – 2015-2016*
- Amendment to the Alcohol Structures Directive (92/83) to clarify and strengthen Article 27 (I) (a) and (b) for completely (CDA) and partially (PDA) denatured alcohol:
  - *Adoption of series of Commission Regulations to address PDA in the field of cosmetics, perfumes and hygiene products – Q1 2014*
  - *Adoption of bio-fuels; screen washers; anti-freeze and de-icer; other solvents, paints, ink etc. – 2015-2017*
- Implementing Regulation as regards the computerisation procedures for the movement of excise goods under suspension of excise duty (update of Regulation 684/2009): *Implementing act adopted – Q1 2014*
- Implementing regulation concerning administrative cooperation in the field of excise duty on the basis of the new Council Regulation:
  - Exchange of information: *Implementing act adopted – 1st half of 2014*
  - Automatic collection of Member State data for the production of business statistics: *Implementing act adopted – 2014*
- Proposals on the VAT treatment of exempt financial and insurance services: *Reopening of discussions with a view to adopt by the Council (if no Presidency takes it up, consider withdrawal) – discussions in Council are currently stalled*
- Definitive VAT system based on the destination principle: *Staff Working Document on the state of play published in October 2014. Continuation of work in 2015 in order to identify way forward.*
- Analysing the necessity and feasibility of a Mini-one-stop-shop for excise products covering B2B and B2C scenarios: *Working paper produced – 2014/2015*
- Implementation of the 2015 place-of-supply rules and the mini One-Stop-Shop rules:
  - *Report adopted – June 2014*
  - *Explanatory notes published – March 2014*
  - *Communication campaign, with conferences in Brussels, London, Luxembourg, Paris, California, Warsaw, Berlin and Tokyo (OECD Conference) – Throughout 2014*
- VAT on public authorities and exemptions:
  - *Public consultation finalised Q2 2014; summary report published Q4 2014*
  - *Impact Assessment work ongoing (Initiative to be tabled in 2016)*
- Proposal for a Council Directive on the review of VAT rates structure: *Impact Assessment draft finalised Q2 2014; next steps to be decided following policy review by new Commission*
- *Launch of Eurobarometer survey on VAT in the European Union: technical work on survey completed Q4 2014, publication of results foreseen in early 2015*
- VAT – broadening of the One-Stop-Shop (extension of the mini OSS after 01.01.2015): Following recommendations in the Report of the Commission Expert Group on Taxation of the Digital Economy (May 2014), a major Study was launched in December 2014 on options to modernise cross-border E-Commerce. This initiative is also under consideration for inclusion in the Commission's Digital Single Market Strategy to be published in May 2015.
- Pan-EU businesses including in particular implications for the future definitive VAT system:

Study delivered ➢ The economic effects of the current VAT rules for passenger transport: *Study delivered* ➢ Study on tobacco taxation in view of Council Directive 2011/64/EU and Council Directive 2008/118/EC: *Study delivered – Q3 2014* ➢ Implementation of the 1st series of (2) recommendations and (2) opinions regarding the exemption applied to denatured alcohol - Q4 2014 ➢ Implementation of the standard operating procedures (SOP) across the EU for customs laboratories in the field of completely denatured alcohol – delayed until Q1 2015Evaluation on the implementation of Directive 2008/118/EC for the purpose of the Report to the European Parliament and the Council (REFIT action): *Study delivered – Q4 2014* ➢ Removal of 4 existing (weaker) national denaturing formulations for CDA from the annex to Commission Regulation (EU) 162/2013 – *Achieved* ➢ Study on movement and control issues related to 'duty paid' intra-EU Business to Business transactions and Business to Consumer (distance selling) transactions with recommendations to feed into report on functioning of Directive 2008/118/EC: *Study delivered – Q4 2014. Finalisation and publication Q1 2015* ➢ *Study on movement and control issues related to holding and movement of excise goods under duty suspension, with recommendations to feed into report on functioning of Directive 2008/118/EC: Study launched Q4 2014, delivery expected Q2 2015* ➢ Implementation of place-of-supply rules for services connected with immovable property[12]: • *Workshop organised – November 2014* • *Explanatory notes to be published – end 2015*

Result indicator 8: Number of infringement cases, EU PILOT procedures, non-compliance cases and percentage of infringement cases proposed for a Commission decision *Source: NIF and EU Pilot databases*	
Baseline **2013**	Results **2014**
8a: Number of infringement cases closed in NIF as a result of compliance with EU law *(Source: NIF database)*	
Attaining compliance with EU tax law by Member States	Indirect taxation: 42 infringement cases closed Direct taxation: 45 infringement cases closed
8b: Number of EU PILOT procedures closed as a result of compliance with EU tax law *(Source: EU Pilot database)*	
Attaining compliance with EU tax law by Member States at the stage of EU PILOT	Indirect taxation: 41 EU PILOT procedures closed Direct taxation: 27 EU PILOT procedures closed

[12] Financed under the Fiscalis programme

8c: 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 TAXUD[13] *(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: 94,57% of infringement cases proposed for a Commission decision Direct taxation: 78,22% of infringement cases proposed for a Commission decision
8d: Number of non-communication cases pending for DG TAXUD Directives *(Source: NIF database)*	
Maintaining a low number of non-communication cases	Indirect taxation: 0 non-communication cases pending Direct taxation: 0 non-communication cases pending

Conclusion

As evidenced above, the policy managed by the DG is on course to meet its multiannual objectives for this objective and has achieved the annual performance indicators or outputs and milestones in the reporting year

[13] Legislative changes pending in the MS, interservice consultation pending with the LS, cases pending in the Court of Justice or other JSP based justifications.

1.1.5 ABB activity 05 – Specific objective 3
To develop new tax initiatives and actions to support EU policy objectives

Relevant general objective 1: **To create a simpler, more efficient and fair tax environment in order to fully exploit the economic potential of the Internal Market and foster growth**	
Specific objective 3: **To develop new tax initiatives and actions to support EU policy objectives**	☐ Spending programme ☒ Non-spending

Result indicator 9: CO_2-price signal for sectors falling outside the Emission Trading System (ETS), at a similar level as the CO_2-price for sectors covered by ETS in the whole EU framework regulation and energy-price signal providing incentives for improving energy efficiency *Source: Information by DG TAXUD based on the EU ETS Carbon price*	
Baseline **2012**	Target **2014**
Only a few Member States have so far introduced into their national energy taxes a CO_2 tax providing for such a CO_2 price signal and taxation levels in general do not reflect CO_2 content or energy intensity. There are also energy products which are not subject to taxation in several Member States when used as heating fuels as the Energy Taxation Directive set the minimum level of taxation at zero.	Application of a CO_2 tax providing for such CO_2 price signal (or equivalent). Effective taxation of energy products used as motor or heating fuels.
Main outputs	
➢ *New "hard law" and/or "soft law" initiatives for energy taxation: For the moment it is not possible to provide the expected timeline. The proposal for Directive for revision of the Energy Taxation Directive will be withdrawn in 2015 following the lack of positive results in Council negotiations.*	

Result indicator 10: Fairer and effective relocation of the tax base of Internet companies in the EU Member States based on economic activities and value creation in the EU *Source: Ongoing work on OECD indicator*	
Baseline **2013**	Target **2014**
European Council Conclusions of 22 May 2013 and 24-25 October 2013. International dissatisfaction with the operation of tax rules as applied to companies in the digital economy.	Agreement in Council or Commission expert group on options for an EU approach to taxation of the digital economy.
Main outputs	
➢ Recommendations of the Commission Expert Group on the Taxation of the Digital Economy: *Identified policy options for an EU tax policy line for the Digital Economy sector (taking into consideration the final report of the Commission expert group) – Q2 2014. Report of the*	

Commission expert group adopted on 28.05.2014, presented to the Council High level working party (HLWP) on 23rd July, and mentioned in the December 2014 ECOFIN report. ➢ EU input into the international implementation of BEPS Action Plan: *Acceptance by Member States of Commission analysis with promotion in the OECD – Q4 2015.* Ongoing discussions in the OECD Task force on digital economy (TFDE), with supplementary report expected for December 2015. Issue could be addressed in the June 2015 Communication on corporate taxation.

Result indicator 11: Availability of Tax information to feed into the EU semester process or other policy initiatives *Source: DG TAXUD pages on Europa web-site*	
Baseline **2012**	Target /Results **2014**
Taxes in Europe Database (TEDB): All main taxes of EU Member States collecting over 0.1% GDP as revenue were covered. Availability of TEDB: – 99,4% of time in average (Jan-Oct 2013: 99,9%)	Cover all main taxes of EU member States collecting over 0.1% GDP as revenue in order to grasp a thorough understanding of the situation in Member States. The target availability was reached Availability of TEDB: 95% of time between 08:00 and 20:00; 85% otherwise Actual availability for 2014 (production) was: 99,82% of time in average for public part of TEDB 99.86 % of time in average for private part of TEDB –
Main outputs	
➢ Tax input to Annual Growth Survey: *Adoption of the AGS 2014/2015 – Q3 2014* ➢ Preparation of country specific recommendations (for the European Semester): *Adoption of the European Semester – Q2 2014* ➢ Development and implementation of a strategy to fully integrate taxation into the EU governance processes: *All country specific recommendations on taxation accepted and implemented by the Member States – Q4 2014* ➢ Impact assessment support on all relevant initiatives: *Number of Impact Assessments accepted by the IAB on first submission – Q1-Q4 2014* ➢ Functioning of the Taxes in Europe Database: *Maintenance and operations – 2014* ➢ "Taxation Trends in the EU: Data for the EU Member States, Iceland and Norway": *Annual report published – Q2 2014* ➢ Tax policy conclusions within the Taxation Policy Group (TPG) in particular to give further direction to policy initiatives: *Analysis prepared – Q1 2014* ➢ Economic analysis on ongoing tax policy issues (e.g. tax policy aspects of the European semester): *Analysis prepared – Q1-Q4 2014* ➢ Modelling actions for tax policy issues in the financial sector: *Publication – Q1-Q4 2014* ➢ Tax information (including the "Taxes in Europe and Tax reform Database" which will constitute the portal on tax reforms mentioned in the Annex to the Annual Growth Survey): *Publication – Q2 2014*	

Conclusion

As evidenced above, the policy managed by the DG is on course to meet its multiannual objectives for this objective and has achieved the annual performance indicators or outputs and milestones in the reporting year

1.1.6 ABB activity 05 – Specific objective 4
To protect EU society and its economic and financial interests through international cooperation in the taxation area

Relevant general objective 1: **To create a simpler, more efficient and fair tax environment in order to fully exploit the economic potential of the Internal Market and foster growth**	
Specific objective 4: **To protect EU society and its economic and financial interests through international cooperation in the taxation area**	☐ Spending programme ☒ Non-spending
Result indicator 12: 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*	
Baseline **2013**	Target **2014**
Ongoing negotiations with Pacific countries, Japan, Afghanistan, Eastern and Southern Africa, West Africa, Eastern Africa, Central Africa, Mercosur, Cuba, Russia.	5 agreements [Australia, Brunei, Kazakhstan, Malaysia, SADC] on good governance provisions concluded in line with planned negotiations.
Main outputs	
➢ Inclusion of tax good governance clauses in tax matters in agreements with 3rd countries: 5 negotiations concluded in 2014, ➢ Update the standard good governance clause in consultation with the Council: *Agreement by Council of new improved standard clause – postponed to 2015*	
Result indicator 13: Provisions on harmonisation of excise policies and – to the extent achievable by the EU – convergence of rates included in the Association Agreements currently under negotiation (Eastern neighbouring countries) *Source: Eastern Border Antifraud Action Plan*	
Baseline **2012**	Target **2014**
Negotiations concluded with Ukraine, Moldova and Armenia. Negotiations started with Georgia and Azerbaijan and to start with Russia	Full harmonization within the region of excise structures and rates within 10 years of entry into force of the Association Agreements
Main outputs	
➢ Provisions on harmonization of excise policies and convergences of rates in the Association agreements with Georgia, Moldova and Ukraine: *Provisions included – 2014* ➢ Due to Armenia's decision to accede to the Eurasian Economic Union, the previously negotiated	

Association Agreement will not enter into force ➢ No progress in negotiating the respective provisions with Azerbaijan and Russia (negotiations with Russia suspended, no negotiation rounds on taxation chapter with Azerbaijan due to the deterioration of human rights in the country)

Result indicator 14: Number of bilateral agreements with third countries on administrative cooperation in the field of indirect taxes *Source: Information provided by DG TAXUD*	
Baseline **2013**	Target **2014**
No mandates to conclude/negotiate bilateral agreements	**Target 2014** Request a mandate for starting negotiations with Russia, China and Turkey **Results 2014** Mandate for starting negotiations with Russia put on hold following the political situation. Preliminary talks for obtaining mandate for China and Turkey have started with the Council but mandate not yet received.
Main outputs	
➢ Start of the negotiations with Norway and Russia: *The Commission received a mandate from the Council to start negotiations with Norway in Q4 of 2014. The actual negotiations will start in 2015. Until now the Council did not agree to give a mandate for negotiations with RU.*	

Result indicator 15: 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*	
Baseline **2013**	Target **2014**
Following positive developments, dialogue with Liechtenstein suspended, awaiting progress with Switzerland. Dialogue with Switzerland on-going.	Find political agreement with third countries, first on procedure, then on substance (legislative amendments) and on monitoring.
Main outputs	
➢ Political agreement with Switzerland and Liechtenstein regarding the future process and the substance of legislative amendments to remove harmful tax regimes: ➢ The dialogue between the Commission and Switzerland was concluded and a Joint Statement was agreed. The Joint Statement was signed by the Member States and Switzerland in Q4. Switzerland has started the procedure of amending its company tax legislation and should finish in 2015. ➢ The dialogue between the Commission and Liechtenstein was reinitiated in Q4 and will continue in 2015.	

Result indicator 16: Agreed solutions to international tax issues of relevance to the EU and its Member States *Source: G20 conclusions*	
Baseline **2013**	Target **2014-2015**

G20 declarations in 2013 on BEPS & AEOI	OECD completion of Actions and G20 approval thereof – assisted by Commission in line with timetable Global standard for AEOI concluded in 2014 Agreement in line with BEPS timetable – 5 countries Delivered as far as the Global Standard for AEOI is concerned
Main outputs	

- Draft mandate authorising the Commission to negotiate similar anti-fraud and tax cooperation agreements with Andorra, Monaco, San Marino and Switzerland: *Adoption by Council postponed to 2015*
- Proposal to sign and approve the draft EU/Liechtenstein agreement on anti-fraud and tax cooperation matters *Approval by the Council postponed to 2015*
- Participate in the OECD work on BEPS through working groups, focus groups and Task Forces etc and ensure that the EU positions are coordinated and that solutions are in line with the EU acquis and that the interests of Member States who are not in the OECD are protected: *Co-ordinated EU positions on BEPS – 2014-2015*
- Update EU agreements with Switzerland, Andorra, Liechtenstein, Monaco and San Marino in line with the evolution of the EU Savings Directive and international developments: *Finalisation of the negotiations and preparation of the Commission proposals for draft Council decisions concerning the Signature and Approval of the Protocols updating the 5 Agreements – postponed to1st half of 2015 in order to take account of the legal text of Council Directive 2014/107/EU adopted on 9 December 2014*
- Agreement with Norway on Savings Taxation: *Finalisation of negotiations and preparation of the Commission proposals for draft Council decisions concerning the Signature and Approval of the Agreement – Postponed to 2015 because of the need to give priority to the updating of the existing agreements with the 5 third countries as explained above*
- Follow up on the international aspects of the Action plan against tax fraud and evasions adopted by the Commission on 6/12/2012: *Promotion of EU interests through input to related G20/OECD work – 2014*
- International cooperation and coordination in the International Tax Dialogue (ITD) and the ITD work:
    - *Completion of ITD work programme – Q4 2014*

Conclusion

As evidenced above, the policy managed by the DG is on course to meet its multiannual objectives for this objective and has achieved the annual performance indicators or outputs and milestones in the reporting year.

1.1.7 ABB activity 05 – Specific objective 5 To support the fight against tax fraud, tax evasion and aggressive tax planning and the implementation of Union law in the field of taxation by ensuring exchange of information, by supporting administrative cooperation and, where necessary and appropriate, by enhancing the administrative capacity of participating countries with a view to assisting in reducing the administrative burden on tax authorities and the compliance costs for taxpayers

Relevant general objective 1: **To create a simpler, more efficient and fair tax environment in order to fully exploit the economic potential of the Internal Market and foster growth t**	
Specific objective 5: **To support the fight against tax fraud, tax evasion and aggressive tax planning and the implementation of Union law in the field of taxation by ensuring exchange of information, by supporting administrative cooperation and, where necessary and appropriate, by enhancing the administrative capacity of participating countries with a view to assisting in reducing the administrative burden on tax authorities and the compliance costs for taxpayers**	☒ Spending programme ☐ Non-spending

The European Information Systems supported by Fiscalis 2020 play a vital role in interconnecting tax authorities and thus facilitating the coexistence of 28 taxation systems in the Union. They allowed in 2014 information to be exchanged rapidly and in a common format that can be recognized by all Member States. This information exchange was enabled by a closed and secure Common Communication Network/Common Systems Interface (CCN/CSI) which had the required high availability and reliability in 2014. The exchange contributed to the achievement of an EU tax framework which is fit for purpose contributing not only to the simplification but also to the effective enforcement of tax rules and ultimately contributing to the curbed tax fraud, tax evasion and aggressive tax planning and reduced administrative burden on tax administrations and taxpayers.

External factors:

In general, this indicator may be affected by the different strategies within the national administrations with regard to the organization and implementation of national IT systems; although specific coordination processes and security policies are applied to mitigate this risk, it is not impossible that specific malfunctioning in one Member State would affect the overall availability of some systems.

In particular for 2014, the performance of these systems has not been impacted though by external factors. Generally the targets set were achieved. For CCN/CSI, the target of 99,9% has not been completely reached, but 98,89% was achieved. This is due to the change of operational supplier and the move of the centrally operated infrastructure to a new datacenter. Since CCN/CSI is a fully distributed infrastructure, this minimal drop of availability has not influenced the actual exchanges between Member States.

Result indicator 17: The Common Communication Network for the European Information Systems and European Information System Availability Indicator *Source: Europa statistics, DG TAXUD statistics*		
Baseline **Jan – Oct 2013**	Milestone/Results **2014**	Target **2020**
VIES on the web: – 99,96+% of time 08:00-20:00; – 85+% otherwise;	**VIES on the web**: **Target** – 95% of time during 08:00-20:00; – 85% otherwise; **Achieved:** 99,92 % in average	**VIES on the web:** – 95% of time during 08:00-20:00; – 85% otherwise;
CCN/CSI: 99,94% of time	**CCN/CSI:** **Target:** 99.90+% of time: **Achieved**: 99,89% due to relocation of equipment	**CCN/CSI:** 99.90+% of time
EMCS: 98,6% of time	**EMCS**: **Target**: 97% of time[14]: **Achieved** 99,12%	**EMCS:** 97% of time[15]
Main outputs		
➢ Requests to VIES-on-the-Web supported: *Support the continuously increasing number of requests, up to 30 million requests expected per month in 2014 (360 million annually) – Continuous service in 2014.* **Achieved with huge increase of requests (in particular 350+ million requests in first quarter due to major users using the application in a non-intended way)** ➢ Taxation IT systems (shared with specific objectives 1 and 3): *Development (including operation and support) according to IT work plan 2014 – Continuous service in 2014:* **achieved** ➢ The Common Communication Network/Common System Interface (shared with specific objectives 1 and 3): *Maintenance and development – Continuous service in 2014:* **achieved** ➢ All IT systems - quality assurance, TEMPO methodology, supply management, human resources, budget, IT governance, Security Management, procurement (shared with specific objectives 1 and 3): *Project support provided – Continuous service in 2014:* **achieved** ➢ IT architecture model of Taxation IT systems (shared with specific objectives 1 and 3): *IT coordination for the Fiscalis IT area in place – End of 2014:* **achieved** ➢ Update of EMCS to include information exchange on request and spontaneous exchanges for 'duty paid' B2B movements: *IT system operational – March 2014:* **achieved**		

The Fiscalis 2020 programme offers Member States a Union framework to develop cooperation activities, which is more cost-effective than if each Member State were to set up individual cooperation frameworks on a bilateral or multilateral basis. The overall objective of the programme is to improve the proper functioning of the taxation systems in the internal market by enhancing cooperation between participating countries, their tax authorities and their officials. It is the extent and intensity of this collaboration which contributes to achieving

[14] Includes systems from the Member States

[15] Includes systems from the Member States

this overall objective efficiently.

The indicators 18 to 20 show the progress made under the Fiscalis 2020 programme to efficiently support a wide and solid collaboration among the officials in the Member States, as stated in the overall objective of the programme.

Indicator 18 measures the degree of awareness of participants and non-participants of the programme and whether there is a lasting networking effect among participants further to attending a programme event (possibly effects of an unspecified duration).

Moreover, some of Fiscalis 2020 programme activities aim to:

- support the correct application and compliance with Union law by enhancing the understanding of Union law and its convergence amongst administrations. The progress achieved by these activities is a pre-condition to obtain an EU tax framework fit for purpose.
- enhance the administrative capacity of the programme participating countries with a view to assist in reducing administrative burden of tax authorities and compliance costs for taxpayers. Their progress is an important element for progressing towards modernised tax systems in Member States based on agreed standards of effectiveness, fairness, efficiency and pro-growth effects.

The indicators 19-20 provide therefore, information on results attained like recommendations and working practices developed, the extent to which they were used and the extent to which the joint actions achieved the expected support/ facilitation in applying and/or implementing Union law.

The evolution of the indicators for 2014 shows a progressing trend towards achieving the set targets.

External factors:

At this stage, there is no evidence that the best practices developed under the joint actions have not been used at their full potential. However, it is expected that the performance of some joint actions has been hampered due to late, partial or non-integration of best practices developed under these joint actions in the national approaches. Also, language barriers may have influenced the performance of the joint actions, diminishing the effectiveness of either oral or written communication or information as well as participation in joint actions.

Result indicator 18: Collaboration robustness between programme stakeholders resulting from Joint Action activities in the Fiscalis 2020 programme *Source: Information provided by DG TAXUD*		
Baseline **2013**	Milestone **2014**	Target **2020**
The collaboration robustness in the final year of the 2013 programme which includes amongst others: **Update of the baseline** to align with the	Maintain the collaboration robustness at the 2013 levels **Results 2014**	Improve the collaboration robustness from the 2014 levels

<table>
<tr><td>Programme Measurement Framework which was finalised in 2014.:

1. Awareness rate: 75%

2. Degree of networking generated by the programme activities:
2.a) Network opportunity
2.b) Lasting networking effect (at least one contact after the end of the programme activity)
Baselines 2a and 2b are zero at the start of the programme.

3. Cooperation:
3.a) Number of face to face meetings: 295

3.b) Number of on-line groups: 30</td><td>Data collection for 2014 is not yet finalised but the preliminary results point towards the achievement of the baseline.

Progress status; Update as of 29/10/2014

1. Awareness rate: data not yet available – next programme poll is planned for June 2015.
2. Degree of networking generated by the programme activities:
2.a) Network opportunity: 79%;
2.b) Lasting networking effect: 75%

3. Cooperation:
3.a) Number of face to face meetings: 301 (01/04/2014 - 04/02/2015)
3.b) Number of on-line groups: 72 for taxation; 37 joint groups between customs and taxation (at 03/02/2015).</td><td>1. Awareness rate: 75 %

2.a) Networking opportunity: 80 %
2.b) Lasting networking effect: 90%

3. Cooperation:
3.a) Number of face to face meetings: maintain the level of 2013
3.b) Number of on-line groups: increase the annual levels</td></tr>
<tr><td colspan="3">Main outputs</td></tr>
<tr><td colspan="3">➢ Fiscalis 2014 Annual Work Programme of the Fiscalis 2020 Programme: Execution – Q2 2014-Q1 2015
➢ Fiscalis 2015 Annual Work Programme: Approved – Q1 2015
➢ Study finalising Fiscalis 2020 and Customs 2020 Performance Measurement Framework: Study delivered – Q2 2014 - Finalised
➢ Fiscalis 2013 Programme Final Evaluation: Final evaluation completed – Q4 2014
➢ Assistance in the structural reform of tax administrations of the Member States under Economic Adjustment Programmes: Between 20-30 events or missions, involving participation by MS experts, aimed at identifying or implementing good practices of effective tax collection, in specific fields in the different Member States and facilitate their adaption and implementation in other Member States – 2014 –On-going</td></tr>
<tr><td colspan="3">Result indicator 19: F2020 Union Law and Policy Application and Implementation Index
Source: Information provided by DG TAXUD</td></tr>
<tr><td>Baseline
2013</td><td>Milestone/result
2014</td><td>Target
2020</td></tr>
<tr><td>➢ Number of actions under the Programme organised in this area;
➢ Number of recommendations issued following those actions</td><td>Start organising programme actions aiming at producing recommendations – Achieved</td><td>Progress achieved in the application and implementation of Union law and policy in the field of taxation</td></tr>
</table>

<table>
<tr>
<td>Update of the baseline:
➢ Extent to which activities have achieved the expected support/ facilitation in applying and/or implementing Union law

Baselines at the start of the programme will be zero.</td>
<td>Number of actions under the programme organised in this area (2/02/2015): 47 (Data collection not yet finalised)

Number of recommendations issued following those actions: Data collection is done annually and first exercise will be started in February 2015.

Extent to which activities have achieved the expected support/ facilitation in applying and/or implementing Union law: Data collection is done annually and first exercise will be started in February 2015.</td>
<td>Update target:
Annual increase (or stability) in the average score for support and facilitation by the end of the Fiscalis 2020 programme (2020).</td>
</tr>
<tr>
<td colspan="3">Result indicator 20: F2020 Best Practices and Guideline Index
Source: Information provided by DG TAXUD</td>
</tr>
<tr>
<td>Baseline
2013</td>
<td>Milestone
2014</td>
<td>Target
2020</td>
</tr>
<tr>
<td>➢ Number of actions under the Programme organised in this area

Update of the baseline:
➢ Percentage of participants that made use of a working practice/administrative procedure/guideline developed/shared with the support of the programme

Baselines at the start of the programme will be zero.</td>
<td>Start organising programme actions aiming at sharing guidelines and best practices - Achieved

2014 Results
Number of actions under the Programme organised in this area (2/02/2015): 116 (Data collection not yet finalized)

Data extracted on 28/10/2014: 75% of the respondent participants declared that outputs were used by themselves or others in their national administration (Data collection not yet finalized)</td>
<td>Best working practices and administrative procedures identified, developed and shared

Target update: Increase percentage compared to the baseline</td>
</tr>
</table>

Fiscalis 2020 supports participating countries in strengthening professional skills and knowledge relating to taxation through enhanced jointly developed training content that targets tax officials and economic operators. The programme provides the financial, organisational and methodological framework to develop training content through common activities. The extent to which these activities are relevant and efficient is important to measure the progress done towards achieving the programme objective to reinforce the skills and competence of tax officials. The Learning Index is a composite of indicators that reflects the quality of the training initiatives.

In 2014, the evolution of the indicator points towards achieving progress as planned.

External factors

The extent to which the national administrations introduce in their training curricula the commonly developed training content influences the evolution of the indicator. Also, the degree of finalizing the translation into up to 22 EU languages (localization) impacted the evolution of the index. The EU localization requires voluntary national investment in each localization project and therefore, the availability of EU training material is not always ensured in national language. Moreover, legislative changes which trigger either updates of the training content or newly developed modules may generate an ascending usage of the commonly developed training content by the tax officials and economic operators.

Result indicator 21: F2020 Learning Index *Source: Information provided by DG TAXUD*		
Baseline **2013**	Milestone **2014**	Target **2020**
➢ Number of officials trained by using common training material of the Union ➢ Number of times Programme eLearning modules were downloaded *Baselines at the start of the programme will be zero.*	**Results 2014** *Data extracted in October 2014* Number of officials trained by using common training material of the Union: 1968 Number of times Programme eLearning modules were downloaded: 3609	Skills and competences of taxation officials reinforced

Conclusion

As evidenced above, the spending programme managed by the DG is on course to meet its multiannual objectives for this objective and has achieved the annual performance indicators or outputs and milestones in the reporting year

1.1.8 ABB activity 04 – 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

In the area of Risk Management and on the top of the broad policy initiative launched by the Communication of August 2014, important results were achieved during 2014 such as:

a) The conclusion of the Priority Control Area "Dismantle" and the endorsement of the recommendations issued where the use of the development and use of electronic screening in real-time of transit data (so-called Dashboards for use in ATIS) scoreboards by Member States as a basis for common risk analysis for transit is a major achievement.

b) The actions aiming to the increased recognition of AEO status by other authorities and by other countries continued: adoption of Regulation No 889/2014 of 14 August 2014 and signature of EU-China JCCC Decision Regarding Mutual Recognition of the Measures on Classified Management of Enterprises Program in the People’s Republic of China and the Authorized Economic Operator Program in the European Union signed on 16 May 2014, Beijing.

c) The elaboration of a cost benefit study followed by a feasibility study with the contribution of Member States and trade representatives to resolve the issues related to data quality and data availability.

The new Regulation No. 608/2013 on the **customs enforcement of IPR**, as well as the EU Customs Action Plan and cooperation with China aim at improving the customs actions at the border against trade in IPR infringing goods while reducing the administrative burden for customs and right-holders. In 2014, the Commission provided support to the Member States customs in the first year of implementation of Regulation No. 608/2013. It also continued to implement the EU Action Plan to address infringements of intellectual property rights at the EU borders, inter alia by renewing and implementing the EU-China Customs Action plan and engaging in cooperation negotiations with Hong-Kong China. The cooperation with the European Observatory on infringements of IPR was also strengthened. In particular, the Commission engaged in discussions with the Office for Harmonization in the Internal Market (OHIM) with a view to integrate the Commission anti-COunterfeiting and anti-PIracy System (COPIS) with the OHIM’s Enforcement Database (EDB). This will reduce the administrative burden for right-holders and customs in processing applications for action. The Commission also co-organised with the UK government and OHIM a High level Conference in London on IPR enforcement. As every year, in July the Commission published its Annual report on customs activities in fighting IPR infringements at the border.

In the area of **citizens protection**, the Commission published Guidelines on the customs enforcement of the **FLEGT Regulation** applying to trade in legally-harvested **timber**, and finalised the preparation of Guidelines on the customs control of **waste shipment exports**. In September, an ASEAN workshop on waste control took place and a dedicated bilateral cooperation with China was launched. A High level Seminar on e-Customs and the Single Window in Venice in October gathered support for the launching of an EU Customs Single Environment for Customs. A high number of activities also took place in the area of product safety, and we supported other Directorates-General in drafting and negotiating Commission legislative proposals for the protection of health, safety, the environment or trade restrictive measures.

The Commission prepared the implementation of the recently-amended Regulations on the control of trade in **drug precursors**, for which a Delegated Act and an Implementing Act will be adopted shortly. The Commission attended the annual meetings of the UN Commission on Narcotic Drugs and Joint Follow-up Groups with the US and Latin American countries. The meeting of the Joint Follow-up Group with China in December allowed to further enhance the mutual understanding and operational cooperation between European and Chinese anti-drugs authorities. The subsequent workshop on industry-authorities cooperation raised the awareness of Chinese industry on the importance of controlling trade in drug precursors so as to prevent diversion to illicit drug manufacturing.

Relevant general objective 2: **To ensure that EU customs policy protects society, facilitates trade and supports the competitiveness of the European economy**	
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**	☐ Spending programme ☒ Non-spending

Result indicator 22: Improved risk management capacity and improved exchange of risk information between MSs via the Customs Risk Management System (CRMS) *Source: Communication on Customs Risk Management and security of the supply chain – COM(2012) 793 and subsequent Action plan (2014); CRMS*		
Baseline **2013**	Milestone **2014**	Target **2020**
A number of shortcomings in the area of risk management exist, namely inappropriate data quality and data availability and filing arrangements, unsatisfactory sharing of information (including risk mitigation information) between customs and other authorities, inadequate administrative capacity and unsatisfactory cooperation with trade and 3rd countries.	Adoption of the Action Plan for Risk Management and Security of the supply chain- **2014 Results** Achieved COM(2014)527 of 21 August endorsed by the Council on 4 December 2014	– Data quality and data availability, filing and sharing of risk mitigation and control results information improved – Improved implementation of CRMF – Fully operational reshaped CRMS system fitting the expanded needs of CRMF – Enhanced synergies between CRMF and other sectors/authorities at national and EU levels – AEO recognition by non-customs authorities ensured: civil aviation achieved (Commission Regulation (EU) No 889/2014 of 14 August 2014 amending Regulation (EEC) No 2454/93, as regards recognition of the common security requirements under the regulated agent and known consignor

		programme and the Authorised Economic Operator programme) – AEO recognition by 3rd countries expanded- JCCC Decision Regarding Mutual Recognition of the Measures on Classified Management of Enterprises Program in the People's Republic of China and the Authorized Economic Operator Program in the European Union signed on 16 May 2014, Beijing – Develop an international co-operation in the area of risk management and supply chain security (*See RI 40*)
1 PCA performed per year (PCA Discount project in 2012)		– CRMS reshape finalised and consistent with RM strategy – PCA endorsed each time needed (including crisis management)
Main outputs		

- Action Plan for Risk Management and Security of the supply chain: *Adoption of the Action plan – End of Q2 2014* ***Achieved- COM(2014)527 of 21 August endorsed by the Council on 4 December***
- Propose new systems/functionalities for the Air Cargo, Express Couriers, Postal consignments and Maritime transport necessary to improve data quality taking into account different business models:
  - *Legislation* ***proposed and finalized till end 2014***
  - *Business specifications (L4 BPM) developed for new system functionality – 2015*
- Air-cargo: Implementation of the High Level EU action plan on strengthening the air cargo security from the customs angle:
  - Incorporation in UCC DA/IA act to increase advance air cargo data quality for increased security risk analysis: *Implementing act* ***proposed Q1 2014 and finalised Q4 2014***
  - Support the creation and agreement on a detailed implementation roadmap, which includes the legal amendments, BPM and actions necessary for the update of the Customs EIS: ***Roadmap established – 2014***
- EU-specific green-edged baggage tags have been used in the EU since 1992 to identify baggage checked in an EU airport. New technologies allow the issuance of Home-printed baggage tags which are not provided for in current legislation. Extend the lists of tags models to include home printed tags and electronic tags that can be used for the identification of baggage checked in EU airports: *Legal proposals submitted to the CCC CRM section – December 2014* ***delayed due to delays on the testing between EU airports and air companies***
- Non-intrusive detection technologies for customs controls and security (in cooperation with ENTR, RTD, INFSO and JRC): identify the most suitable combination(s) of detection technology equipment for different volumetric of trade and different modes of transport: *Identification –* ***Achieved: detection Technology Architecture documents issued and endorsed by CPG (Q2-2014)***
- Establish a list of needed upgrades on the Customs Risk Management System: *Establishment of agreed list with MS – Q4 2014 – CRMS reshape proposal document* ***issued****.*
- PCA Dismantle project organised and recommendation issued in 2013/2014 – ***Achieved. Recommendations endorsed***

- Evaluation of the adequacy of CRMS to the present and future objectives of Risk Management: *Evaluation report – End of 2014* ***CRMS reshape proposal document***
- **Crisis management on EBOLA organized and implemented**
- Management of common risk criteria implementation: *Annual report delivered – End of* ***2014Achieved with difficulties due to bad and/or incomplete reporting from Member States. Mitigating actions to try to overcome the situation being examined with Member States***
- Implementation of the new tag models : *Number of new tags use (in %) – 2016*

Result indicator 23: All new legislative proposals for protecting citizens or the environment contain harmonised and standardised procedures for customs controls
Source: Information provided by DG TAXUD

Baseline **2012**	Target **2014**
Unclear and diverging procedures for customs controls in current legislation for protecting citizens or the environment.	Any new legislative proposal adopted in 2014 which relates to customs controls in the area of the protection of citizens' safety or the environment contains clear procedures for customs **Result 2014** For all new legislative proposals, customs enforcement provisions are clear and aligned with customs legislation and processes.

Main outputs

- Strategy for a joint customs approach to protect health, safety and the environment: adoption of a Staff Working Document following the Communication on the State of the Customs Union and implementation of a roadmap: ***see impact indicator 3***
- Implementation of the FLEGT (Forest Law Enforcement Governance and Trade) legislation: *Guidelines adopted – Q2 2014* ***Achieved***
- Customs controls on transboundary waste shipments (Council conclusions on the raw materials initiative): *Guidelines will be adopted in Q1 2015.*
- Standardised procedures for the customs implementation of legislations for protecting citizens and the environment: *Toolbox – Under preparation and adoption foreseen for Q4 2015.*

Result indicator 24: Number of Member States where customs controls on product safety exist
Source: Information provided by DG TAXUD

Baseline **2012**	Target **2014**
Some Member States already carry out customs controls on product safety but there is a lack of capacity and knowledge by customs	All Member States carry out customs controls on product safety and have concluded Memoranda of Understanding for cooperation with Market Surveillance Authorities **Result 2014** All Member States have implemented a structural cooperation between customs and market surveillance authorities, as laid down in the Guidelines.

Main outputs

<table>
<tr><td colspan="2">

- Implementation of joint activities on import controls on product safety and co-operation between customs and market surveillance authorities and the new market surveillance package of SMA II:
  - Common risk approach: *Common risk strategy: First version is available; final version to be issued in Q2 2015.*
  - Import controls in the area of product safety and compliance: *Guidelines extended with new checklists. **Achieved.***
  - Results of controls on product safety and compliance at import: *First annual report for the 1st half of 2015*
- Report to the EP, the Council and the European Economic and Social Committee on the implementation of Council Regulation (EC) No. 116/2009 on the export of cultural goods, as foreseen in its article 10: *Report to be issued in Q2 2015.*

</td></tr>
<tr><td colspan="2">Result indicator 25: Improved prevention of the diversion of chemical substances towards the production of illicit drugs by a reinforced capacity of MS authorities to act
Source : Information provided by DG TAXUD</td></tr>
<tr><td>Baseline
2013</td><td>Target
2015</td></tr>
<tr><td>Regulation No. 111/2005 on the monitoring of international trade in drug precursors amended by the Council and the EP in 2013 to address weaknesses in the legal framework</td><td>Medicines containing ephedrine or pseudo-ephedrine are not diverted on the EU territory for the production of illicit drugs and the procedures for the prevention of diversion of non-scheduled substances are operating smoothly</td></tr>
<tr><td colspan="2">Main outputs</td></tr>
<tr><td colspan="2">

- Implementation of the amended Regulation No. 111/2005: *Delegated and Implementing acts to be adopted in Q2 2015 and EU Database on drug precursors is developed by DG ENTR and TAXUD as foreseen in the law – 2nd half of 2015*

</td></tr>
<tr><td colspan="2">Result indicator 26: Number of Authorized Economic Operators (AEO)/trade volume of AEOs in EU international trade
AEO EIS up-to-date and operational
Source: Commission for the EIS and MSs for number of AEOs and their trade volume</td></tr>
<tr><td>Baseline
2011</td><td>Target
2014</td></tr>
<tr><td>Number of issued certificates: 10.200

Trade volume of AEOs is on average more than 40% considering data related to import, export and transit. This data should be read considering that the number of AEOs represents just around 0.4% of the economic operators EORI registered.

Recognition of AEO by other similar EU programmes: 1 to date (DG MARE) and work on-going with DG MOVE</td><td>Number of issued certificates:
Target 2014: 16.000.
Results 2014: 15.000

Trade volume of AEOs
Target: to represent 45-50% of EU trade
Result: The latest date existing is 65% (import+export) (Source: Customs Union Performance (CUP) 2013).
The CUP data for 2014 will be available Spring 2015

Recognition of the AEO status by other EU similar programmes: Commission Regulation (EU) No 889/2014 of 14 August 2014 amending Regulation (EEC) No 2454/93, as regards recognition of the common security requirements under the regulated agent and known consignor programme and the Authorised Economic Operator programme</td></tr>
</table>

AEO EIS operational without complaints. Evolution and maintenance monitored and agreed by Electronic Customs Group	**AEO EIS operational** without complaints. Evolution and maintenance monitored and agreed by Electronic Customs Coordination Group
Main outputs	
➢ Legal basis for the recognition of AEO status by other EU programmes: *Reference to Legal bases established – Q2 2014* ***Achieved with Civil aviation authorities:*** *Commission Regulation (EU) No 889/2014 of 14 August 2014 amending Regulation (EEC) No 2454/93, as regards recognition of the common security requirements under the regulated agent and known consignor programme and the Authorised Economic Operator programme. This Regulation addresses Air Cargo Security.* *Publication of Commission Implementing Regulation (EU) No 889/2014 of 14 August 2014, JOEU L 243 /39 of 15.8.2014 published 04/09/2014, amending the Commission Regulation (EEC) No 2454/93 of 2 July 1993. This amended Regulation introduces Mutual recognition of AEO between EU and 3rd countries Customs Authorities* ➢ Implementation of the recognition of Authorised Economic Operators (AEOs) in the declaration systems (entry, transit and export/exit): *Implementation for transit and export/exit declaration procedures and actions – Q4 2014.* Commission Implementing Regulation (EU) No 174/2014 of 25 February 2014 amending Regulation (EEC) No 2454/93 as regards the identification of persons in the context of AEO Mutual Recognition Agreements. This Regulation deals with EORI registration and TCUIN (registration numbers issued by third countries) for AEO Mutual Recognition.	

Result indicator 27: Improved enforcement of IPR at the border by a reinforced capacity of MS customs to act upon suspected infringements and by strengthened cooperation with certain 3rd countries
Source : Information provided by DG TAXUD

Baseline **2012**	Milestone **2014**	Target **2017**
The EU Customs Action Plan to combat IPR infringements 2009-2012 has come to its end. A new action Plan for 2013 to 2017 is developed that focusses on the following strategic objectives: – Effectively implementing and monitoring the new EU legislation on customs enforcement of IPR. – Tackling major trends in trade of IPR infringing goods. – Tackling trade of IPR infringing goods throughout the international supply chain. – Strengthening cooperation with the European Observatory on infringements of IPRs and law enforcement authorities.	Step by step progress on the roadmap for the implementation of the EU AP to combat IPR infringements for 2013-2017 – achieved.	Full implementation of the EU Customs Action Plan to combat infringements of IPR 2013-2017
The 2010-2012 Action Plan is ending. Implementation results are positive but can be improved. Hong Kong China is a source of IPR infringing goods to the EU	Signature of a new EU-China IPR Action Plan (2014-2017) and start implementation of the actions. Cooperation with Hong Kong China is launched – Achieved.	Full implementation of the EU-China Action Plan (2014-2017) through sustained joint activities between EU and China authorities.

Main outputs
➢ Implementation of the new EU Customs Action Plan to combat IPR infringements, including annual reviews of implementation of the Action Plan: *Annual reviews performed and Actions implemented as planned in the roadmap – 2017* ➢ Annual statistical report on EU customs enforcement of IPR: *Report produced* ➢ Signature and implementation of the new EU-China IPR Action Plan: • *Action Plan signed and Actions launched in 2014* • *Data exchanged and joint risk analysis performed – 2014-2015* ➢ Engage in cooperation on IPR enforcement with Hong Kong China: *negotiations on an Action Plan well advanced.*

Conclusion

As evidenced above, the policy managed by the DG is on course to meet its multiannual objectives for this objective and has achieved the annual performance indicators or outputs and milestones in the reporting year.

1.1.9 ABB activity 04 – 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

The implementing rules to UCC have been drafted and finalized through discussions with Member States and Trade representatives in relevant Committees and Expert Groups, with a view to ensuring proper and correct implementation of the UCC as from 1/5/2016. Discussions were launched on the relevant administrative and electronic transitional measures that are needed to ensure a smooth implementation of the UCC provisions in cases where electronic systems are not yet deployed or where due to procedural rules a transitional measure has to apply. The discussions enable the definition of rules, both for implementation of UCC and for the transitional period, that allow the smooth functioning of trade lanes and support Member States national administrations to adapt to changes to current procedures as brought forward by the UCC. In 2014, 600 users working on EU Customs Business Process Models (BPMs) have produced and reviewed 841 Level3 BPMs in 5 waves.

TAXUD started the production of Business Process Models (BPMs) and Business Cases for the new UCC Level 4 (L4) activities for the Automated Export System (AES) and Import Control System (ICS) in 2014 and will put these business cases for external reviews in 2015. The Business Case documentation for both projects will be finalised in parallel. The project milestones were respected so far but the completion date will probably be beyond the deadline that was put in the MASP for AES. Due to the on-going legal discussions on export, the agreement on the Business Case for AES could only be achieved at the Customs Business Group (CBG) of 27/01/2015 rather than the initial milestone Q3 2014.

The Business Case for Proof of Union Status (PoUS) will also be delayed as the agreement with Member States is still pending due to the new proposal integrating the eManifest as a proof of Union Status on UCC DA - IA that was presented in Autumn 2014 and needs to be integrated in the PoUS system. This integration requires an update of the business case of the PoUS system. Therefore the green light from ECCG on the business case is expected in March 2015 rather than the initially planned Q4 2014.

The Business Case documentation for the Binding Tariff Information (BTI) and Uniform User Management & Digital Signature (UUM&DS) systems were approved by the Member States and internal governance bodies in line with the milestones.

Relevant general objective 2: **To ensure that EU customs policy protects society, facilitates trade and supports the competitiveness of the European economy**	
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**	☐ Spending programme ☒ Non-spending

Result indicator 28: Degree of simplification of rules due to the application of the Union Customs legislation *Source: Information provided by DG TAXUD*		
Baseline **2013**	Milestone **2014**	Target **2020**
Union Customs Code was adopted in October 2013. The reduction of the administrative burden can only be measured once the Commission related acts and the required IT systems are fully in place	Draft delegated and implementing acts to the UCC finalised. **2014 Results** The discussions have been finalised end 2014/January 2015; both acts should be adopted in May 2015. Discussions on electronic transitional measures (in the absence of fully deployed IT systems) have started mid-2014 and will continue in 2015, with the target of adopting the Transitional Delegated Act end 2015.	Minimum target of 25% of reduction of the Administrative Burden (maximum target of 39%[16])
Main outputs		
➢ Adopt the UCC (IT) Work programme (IA): *UCC work programme developed and approved within six months of the entry into force of the UCC regulation – Q2 2014.* ***Publication of Commission Implementing Decision of 29 April 2014 establishing the Work Programme for the Union Customs Code*** **(2014/255/EU)** ***(JOEU L134/46 of 7.5.2014). 18 Member States have decided to work jointly within the frame of a Project Group under Customs 2020 programme to 'Support for the implementation of the UCC Work Programme' and study the collaborative approaches****.* ➢ Prepare the draft (final) delegated act and (general) implementing act to the UCC: • *Draft final DA & general IA submitted to consultation of Member States and trade experts – Q1 2014 (body of the drafts) and Q2 2014 (annexes).* ***Milestone respected*** • *Finalisation of drafts Q42014 (for adoption in May 2015; discussions on some specific provisions in particular as regards the administrative and electronic transition continued in*		

[16] According to the CEPS report for the Stoiber HLG & IA 2005 of the MCC updated in 2012

January 2015) –

- Development of an EU Competency Framework for the Customs profession: *Part 'Private sector' released in March 2014.*
- Implement the 2nd part of the 2013 'Blue Belt' initiative as a key-action of the Single Market Act II package (SMAII) – Introduce an electronic customs manifest to facilitate the proof of Union status of goods in the Implementing Provisions of the Community Customs Code (CCIP): Inclusion of the *provisions on eManifest in the draft IA and DA – Q2 201**4***
- Implementation of eManifest in practice: *eManifest used in EU maritime transport – Q2 2015 Reorientation of the eManifest towards an electronic customs goods manifest (as of a Proof of Union status) during the drafting of the UCC DA-IA which impacts the practical implementation (from a pure national project towards (partial) integration in the EU system on PoUS for which the operational date is 2017 as defined in the UCC WP). Discussions still ongoing in this respect in the context of the Business Case for the PoUS project.*

Result indicator 29: 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

Baseline **2012**	Target **2014**
All agreed BPM were timely available for the meetings	100% timely availability of BPM for the meetings **Results 2014** All agreed BPM were timely available for the meetings. There has been no slippage in the review planning for all BPMs presented in 2014.

Main outputs

- Rex, Single Window and Class: *Agreement by Member States on user requirements and BPM's – Q1 2014* ***- Achieved***
- UCC Alignment: *Timely availability of the level 3 (legislation) and level 4 (business details for IT specifications) BPMs and associated business cases aligned to new UCC to support the discussions on the UCC DA-IA – Q4 2014* ***Milestone respected for L3 BPMs; Continuation of the alignment work on L4 BPMs in particular related to updates for the Customs decisions and PoUS packages (following external review with MS in 2012) but also to other UCC domains ongoing in line with milestones****.*
- Production of BPM and Business Cases for projects described in the MASP: *Deliverables available as per the target dates defined in MASP – 100% availability of BPM and Business Cases.* ***For the new UCC L4 activities, internal work has started for AES and ICS and followed by external reviews upcoming in 2015, and in parallel finalisation of the Business Case documentation for both projects => Milestones respected so far but probably completion date beyond deadline in the MASP for AES. For the business case documentation, the BTI and UUM BC were approved by MS and internal governance bodies in line with the milestones. Due to the ongoing legal discussions on export, the agreement on the BC for AES could only be achieved at the CBG of 27/01/2015 (initial milestone: Q3 2014). Some delay is to be reported also on the BC for PoUS as the agreement with MS is still pending due to the new proposal presented in Oct-Nov 2014 for its integration in the PoUS system which lead to an update of the BC and on which further work is expected in the coming weeks in order to get the green light from ECCG in March 2015 (initial milestone: Q4 2014)****.*
- Use of Gefeg analysis tool to align BPM with legal texts and international obligations:

• *Operational availability of GEFEG for test of the 5 options of the integration with ARIS – Q2 2014* ***Milestone respected*** • *Staff trained to use the tool – Q2 2014. Training organized in due time for competent staff.* ***Milestone respected.***

Result indicator 30: Equivalent enforcement framework for obligations resulting from Union customs legislation *Source: Impact Assessment of the proposal*		
Baseline **2013**	Milestone **2014**	Target[17] **2017**
Adoption by the Commission of a proposal for a Directive on a Union legal framework on customs infringements and sanctions	**Target 2014** General orientation for the legal framework on customs infringements and sanctions. **Results 2014** Discussions continue in the Council and EP to determine the exact delimitation of this legal framework, with the Protection of Financial Interests (PIF) Regulation as well as to determine what should constitute a customs infringement with administrative sanctions	Transposition by Member States
Main outputs		
➢ Directive on a Union legal framework on customs infringements and sanctions: *General orientation by the Council (Customs Union Working Party) – Q4 2014; Launch of discussions with EP, IMCO in Q2 2014 and continuation with the "new" EP as of Q4 2014*		

Conclusion

As evidenced above, the policy managed by the DG is on course to meet its multiannual objectives for this objective and has achieved the annual performance indicators or outputs and milestones in the reporting year.

[17] The deadline proposed for the transposition of the Directive by Member States is 1 May 2017, with a report on that transposition to be produced by the Commission by 1 May 2019.

1.1.10ABB activity 04 – Specific objective 3

To ensure effective management of the Customs Union in particular through the development of high quality customs legislation, IT systems and their uniform application

Following the recommendations from the European Court of Auditors and the request from the European Parliament, monitoring of Simplified Procedures /SASP (Single Authorizations for simplified procedures) has taken place between 2010 and 2014. This monitoring has allowed assessment of the state of play of implementation of SP/SASP in the Member States. It has also alerted Member States to the need to control more efficiently the SP/SASP through audits, transaction-based controls and monitoring of issued authorisations. The continued monitoring suggested the need for more efforts by Member States in this area. A thorough analysis of the findings and Member States' follow-up to the recommendations was carried out and its outcome is reflected in the UCC Implementing and Delegated Acts.

In the context of the Performance Measurement Framework of the Customs Union, key Performance Indicators (KPI) were established for each strategic objective (protection, control, facilitation and co-operation). More detailed Data Collection Indicators (DCI) were identified and established to collect raw data in order to calculate the KPIs. The collection of data from Member States and from the existing EU IT systems/databases will be carried during the 1st quarter 2015. The analysis of data will be carried out in March/April 2015 and summary reports will be prepared during the 2nd quarter 2015.

Relevant general objective 2: **To ensure that EU customs policy protects society, facilitates trade and supports the competitiveness of the European economy**	
Specific objective 3: **To ensure effective management of the Customs Union in particular through the development of high quality customs legislation, IT systems and their uniform application**	☐ Spending programme ☒ Non-spending

Result indicator 31: Follow-up to the Special Report No 01/2010 of the European Court of Auditors (ECA) on simplified customs procedures for imports measured by the number of accepted recommendations followed-up *Source: RAD database*	
Baseline **2010**	Target **2016**

The Special Report published on 07 June 2010 contains 12 recommendations accepted by the Commission.	All accepted recommendations followed-up, in particular: Recommendation 2010/AUD/0011: Take the Court's findings into account when considering further simplifications for customs procedures Recommendation 2010/AUD/0014: To encourage all Member States to computerize the processing of simplified procedures including the electronic management (online writing-down at the moment of release of the goods) of licences and similar documents and the use of IT-based risk profiles covering TOR and common trade policy issues;

Main outputs

- Follow up to CoA Special Report No 01/2010:
    - *Accepted CoA recommendations taken into account when drafting UCC DA & IA*
    - *Monitoring 2010-2014 completed – Q4 2014. Final report of the monitoring actions under finalisation, including a review of follow-up actions taken by Member States.*

Result indicator 32: Improved functioning of the customs union and number of initiatives taken and results achieved in that respect
Source: Measurement of results and Performance measurement

Baseline **2012**	Target **2015-2016**
State of play described in the Commission Communication on the State of the Customs Union; the existing measurement ratios are of an activity-related type	Positive trend in the required direction based on the assessment of performance indicators of customs union per key strategic objective

Main outputs

- Follow-up the Communication on the State of the Customs Union: *Preparation of the Blueprint of the EU Customs Union Governance Reform – 1st half of 2015*
- Establishment of the Performance Measurement system at the level of the EU Customs Union: *The Customs Union Performance system for measurement of performance at the level of EU Customs Union was set up with an initial set of performance indicators in 2014. Key Performance Indicators (KPI) were established for each strategic objective (protection, control, facilitation and co-operation). More detailed Data Collection Indicators (DCI) were identified and established to collect raw data in order to calculate the KPIs. The collection of data from Member States and from the existing EU IT systems/databases will be carried out during the 1st quarter 2015. The analysis of data will be carried out in March/April 2015 and summary reports will be prepared during the 2nd quarter 2015.*

Result indicator 33: Number of quotas and suspensions opened for the next year
Source: Suspensions data base

Baseline **2013**	Target **2015**

For Council regulations being applicable from 1.7.14 around 250 new requests have been sent. As for some countries the GSP status runs out by 1.1.14 MS ask to replace the status quo via the system of autonomous suspensions and quotas. For the next deadlines 15.3.2014 and 15.9.2014 the same amount of requests is expected. These Council regulations will be applicable by 1.7.14 and 1.1.15. The activity on quotas is rather regular involving in the opening and closing of around 8 quotas per annum leaving the total number of open tariff quota 60 (+-1).	Ensure the administrative response to the EU industry requests for tariff suspensions and quotas, which are expected to rise by 5 %, in each of the years 2014 and 2015 in view of the campaign made at SME level in 2012. **2014 Results** An administrative response was given to an increased number of suspension requests which rose by 11% in 2014 (double of the anticipated figure). 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. **2014 Results** This target was met since from year 2013 to 2014 the total amount of uncollected duty increased proportionally with the number of applicable suspensions
Main outputs	
➢ 2 Council regulations for suspensions: *Adopted by the Council – Before 1 July and before the end of December 2014 respectively Output delivered* ➢ 2 Council regulations for quotas: *Adopted by the Council – Before 1 July and before the end of December 2014 respectively Output delivered*	
Result indicator 34: Amount of data provided for the implementation of the Common Customs Tariff *Source: TARIC3, QUOTA2*	
Baseline **2011**	Target/Result **2014**
– 99.285 updated measures; – 99.626 updated goods descriptions in TARIC; – 200.000 drawing requests on EU tariff quotas; – amount of surveillance data - 175 million surveillance data records	– 90.000 / 65.366 updated measures. – 80.000 / 69.010 updated goods descriptions. – The amount of updated measures and goods descriptions results partially from the annual nomenclature updates at CN level. In 2014, there were less such updates than estimated. In addition, in 2014 there were fewer trade defence measures in relation to 2013 which resulted in less updates than estimate. The above explain the deviation between results and targets. – 220.000 / 190.000 drawing requests on EU tariff quotas – 220 million / 254 million surveillance data records.
Main outputs	
➢ Combined Nomenclature 2015: *Publication in EU OJ – Before 31st October 2014*	

➢ Integration of TARIC measures: *Updated TARIC data base – Regularly* ➢ Update of goods descriptions in TARIC: *Updated TARIC data base – Regularly* ➢ Tariff quotas allocation: *Daily allocation of tariff quotas – Daily* ➢ Integration of credibility checks into TARIC in order to enhance the uniform and proper implementation of the Common Customs Tariff[18]: *Implementation of steps 2 "Physical checks" on 01.02.2014 and 3 "Reference values" to be implemented on 01.06.2015*

Result indicator 35: Number and percentage of infringement cases, EU Pilot cases, CHAP complaints, REM/REC files and monitoring visit reports and enquiry letters **Legal Advice provided** *Source: CHAP, EU-Pilot and NIF databases*	
Baseline **2012**	Target (Results) **2014**
1) Number of infringement cases closed in NIF as a result of compliance with EU law: 0 2) Number of EU Pilot cases closed as a result of compliance with EU law: 3 3) Percentage of infringement cases proposed for a Commission Decision, excluding those outside of the control of DG TAXUD[19]: 18% out of 11 pending infringements 4) Percentage of CHAP complaints that respect SG Temporary benchmarks: 100% out of 15 CHAP complaints 5) Percentage of EU Pilot procedures and NIF infringements that respect SG Temporary benchmarks: 77% out of 47 EU Pilot and NIF 6) Percentage of monitoring visit reports sent on time: 50% out of 21 monitoring reports 7) Percentage of 1-year monitoring enquiry letters sent to the Member States on time: 55% out of 20 per year monitoring enquiry letters 8) Percentage of DG TAXUD contribution to the observations by the Commission in customs cases before the EU Court of Justice and the WTO delivered on time. 85 % in 2012 9) Handling of applications for non-recovery, repayment and remission of import duties (REM/REC files) 10) Input on files concerning the application of Article 17.2 of Regulation 1150/2000	1) Attaining compliance with EU law by the Member States (2 NIF cases closed in 2014) 2) Attaining compliance with EU law by the Member States at the stage of EU Pilot (15 EU-Pilot cases closed in 2014) 3) Attaining at least 60% of pending infringement cases proposed for a Commission decision in an infringements-decision-making cycle during the year (71 % in 2014) 4) Attain a 60% compliance rate with the SG temporal benchmarks for handling CHAP complaints (82 % in 2014 for both CHAP, EU-Pilot and NIF) 5) Attain a 60% compliance rate with the SG temporal benchmarks for handling EU Pilot and NIF (See point 4 above, these two targets have been merged in the latest version of the AMP) 6) Achieve a 80% compliance rate of monitoring reports sent on time (44 % in 2014) 7) Achieve a 80% compliance rate of 1-year monitoring enquiry letters (70 % in 2014) *Due to resources constraints and the need to prioritise among the significant number of cases the overall target was not met. However priority was given to Member States where important issues of compliance had been found during monitoring visits and in these cases the appropriate reports and letters were sent out in time*. 8) Achievement of 90 % of contributions delivered on time (76% in 2014.) *The target was not met during 2014 due to the*

[18] Financed under the Customs programme

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

(WOMIS files)	*complexity of many files which involved multiple Commission departments*. 9) Decisions drafted within the legal deadlines (100% in 2014) 10) Timely contributions provided to DG BUDG (Yes)
Main outputs	

- Preparation of a first draft of the New Guidelines to be discussed in the Customs Debt and Guarantees' Committee with MS: ***Guidelines on Customs Debt and Guarantees updated – Q4 2014***
- Preparation of monitoring reports on REM-REC: ***Final report prepared – Q2 2014***
- The handling of pre-infringement and infringement files, examination of monitoring reports, assistance in cases before the EU Court of Justice and the WTO and the provision of legal advice to operational units in TAXUD: *The on-going achievement of a correct application of EU customs law in relation to the cases that are dealt with – **On-going***

Result indicator 36: Time taken for resolving of divergent tariff classification cases *Source: Case Data base*	
Baseline **2011**	Target/Result **2014**
– average time for solving of different classification cases was 11 months (2012: 10 months); – 28% of all new cases were solved within 6 months (2012: 27%); – 65% of all new cases were solved within 1 year (2012: 69%).	– Average time 10 months; Result 2014: 8,2 months – 60% of all new cases solved within 6 months and; Result: 58% in 2014 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 timely solution; *Result: 86 % of cases (new + old) solved within 1 year in 2014.*
Main outputs	

All outputs delivered

- Classification Information System (CLASS): *Business Case Document – Q2 2014*
- Follow-up of the European Binding Tariff Information (EBTI): *Monitoring of the EBTI3 data base – 2014 regularly throughout the year*
- New working methods in the area of Binding Tariff Information (BTI) and classification: *Study delivered – Q4 2014*

Conclusion

As evidenced above, the policy managed by the DG is on course to meet its multiannual objectives for this objective and has achieved the annual performance indicators or outputs and milestones in the reporting year.

1.1.11 ABB activity 04 – Specific objective 4

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

<table>
<tr><td colspan="2">Relevant general objective 2:
To ensure that EU customs policy protects society, facilitates trade and supports the competitiveness of the European economy</td></tr>
<tr><td colspan="2">Specific objective 4:
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
☐ Spending programme
☒ Non-spending</td></tr>
<tr><td colspan="2">Result indicator 37: 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</td></tr>
<tr><td>Baseline
2012-2013</td><td>Target
2015</td></tr>
<tr><td>– Time Limits, Integrated Supply Chain Management have been included in SAFE review;

– The GNC[20] Feasibility Study was endorsed and the proof-of-concept phase launched by the WCO Council in June 2012.
– Current legislation on data integration and harmonisation and systems take inspiration from international norms and standards</td><td>– Continue to drive the SAFE review to reflect new developments in supply chain security and enhance trade facilitation. The full review is scheduled to be completed by June 2015;
– Conduct GNC proof-of-concepts phase, to be completed in 2015. The EU will actively contribute to the pilot phase.

– All new legislation on data integration and harmonisation needs to implement international norms and standards and to document any deviation that cannot be avoided</td></tr>
<tr><td colspan="2">Main outputs</td></tr>
</table>

[20] GNC: Globally Networked Customs

➢ Ensure legal proposals on data integration and harmonisation are compatible with international norms and standards: *Annexes to the UCC DA and IA compatible with international norms and standards – December 2014. Milestone respected.* ➢ Coordinate Union positions, represent the Union, provide documents and contributions to the different WCO committees on supply chain security, trade facilitation, IPR Customs enforcement and HS nomenclature: *Overall coordination ensured – Open-ended (linked to the membership)* ➢ EU as Vice-Chair of Europe Region: *Coordination of the Europe Region – July 2014-June 2016* ➢ The use of the standard IT approach for exchange of AEO data with third countries: • *Strategy adopted – Q3 2014* • *Use and implement standard approach with China, Japan – Q1 2015* ➢ GNC proof-of-concept phase based on an agreed GNC strategy under development; alignment of international data exchange projects to GNC, in particular: a)AEO Mutual Recognition ("your AEO is my AEO"); b)Control Mutual Recognition ("your exit is my security"); c) Global Trader Identifier, and d) e-ATA: *Implementation and Availability of utility building blocks – 2015. Work in progress* ➢ Convergence of the business process and data exchange implementation of international data exchange projects towards the GNC standards: *Availability of GNC UB and system documentation for agreed GNC UB – End of 2015*

Result indicator 38: 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*	
Baseline **2012**	Target **2014-2015**
– Turkey joined the Common Transit and S.A.D. Conventions on 01/12/2012; – Iceland opened the negotiations on Chapter 29 Customs Union (October 2012) and Chapter 16 Taxation (December 2012 tbc). **2013** – Stabilisation and Association Agreement with Serbia entered into force on 1 September 2013 – June 2013: Decision on opening of accession negotiations with Serbia – June 2013: opening of negotiations on a Stabilisation and Association Agreement (SAA) with Kosovo – Screening sessions on Chapters 16 (Taxation) and 29 (Customs union), and adoption of Screening Reports, with Montenegro	– Progress in the degree of alignment of legislation and modernisation of tax and customs administrations according to the specificity of each (potential) candidate country – Screening session on Chapter 16 (Taxation and adoption of Screening Reports on Chapters 16 (Taxation) and 29 (Customs union) with Serbia – Opening of negotiations on Chapter 16 with Montenegro – Accession to the Common Transit and S.A.D. Conventions by former Yugoslav Republic of Macedonia and Serbia
Main outputs	

- Implementation of the EU 2010 strategy on the extension of the conventions of 1987 on a common transit procedure and on the simplifications of formalities to candidate countries:
  - *Preparation of the invitation to Serbia to accede the Conventions in 2015 – Q4 2014*
  - *Preparation of the invitation to Former Yugoslav Republic of Macedonia to accede the Conventions in 2015 – Q2 2015*
- Turkey successfully connected to NCTS for applying Common Transit Procedures.
- Contribution to accession negotiations with candidate countries, in order to ensure harmonisation of their customs and fiscal legislation and strengthening of their administrative capacity to apply the customs and tax acquis including IT interconnectivity:
  - *Montenegro: draft common positions for chapters 16 and 29 – opening of negotiations on Chapter 29 – Q4 2014*
  - *Serbia: screening sessions for Chapter 16 (October 2014 and March 2015) and Chapter 29 (March and June 2014)*

Result indicator 39: Progress in the degree of implementation of the Strategic Frameworks and the Eastern Border action plan *Source: Information provided by DG TAXUD*	
Baseline **2012**	Target **2014-2015**
Eastern Partners: – A Strategic Framework on customs cooperation was agreed by the EU and Russia in December 2010. – Similar Strategic Frameworks were agreed with Moldova in November 2011 and Ukraine in May 2012. Negotiations may start at some point in time with Belarus. – Negotiations to strengthen customs cooperation provisions have started in 2012 with Georgia, Armenia, Moldova, Azerbaijan and in 2011 with Kazakhstan. Mediterranean countries – Legislative and administrative progress made by the MED countries in tax and customs issues contained in the ENP action plans.	– Customs cooperation and trade facilitation with Eastern partners and Mediterranean countries extended and running without major disruptions; – Conclusion of the negotiations of the customs and trade facilitation chapters in certain agreements with third countries; – Finalise negotiations in the revision of the pan-Euro-Med Convention on preferential rules of origin and pursue the integration of Eastern Partnership countries in the Convention; Adoption of the revised Convention by the pan-Euro-Med Joint Committee – Progress towards a certain degree of alignment with EU customs and tax standards
Main outputs	

- Customs and trade facilitation chapters and border measure chapters (IPR) of various trade agreements (incl. free trade, economic partnership and association agreements) with **Eastern Partners** (Russia, Ukraine, Moldova, Armenia, Georgia, Azerbaijan, Kazakhstan), **East and South Asia, Pacific** (India, Singapore, Malaysia, Vietnam), **Africa** (ACP), **Latin America** (Mercosur, Ecuador), Mediterranean Countries (Morocco, Tunisia, Algeria, Lebanon, Jordan, Palestine, Israel) and **Western European Third Countries** (Switzerland, Norway, Micro States):
  - *Temporary stand still in the negotiations with Morocco at the request of Morocco*
  - *Negotiations with Kazakhstan concluded – 2014*
  - *No major progress in the negotiations with Azerbaijan as no negotiation rounds on customs chapter took place since Q2 2014 due to the deterioration of human rights in the country*
  - *Start negotiations with Jordan postponed to Q2 2015 due to political situation and*

ongoing impact assessment
- *Implementation of Agreements with Georgia and Moldova since the provisional application of the DCFTA, preparations for the future implementation of DCFTA with Ukraine – 2014*
- *No progress in negotiations with Russia – negotiations for the new agreement with Russia have been suspended due to political circumstances (Ukraine crises)*
- *Association Agreement with Armenia will not enter into force.*
- *Ecuador has joint the Agreement between the EU, Peru and Colombia – 2014.*

➢ Strategic Framework for Cooperation with China (2nd phase):
- *Signature – Q1 2014*
- *Implementation – 2014-2017*

➢ Reformed preferential rules of origin in new trade agreements still to be negotiated with 3rd countries, during the test period in the framework of the Generalised System of Preferences: *Clauses for preferential rules of origin introduced – 2014*

➢ Management of the Customs Union with Turkey, Andorra and San Marino: *Permanent activity – On-going*

➢ Negotiations for the conclusion of a Customs and Mutual Administrative Assistance agreement with New Zealand: *Execution – 2014*

➢ Implementation of revised rules of origin for Pan-Euro-Med after consensus reached by members of the pan-Euro-Med zone on articles and list rules. Integration into Pan-Euro-Med cumulation zone of Ukraine, Georgia, Armenia and Moldova
- *Revision – Discussions with PEM Parties continued and intensified in 2014*
- *Moldovan request for accession to the pan-Euro-Med Convention approved by the pan-Euro-Med Joint Committee in May 2014. Ratification by Moldova expected in 2015. Request for accession from Ukraine and Georgia expected in 2015.*

➢ Association agreements, free trade agreements, partnership and cooperation agreements and customs cooperation agreements through the framework of customs committees and sub-committees, Kimberly process: *Permanent activity – On-going*

➢ Implementation of the Agreements on Customs Security Measures with Switzerland and Norway: Permanent activity -ongoing

➢ Customs blueprints: *Revision ongoing – to be completed in 2015*

➢ Implementation of the EU 2010 strategy on the extension of the Conventions of 1987 on a common transit procedure and on the simplifications of formalities to Eastern Neighbouring Countries and Russia:
- *Monitoring of Ukraine's, Moldova's and Georgia's preparations for the accession to the Conventions – ongoing*
- *First assessment of Belarus' application for accession to the Conventions – Q2 2014*
- *Continue exploratory talks with Russia about a possible interconnection between Russia and EU transit systems of the EU (extended to common transit countries) and Russia – Q2 2015*

➢ Extension of exchange of data to Third Countries: *Pilot project established – 2014-2015*

➢ Certification system for registered exporters (REX) in EU Member States, GSP beneficiary countries, Norway, Switzerland and Turkey – User requirements to operators and third countries and IT system development:
- *Management of the related database and online publication – 2016*
- *Presentation – 2014*
- *IT technical specifications elaborated – 2014*

<table>
<tr><td colspan="2">Result indicator 40: Supply chain security and MR-AEO: Degree of implementation of facilitation and security agreements, including Mutual recognition (MR) of AEOs with important trading partners
Source: Information provided by DG TAXUD</td></tr>
<tr><td>Baseline
2012</td><td>Target
2014-2015</td></tr>
<tr><td><u>US:</u>
Concrete results achieved in implementation of June 2011 joint statement on supply-chain security, in coordination with relevant COM services;

US MR Decision signed on 4 May 2012;
First phase of implementation (transmission of AEO data to the US) effective since 1 August 2012, allowing benefits to be granted to EU AEOs;
Preparatory work underway for implementation of second phase (reciprocal benefits to qualified US C-TPAT members) to apply in January 2013.

<u>Canada:</u>
EU-Canada agreement on supply-chain security was negotiated in 2012 and entered into force on 1 November 2013. It provides the legal basis for conclusion of MR AEO with Canada.

<u>China</u>:
Equivalency of legislation established; EU-China JCCC in June 2012 agreed to start negotiations of a JCCC Decision on AEO MR.

<u>Japan:</u>
MR agreement concluded in 2011, implementation is on-going</td><td>Continue implementation of the Joint Statement, in particular cooperation on: AEO mutual recognition; air cargo security; risk management; promoting international standards through joint work in international organisations; exploring joint projects on technology.

Conclusion of the negotiations with 3rd countries where agreements do not exist.

Ensure and monitor the implementation where agreements already exist.</td></tr>
<tr><td colspan="2">Main outputs</td></tr>
<tr><td colspan="2">

Japan MR agreement applied already but by manual workaround. Fully automated MR-data exchange will be implemented in March 2015.
Negotiations of a Customs Cooperation and Mutual Administrative Assistance Agreement (including supply chain security) with New Zealand: Negotiations finalized – July 2014
Joint Statement on supply-chain security with the US – implementation in cooperation with the other relevant services:

AEO Mutual Recognition: Extension of participating operators (continuous development)
Advance cargo information: Findings on respective pilot projects in support of further compatibility between EU and U.S. approaches to air cargo security shared
Coordination of R&D efforts strengthened (Detection Technologies) – December 2014
Explosive Precursor Chemicals: Cooperation through the WCO Programme Global Shield built up by encouraging all Member States to engage

Implementation of the agreements with Switzerland, Norway and Andorra on customs security measures: Permanent activity – Ongoing
EU-China Smart and Secure Trade Lanes (SSTL): Planning for the expansion of the pilot project to a third phase based on GNC Utility Block 2: Pilot project finalization – Q2 2015

</td></tr>
</table>

- Mutual recognition of AEO-programme's between EU and China: *JCCC Decision, start implementation – 2014*
- Launch negotiation of EU-Canada AEO mutual recognition: *Progress in negotiations; negotiations to be finalised – 2014- early 2015*
- Practical implementation of EU-US Mutual recognition agreement: *Increase in number of AEOs benefiting from MR AEO – 2014*
- Adaptation of EU Customs EIS to implement AEO MR:
  - *Specifications for system changes approved – January 2014 - Achieved*
  - *System changes implemented by Com and MS – December 2014 - Achieved*

Conclusion

As evidenced above, the policy managed by the DG is on course to meet its multiannual objectives for this objective and has achieved the annual performance indicators or outputs and milestones in the reporting year.

1.1.12ABB activity 04 – Specific objective 5

To support customs authorities in protecting the financial and economic interests of the Union and of the Member States, including the fight against fraud and the protection of intellectual property rights, to increase safety and security, to protect citizens and the environment, to improve the administrative capacity of the customs authorities and to strengthen the competitiveness of European businesses

Relevant general objective 2: **To ensure that EU customs policy protects society, facilitates trade and supports the competitiveness of the European economy**	
Specific objective 5: **To support customs authorities in protecting the financial and economic interests of the Union and of the Member States, including the fight against fraud and the protection of intellectual property rights, to increase safety and security, to protect citizens and the environment, to improve the administrative capacity of the customs authorities and to strengthen the competitiveness of European businesses**	☒ Spending programme ☐ Non-spending

The European Information Systems supported by Customs 2020 play a vital role in interconnecting customs authorities and thus facilitating the coexistence of 28 systems in the Union in a common format and paper-less environment. This was enabled by a closed and secure Common Communication Network/Common Systems Interface (CCN/CSI) which had a high availability and reliability in 2014. This paper-less environment with its common forms and the exchange of information contribute not only to the simplification of trade and hence trade facilitation but also to the effective enforcement of rules and thus protection of EU financial and safety and security interests.

The Systems Availability Indicator measures the results achieved under the programme in 2014 for the availability and reliability of European Information Systems (EIS) supported under the Customs 2020 programme. The sub-indicators define in average the percentage of time within a given period when the Common Communication Network (CCN) and (specific) Union components of EIS (such as NCTS, ECS and ICS) were available and hence, providing in 2014 the required services to the users.

External factors:

In general, this indicator may be affected by the different strategies within the national administrations with regard to the organization and implementation of national IT systems; although specific coordination processes and security policies are applied to mitigate this risk, it is not impossible that specific malfunctioning in one Member State could affect the overall availability of some systems.
In particular for 2014, the performance of these systems has not been impacted by external factors though. Generally the targets set were achieved. For CCN/CSI, the target of 99,9% has not been completely reached, but 98,89% was achieved. This is due to the change of operational supplier and the move of the centrally operated infrastructure to a new datacenter. Since CCN/CSI is a fully distributed infrastructure and this minimal drop of availability has not influenced the actual exchanges between Member States..

Result indicator 41: The Common Communication Network for the European Information Systems European Information and System Availability Indicators or Index *Source: DG TAXUD statistics*		
Baseline **Jan – Oct 2013**	Milestone **2014**	Target **2020**
Centralised IT customs applications (including tariff systems): – 99,11% of time business hours; – 95+% of time otherwise;	**Centralised IT customs applications (including tariff systems):** **Target:** 97% of time business hours; 95% of time otherwise **Achieved:** 99+% of time business hours; 95+% of time otherwise	**Centralised IT customs applications (including tariff systems):** – 97% of time business hours; – 95% of time otherwise;
NCTS, ECS, and ICS: – 98+% of time during business hours; – 98+% otherwise;	**NCTS, ECS, and ICS:** **Target:** 99% of time business hours; 97% otherwise **Achieved** 99+% of time business hours, 97+% otherwise	**NCTS, ECS, and ICS:** – 99% of time business hours; – 97% otherwise;
CCN/CSI system: 99,94% of time	**CCN/CSI system:** **Target:** 99.90+% of time: **Achieved**: 99,89% due to relocation of equipment	**CCN/CSI system:** – 99.90+% of time
SPEED: 99,5+% of time working hours	**SPEED:** **Target** :99,5% of time working hours **Achieved** 99.8+%	**SPEED:** – 99,5% of time working hours
Main outputs		

- UCC development of Customs EIS in accordance with the priorities in the MASP – i.e. Customs Decisions and Proof of Union Status: **See result indicator 29**
    - *Availability of specifications, and systems in line with MASP and UCC Work Programme*
    - *Functional systems specification – January 2014*
- Implementation of the eCustoms decision within the deadlines legally defined and in accordance with its legally required implementation plan: *Phase 1 of Single Windows (SW) implemented – Q4 2015*
- IT systems (such as AEO, BTI, Surveillance2, CN, CRMS, DDS2, EBTI3, ECICS2, EOS-EORI, ISPP, QUOTA2, RSS, SMS, Suspensions, TARIC3, etc.): *Support and maintenance – 2014 - **Achieved***
- Coherent and coordinated development among the EU customs administrations of information systems impacting day to day efficiency and effectiveness of Customs and European trade: *Customs EIS governance – 2014 - **Achieved***
- TARIC (database containing the Community tariff and trade legislation, for public dissemination and to support automatic customs clearance), Quota (database for the management of Community tariff quotas via the First Come First Served method) and Surveillance (monitoring on imports and exports of goods): *Systems up-to-date – 2014 - **Achieved***
- Multi-Annual Strategic Plan (MASP) covering eCustoms, Union Customs Code (UCC), and other safety and security policies: *Annual review includes an agreement by MS on the main body and annexes of the MASP and MASP REV12 discussed and agreed with MS and endorsed by the CPG – Q4 2014.* **MASP revision 2014 produced on time (launch of ECCG review early July and acceptance by ECCG followed by endorsement by CPG in December 2014).**
- Maintain Customs EIS (New Computerised Transit System, Import and Export Control Systems) for the reception and transmission of current security/safety related information: *IT maintenance and development – 2014 - **Achieved***
- Interoperability between the Authorised Economic Operators (AEOs)EIS and the declaration systems (entry, transit and export/exit): *Implemented and no major operational issues - High availability and service interruptions with a time to restore of maximum 30 minutes - **Achieved***
- SPEED will be available for international information exchange and offer a flexible solution, to message processing and filtering: *SPEED operational – June 2014 - **Achieved***

The Customs 2020 programme offers Member States a Union framework to develop cooperation activities, which is more cost-effective than if each Member State were to set up individual cooperation frameworks on a bilateral or multilateral basis. The general objective of the programme is support the functioning and modernisation of the customs union in order to strengthen the internal market by means of cooperation between participating countries, their customs authorities and their officials. It is the extent and intensity of this collaboration which contributes to achieving this general objective efficiently.

The indicators 42 to 44 show the progress made under the Customs 2020 programme to efficiently support a wide and solid collaboration among the officials in the Member States, as stated in the general objective of the programme.

Indicator 42 measures the degree of awareness of participants and non-participants of the programme and whether there is a lasting networking effect among participants further to attending a programme event (possibly effects of an unspecified duration).

Moreover, some of Customs 2020 programme activities aim to:

- enhance the administrative capacity of the programme participating countries of customs authorities. Working practices, administrative procedures and guidelines are developed and shared among the national administrations to assist countries to increase the performance, effectiveness and efficiency of the customs administration.

– support the correct preparation, application and compliance with Union law. Guidelines and recommendations for the programme participating countries are produced to support the implementation of Union law in the national administrations through identifying and assessing outstanding technical issues and preparing background information for Union law preparation and review. The progress achieved by these activities smoothen the application and implementation of Union law.

The indicators 43-44 provide therefore, information on results attained like recommendations and working practices developed and extent to which they were used and the extent to which the joint actions achieved the expected support/ facilitation in applying and/or implementing Union law.

The evolution of the indicators for 2014 shows a progressing trend towards achieving the set targets.

External factors:

At this stage, there is no evidence that the best practices developed under the joint actions have not been used at their full potential. However, it is expected that the performance of some joint actions has been hampered due to late, partial or non-integration of best practices developed under these joint actions in the national approaches. Also, language barriers may have influenced the performance of the joint actions, diminishing the effectiveness of either oral or written communication or information as well as participation in joint actions.

Result indicator 42: Collaboration robustness between programme stakeholders resulting from Joint Action activities in the Customs 2020 programme *Source: Information provided by DG TAXUD*		
Baseline **2013**	Milestone **2014**	Target **2020**

The collaboration robustness in the final year of the 2013 programme which includes amongst others: **Update of the indicator** to align with the Programme Measurement Framework which was finalised in 2014 1. **Awareness** rate: 75 % 2. Degree of **networking** generated by the programme activities. 2.a) Network opportunity 2.b) Lasting networking effect (at least one contact after the end of the programme activity) *Baseline 2a and 2b are zero at the start of the programme.* 3. **Cooperation**: 3.a) Number of face to face meetings: 380 3.b) Number of on-line collaboration groups: 40	Maintain the collaboration robustness at the 2013 levels. **Results 2014** Data collection for 2014 is not yet finalised but the preliminary results point towards the achievement of the baseline. **Progress status; Data extracted on 5/11/2014:** 1. Awareness rate: data not yet available – next programme poll is planned for June 2015. 2. Degree of **networking** 2.a) Network opportunity: 94 % 2.b) Lasting networking effect: 84% 3. **Cooperation**: 3.a) Number of face to face meetings: 299 (01/04/2014–04/02/2015) 3.b) Number of on-line groups: 80 for customs; 37 joint groups between customs and taxation	Improve the collaboration robustness from the 2014 levels 1. Awareness rate: 75 % 2.a) Networking opportunity: 80% 2.b) Lasting networking effect: 90% 3.a) Number of face to face meetings: maintain the level of 2013 3.b) Number of on-line groups: increase the annual levels
Main outputs		
➢ Customs 2014 Annual Work Programme of the Customs2020 Programme: *Execution – Q2 2014-Q1 2015* ➢ Customs 2015 Annual Work Programme: *Adoption – Q4 2014; Approve'd* ➢ Study finalising the Fiscalis 2020 and Customs 2020 Performance Measurement Framework: *Study delivered – Q2 2014; Finalised* ➢ Customs 2013 Programme final evaluation: *Final evaluation completed – Q3 2014; Finalised*		

Result indicator 43: C2020 Union Law and Policy Application and Implementation Index *Source: Information provided by DG TAXUD*		
Baseline **2013**	Milestone **2014**	Target **2020**
– Number of actions under the Programme organised in this	Start organising programme **actions** aiming at producing	Progress achieved in the application and implementation of Union

area; – Number of recommendations issued following those actions; *Update of the indicator:* – Extent to which activities have achieved the expected support/ facilitation in applying and/or implementing Union law *Baselines at the start of the programme will be zero.*	recommendations – Achieved Number of actions under the Programme organised in this area (data on 3/02/2015): 74 Number of **recommendations** issued following those actions: Data collection is done annually and first exercise will be started in February 2015. Extent to which activities have achieved the expected **support**/ facilitation in applying and/or implementing Union law: *Data collection is done annually and first exercise will be started in February 2015*.	law and policy in the field of customs *Update target:* Annual increase (or stability) in the average score for support and facilitation by the end of the Customs 2020 programme (2020).
Result indicator 44: C2020 Best Practices and Guideline Index *Source: Information provided by DG TAXUD*		
Baseline **2013**	Milestone **2014**	Target **2020**
– **Number of actions** under the Programme organised in this area; *Update of the indicator:* – **Percentage of participants** that made use of a working practice/administrative procedure/guideline developed/shared with the support of the programme – **Number of guidelines** and **recommendations** issued by MS in their national administrations following activities under the Programme relating to modern and harmonised approaches to customs procedures. *Baselines at the start of the programme will be zero.*	Start organising programme actions aiming at sharing guidelines and best practices – Achieved **Results 2014** (Based on partial data 3/02/2015) Number of **actions** under the Programme organised in this area: 96 **Percentage of participants** that made use of a working practice/administrative procedure/guideline developed/shared with the support of the programme: 84% **Number of guidelines** and **recommendations** issued by MS in their national	Best working practices and administrative procedures identified, developed and shared Update for the added components of the indicator: Increase compared to the baseline

	administrations following activities under the Programme relating to modern and harmonised approaches to customs procedures: 28	

Customs 2020 supports participating countries in strengthening professional skills and knowledge relating to customs through enhanced jointly developed training content that targets customs officials and economic operators. The programme provides the financial, organizational and methodological framework to develop training content through common activities. The extent to which these activities are relevant and efficient is important to measure the progress done towards achieving the programme objective to reinforce the skills and competence of tax officials. The Learning Index is a composite of indicators that reflects the quality of the training initiatives and the achievements of the objectives as set out in the Dublin Strategy[21] for the EU Common Training provision in the area of customs.

In 2014, the evolution of the indicator points towards achieving progress as planned.

External factors

The extent to which the national administrations introduce in their training curricula the commonly developed training content influences the evolution of the indicator. Also, the degree of finalizing the translation into up to 22 EU languages (localization) impacted the evolution of the index. The EU localization requires voluntary national investment in each localization project and therefore, the availability of EU training material is not always ensured in national language. Moreover, legislative changes which trigger either updates of the training content or newly developed modules may generate an ascending usage of the commonly developed training content by the tax officials and economic operators.

Result indicator 45: C2020 Learning Index *Source: Information provided by DG TAXUD*		
Baseline **2013**	Milestone **2014**	Target **2020**
– Number of officials trained by using common training material of the Union – Number of times Programme eLearning modules were downloaded *Baselines at the start of the programme will be zero.*	Start organising common training actions including production of eLearning modules – Achieved 2014 Results Partial data extracted in October 2014: – Number of officials trained by using	Skills and competences of customs officials reinforced

[21] The Dublin Strategy is a common strategic performance development framework for the Customs profession within the EU. As such, it sets out a common training and development framework to support Member States (MS) in delivering the skills and knowledge that people working in the Customs profession need, to deliver world leading Customs services throughout the European Union.

	common training material of the Union: 4112 – Number of times Programme eLearning modules were downloaded: 3219	

Activities under the programme support cooperation between authorities for protecting citizens, the environment or the financial interests of the EU. They also build-up to the mutual recognition agreements and maintain the customs relations and cooperation with third countries, the coordination and exchange of information with other organisations and the authorised economic operators. This leads to strengthening the competitiveness of European businesses, which is a Customs 2020 objective directly linked to facilitation of legitimate international trade while protecting the EU. The indicator 46 is measuring the progress achieved through Customs 2020 in improving cooperation between customs authorities and international organisations, third countries, other governmental authorities, including Union and national market surveillance authorities, as well as economic operators and organisations representing economic operators.

Furthermore, working practices, administrative procedures, guidelines and recommendations are developed in joint actions and shared among the national administrations to assist countries to increase the performance, effectiveness and efficiency of the customs administration. The extent to which these outputs are taken on board in the national administrations and reflected in the national procedures is an important step towards a well-functioning and modern Customs Union. (Indicator 47)

The evolution of the indicators for 2014 shows a progressing trend towards achieving the set targets.

Result indicator 46: C2020 Cooperation with third parties indicator *Source: Information provided by DG TAXUD*		
Baseline **2013**	Milestone **2014**	Target **2020**
Number of actions under the Programme aiming at authorities other than Member States' customs authorities. *Baselines at the start of the programme will be zero.*	Start organising programme actions aiming at authorities other than Member States' customs authorities: Achieved 2014 Results Partial data extracted on 5/11/2014: 23 actions	Cooperation with third parties improved: Annual increase or stability over the programme lifetime by the end of Customs 2020 programme (2020).
Result indicator 47: C2020 Modern and Harmonised approaches indicator *Source: Information provided by DG TAXUD*		
Baseline **2013**	Milestone **2014**	Target **2020**
Number of guidelines and recommendations issued following activities under the Programme relating to	Start organising programme activities aiming at producing	Approaches to customs procedures modernised and harmonised

modern and harmonised approaches to customs procedures. *Update of the indicator:* Number of guidelines and recommendations issued by MS in their national administrations following activities under the Programme relating to modern and harmonised approaches to customs procedures. *Baselines at the start of the programme will be zero.*	guidelines and recommendations related to modern and harmonised approaches: Achieved Number of guidelines and recommendations issued by MS in their national administrations following activities under the Programme relating to modern and harmonised approaches to customs procedures: 28	Increase compared to the baseline

Conclusion

As evidenced above, the spending programme managed by the DG is on course to meet its multiannual objectives for this objective and has achieved the annual performance indicators or outputs and milestones in the reporting year

1.2 Example of EU-added value and results/impacts of projects or programme financed

Fiscalis programmes

The core output of Fiscalis programmes is the exchange of electronic tax-related information between Member States. This information exchange takes place via Trans-European IT systems and is supported by the Common Communication Network/Common Systems Interface (CCN/CSI). The CCN/CSI network allows rapid, secure information exchange between Member State tax administrations. It interconnects national customs and tax administrations in approximately 5 000 connection points. This common IT network ensures that every national administration only needs to connect once to this common infrastructure to be able to exchange information with any of the Member States. If such an infrastructure were not available Member States would have to link 28 times to the national systems of each of the other 28 Member States.

Evidence from the case studies in the final evaluation of Fiscalis 2013 showed that auditors considered the information from VIES as an important tool to help combat VAT fraud, and could not see any alternative outside of the Fiscalis Programmes to provide a similar service. Towards the end of Fiscalis 2013 tax administrations used VIES to exchange more than 500 million messages per year related to cross border transactions made by traders within the EU. In 2014, more than 1 billion messages have been exchanged.

The combined evidence of the final evaluation of Fiscalis 2013 and records of 2014 as well as the forecasts for the next years in terms of usage of European Information Systems, shows that consequences of ceasing to fund European Information systems would likely include an overall reduction in Member States ability to combat fraud and tax evasion and a reduced effectiveness within national administrations – in particular in relation to collaboration with other Member States to implement EU tax legislation. This would probably lead to loss of tax revenues, distorting competition and ultimately would have a detrimental effect on the functioning of the internal market.

The value of the human networks between tax officials created by Fiscalis 2013 was repeatedly highlighted in the final evaluation of Fiscalis 2013 as one of the most important effects of the programme. Although there was little evidence to suggest the development of a “common administrative culture”, the final evaluation of Fiscalis 2013 found that such contact increased the willingness to cooperate across Member States and contributed towards a “common approach” related to tax fraud. The case studies in the final evaluation indicated that there was no alternative to Fiscalis 2013 when it came to providing joint actions which allowed Member States to share opinions and experiences. 93% of the national coordinators' assessed in a survey that if Fiscalis had not existed, the overall level of interaction and cooperation with other Member States’ tax/customs administrations would be either lower or significantly lower.

Customs programmes

The final evaluation of Customs 2013 programme has identified a strong case for the EU added value of the programme, particularly regarding its role in supporting the implementation of EU legislation at national level and reducing in administrative costs. **The IT systems** funded through the programme are highly complementary to national initiatives and mostly relate to implementing such legislation. For example, in the absence of the Import

Control System (ICS) each Member State would have needed to bear the costs of developing specifications for a system capable of processing Entry Summary Declarations. The New Computerised Transit System (NCTS) allowed administrations to automate transit processes, reducing the need to file labour-intensive paper documents. The Common Risk Management System (CRMS) and ICS both provided the platforms for national administrations to make available risk-related information electronically. In addition to rendering of such information more systematically and effectively, it also reduced the amount of time needed by officials to file official requests with their counterparts in other Member States. While hard to quantify, all of the systems associated with risk management, namely the ICS, CRMS, Surveillance (SURV) and Authorised Economic Operators/Economic Operators' Registration and Identification (AEO / EORI) systems, helped administrations target controls more effectively.

However, the financial data for the IT systems make clear that running costs are substantial. Data showed that corrective maintenance and support operations accounted for about 35% of the EUR 225m dedicated to the IT systems during the life of the programme. Moreover, yearly costs for 'evolutive maintenance' were also substantial. These expenses were engaged in addition to the development and maintenance costs already funded at national level.

The absence in the future of Union funding for joint customs activities and of the substantial management function currently played by the Commission, would imply that Member States would need to take over these activities themselves. Developing Customs IT systems in a synchronised, centralised and/or collaborative way could reduce significantly the cost, complexity and time needed to develop and maintain European Information Systems for customs. .

The **networking** fostered through the joint actions of the programme was also considered crucial for several reasons, including ensuring the consistent application of common legislation, spreading best practices and building the trust needed for administrations to act as if they were one administration. While room for improvement was found in all these areas, this was at the margins rather than in the fundamental dynamics of the programme. Perhaps more importantly, if the programme would not exist the networks fostered through continuous participation in the joint actions would begin to fade and continued progress towards overarching customs policy objectives would be unlikely. The survey findings showed a very high level of agreement that the various programme activities had provided officials with a 'good opportunity to expand their network of (and contacts with) customs officials in other countries' (94%). Moreover, half of respondents indicated that as a result of their participation in these activities, they contacted their counterparts in other Member States several times per year (51%), while 11% of respondents in this group were in such contact several times per month. Respondents who had participated in the programme contrasted sharply with those who had not, among which 60% contacted their counterparts in other Member States never or almost never. Thus while the progress already achieved will be felt into the future, its reliance on future Commission support should not be overlooked. Without a forum for collaboration, it is difficult to imagine the Member States passing legislation that requires further harmonisation. Among other things, implementing such legislation without a programme would require substantially higher costs due to the duplication of efforts. Survey findings in the final evaluation showed that around 90% of respondents agreed that, by fostering cooperation between countries, the joint actions led to results that could not have been achieved otherwise. This positive feedback was provided consistently in relation to each of the individual types of joint actions.

1.3 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 two initiatives show how these principles are implemented in our DG:

1.3.1 Example 1

The Joint Actions – denomination for a variety of eligible actions under the programme (meetings) - under the Customs and Fiscalis 2020 programme are implemented through a Grant Agreement with the countries participating in the programmes. The Joint Actions represent a multitude of small amounts generating a high workload for programme management. To address this, DG TAXUD put in place the following instruments and mechanisms:

1. The programmes management is realised via a programme management tool – **ART system** covering a substantial part of the programme activities life-cycle between DG TAXUD and the programme participating countries. It allows electronic management of programme activities and the financial reporting from the programme participating countries.

2. The programmes' activities are supported by a **Programme Information Communication System (PICS)** – an on-line collaboration platform allowing the participants in programme activities to exchange information and best practices and to network outside the face to face meetings organised under the programme. This has the result of increasing the efficiency of the programmes' activities.

3. For measuring the programmes' performance a tailor-made **performance measurement framework** was put in place. This is a corporate mechanism which amongst others, allows re-using data and sources for monitoring within DG TAXUD and programme participating countries.

4. For the financial programming, DG TAXUD implemented in 2014 for the first time an **integrated activity planning mechanism**, across all units. The horizontal planning exercise feeds into several cross DG TAXUD planning outputs: Fiscalis 2020 and Customs 2020 Annual Work Programmes, IT workplan, common training plan, studies identification and communication plan.

1.3.2 Example 2

As a follow up to the Head of Unit work group on Comitology meetings, a TAXUD work group (taskforce) has analysed options for efficiency gains and improvement of working methods for all TAXUD meetings (Comitology meetings, traditional expert group meetings and Customs/Fiscalis 2020 meetings). The working group proposed to the Board an action plan including both short term quick wins and more complex long term measures.

The action plan should embed DG rules and good practices for organizing meeting in the daily working practices of DG TAXUD, optimally using of IT tools and technologies for organizing meetings.

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.

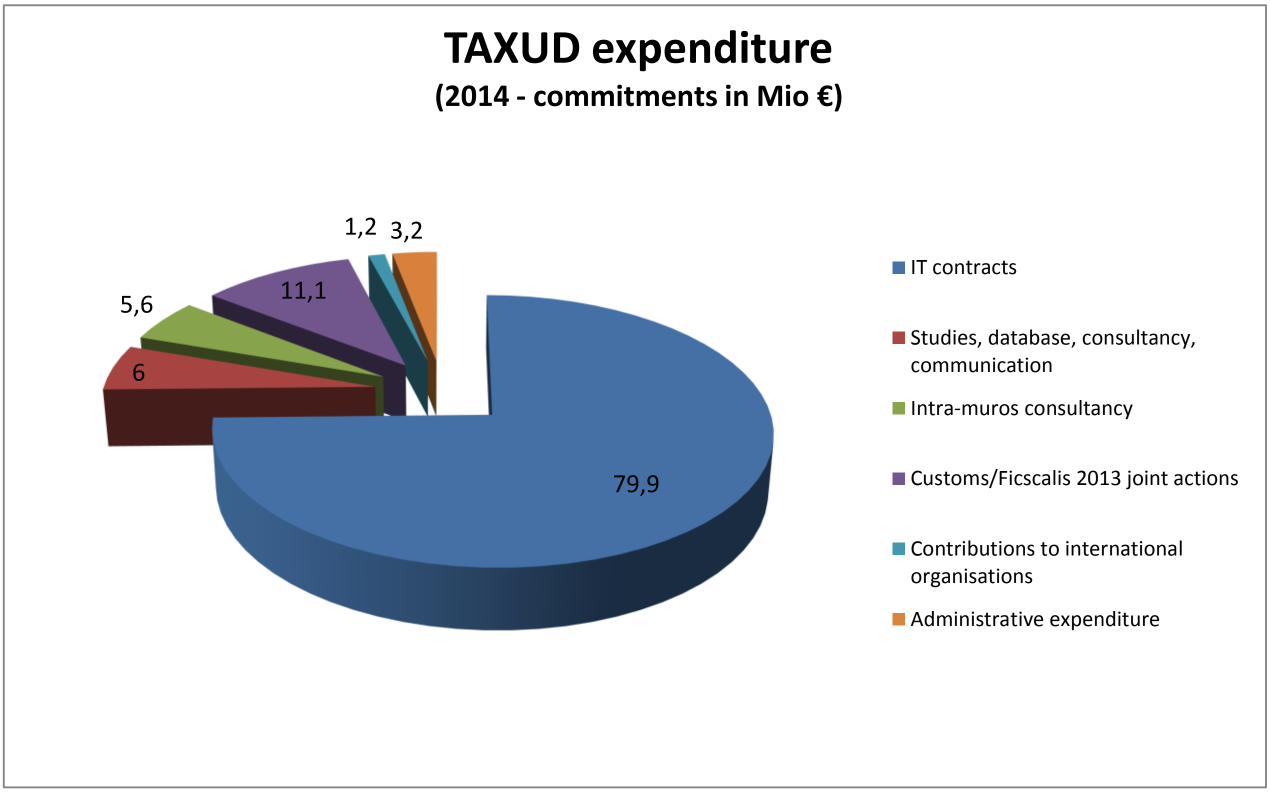
The reports which have been taken as basis for examination are:

- the declarations by the Authorising Officers by sub-Delegation (AOSD);
- the reports from Authorising Officers by Delegation (AOD) 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 objectives[22]. 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 (107 million € committed in 2014). The budget is implemented on a centralised basis.

[22] 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).



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 (79.9 million € committed in 2014) 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 2020 and Customs 2020 programmes.
  Other contracts relate to procurement of different tools or services such as studies, databases, consultations (6 million € committed in 2014) or intra-muros technical assistance (5.6 million € committed in 2014).
  Overall, the value of signed contracts represents about 85,5% of the total committed budget in 2014.

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

  The Joint Actions (11.1 million € committed in total in 2014) 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 Members States and of 5 applicant countries (Albania, FYROM, Montenegro, Serbia and Turkey).
  A small part (0,3 million € of committed amount) is devoted to reimbursement

of the travel and subsistence expenses of external experts.

Overall, the expenditure related to the Joint Actions represents about 10,4% of the total committed budget in 2014.

- **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 1,1% 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 (3.2 million €).

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

- a cross-sub-delegation from DG ELARG[23] for the implementation of the travel, accommodation and conference facility. DG TAXUD committed 0€ and paid €20.611,83. DG TAXUD's AOD issued a report without reservation on the use of these appropriations on 15 January 2015.

- a cross-sub-delegation from ESTAT for preparing the use of the Common Communication Network / Common System Interface (CCN/CSI) by application SIMSTAT. DG TAXUD committed €650.600 and paid €681.893,60. DG TAXUD's AOD issued a report without reservation on the use of these appropriations on 20 January 2015.

- a cross-sub-delegation from DG ENTR[24] 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 0€ and paid €122.000. DG TAXUD's AOD issued a report without reservation on the use of these appropriations on 12 January 2015 to DG GROW.

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 outlines the main risks together with the control processes aimed to mitigate them and the indicators used to

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[23] DG NEAR (since 01/01/2015)

[24] DG GROW (since 01/01/2015)

measure the performance of the control systems.

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).

2.1.1 Procurement

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, 12 exceptions and 3 non-compliance instances were recorded as control failure. None of these had an impact on the legality and regularity of the transactions. All concerned instances relate to formal compliance issues which do not have a negative impact on the budget. The control failure detected at the very end of 2013 and reported in the 2013 annual activity report was adequately analysed and mitigated by implementing additional control measures 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 611.138,5 €. Please refer to table 8 in annex 3 for details. All errors and irregularities have been discovered before the actual payment, which is why no recovery order for unduly paid amount has been issued in 2014. Considering that all corrections take place before actual payment (ex-ante), the error rate for procurement is considered to be close to 0%.

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 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 EUR 0,361 million[25] were invested in controlling 6 procurement procedures for contracts with a total value of EUR 52,25 million. Thus 0,69% of the total contract value was dedicated to control and each procurement procedure has an estimated cost of EUR 219.000[26]. The average time to procure[27] was 77 days in 2014. 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.

- Two planned procurement procedures were cancelled. One procedure was covered by using an ESTAT framework contract; another procedure was cancelled by covering the needs using an existing DG TAXUD framework contract. No procurement procedures needed to be retendered due to leakages. There were no procedures where no offers were received. All tendering procedures were accepted by the financial unit and there were no valid complaints from unsuccessful tenderers. The Committee on Public Procurement did not reject any procurement procedure.

- One exceptional negotiated procedure (on the basis of article 134(1)(b) of the Rules Of Application of the Financial Regulation) with a total value of 2,9M€[28] was required to be able to ensure that the current CCN/CSI contract could run until its maximum duration so as to guarantee an efficient handover to the new CCN2DEV contractor. The continuity of handover services could only be ensured, for inherent technical reasons, by the current CCN/CSI contractor.

- For payments, an estimated EUR 0,5 million[29] were invested in preparing and controlling 1,056 payments worth EUR 85,77 million. Thus about 0,58% of the total payment amount was dedicated to control. In average each financial transaction costs an estimated EUR 470. The average time to pay in 2014 was 21 days[30]. DG TAXUD

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[25] 2,74 FTE, representing the efforts of all actors involved in the control of the public procurement procedures (i.e. the actors in the financial unit, the committee on public procurement, the Authorising Officers by (sub-) Delegation, etc.).

[26] 1,65 FTE, representing the combined efforts of actors in the operational and financial units in preparing and running a public procurement procedure

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

[28] This negotiated procedure represents only 6,09% of the total amount of awarded procurement procedures in 2014

[29] 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

[30] The average time to pay comprises all payments executed by 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 EUR 0,5[31] million were invested in preparing and controlling about 300 contracts (or the amendments of the contracts) worth about EUR 91,5 million. Thus about 0,55% of the total amount contracted was dedicated to control. In average preparation and controlling of each contract costs an estimated EUR 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 2014. The first upcoming lessons learned exercises will be conducted in Q1 2015.

Overall, during the reporting year the controls carried out by DG TAXUD for the management of the budget appropriations cost EUR 1,361 million[32] and are considered cost effective (in particular as the cost of these controls represents only 1,58% of the total payments made).

Cost efficiency indicator	**Result 2014**
Procurement - overall cost of control (% over payments made)	1,58%
Procurement - cost of controls of the evaluation and selection procedure/ value contracted (%)	0,69%
Procurement - related cost of control of payments/ amount paid (%)	0,58%
Procurement - related cost of control of the supervisory measures/ value of transactions checked (%)	0,01%
Time to pay (days)	21 days
Time to procure (days)	77 days
Average cost of a payment	470€
Average cost of establishing a contract	1.700€
Average cost of a procurement procedure	219.000€

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

[31] 3.8 FTE, representing the combined efforts of actors in the financial and operational units involved in contracts preparation, verification and validation

[32] A total of 10,71 FTE

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%.

To calculate the error rate for grants, DG TAXUD applies a methodology whereby all payment requests and recovery orders are verified by ex-ante controls embedded in the financial circuits. Before each payment request or recovery order, desk reviews are performed. These desk reviews enabled detecting and preventing cost eligibility errors of about € 49 thousand or 0.58% of payments made under the grants. This represents the best estimate of error rate for grants.

DG TAXUD relies on this estimate because in the view of the volume of transactions it would not be cost effective to have a more representative error rate from a fully statistically representative sample. The currently implemented strategy aims to detect and correct the most important errors, rather than determining a representative error rate. In order to have a fully 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 (previous ex-post audits in selected countries demonstrate the cost ineffectiveness of the exercise : 47.000€ audit cost with a recovery benefit of 7.000€).

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.
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 2014, 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 2014 as they were considered not cost-efficient.

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

	Indicator	Results 2014	Cumulated for the programmes[33]
Ex-ante controls	% of the projects authorized by TAXUD	100%	
	of rejected project proposals	6%	6%
	% of actions authorized by TAXUD	100%	
Desk review controls	Detected Errors from desk reviews (number of cases)	37	
	Detected Errors from desk reviews (€)	49 K €	
	Detected Errors from desk reviews (% over payments made)	0.58%	
"Recoveries"	Value of "official" recoveries as per the Communication on the protection of EU financial interests – representing recovery of unused pre-financing	2.7 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.

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.

Cost efficiency indicator	Result 2014
Grants - overall cost of control (%) [cost of control from contracting and monitoring the execution up to payment included/ amount paid]	12.9%
Grants - cost of control ex post audits/ value of grants audited	NA[34]

The focus on the ex-ante controls ensures that the detected desk reviews errors are kept at

[33] The programmes started in 2014, thus the cumulative figures are identical to the single year 2014

[34] No audits performed in 2014

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, during the reporting year the controls carried out by DG TAXUD for the management and control of the grant programme cost about 1.083.600€ and are considered cost effective (in particular as the cost of these controls represents 12,9% of the total of payments made).

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.

2.1.3 Overall control system (all stages combined[35])

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). 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.

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 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.

The total cost of control, i.e. €1,361 million for procurement related controls, and €1,083 million for grants related controls are are considered cost effective (in particular as the global cost of these controls represents only 2,84% of all payments made under procurement and grants). 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.

2.1.4 Fraud prevention and detection

DG TAXUD has developed its anti-fraud strategy[36] as foreseen in the Commission's overall anti-fraud strategy.[37] 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.

[35] Procurement and grants

[36] Ares(2013)3655698

[37] COM(2011) 376 24.06.2011

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 implementing the action plan accompanying DG TAXUD's Anti-fraud strategy which is built around these specific measures focussing on awareness raising activities among TAXUD staff. Furthermore, activities and operation that are at a higher risk of fraud are subjected to a 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 at 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/IDOC[38]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.

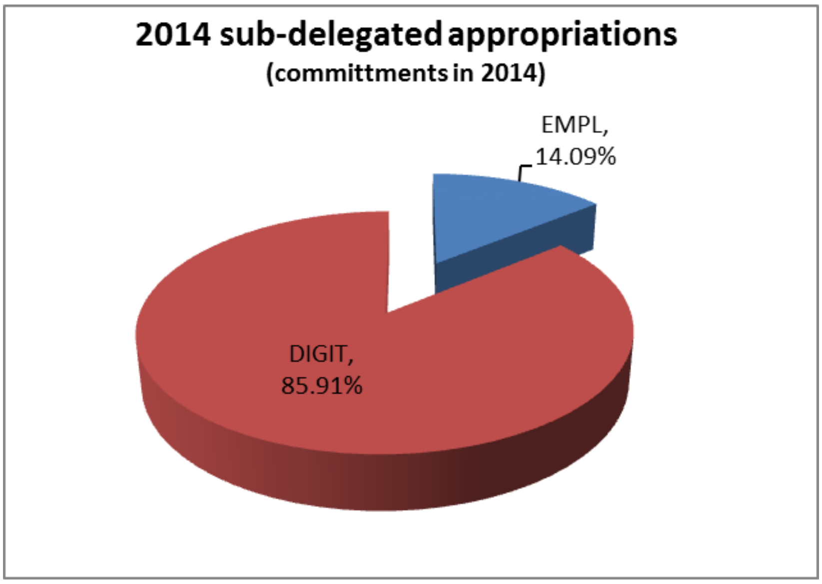
Both OLAF and IDOC reports annually on the follow up of their investigations.

2.2 Budget implementation tasks entrusted to other DGs 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.

As in previous years, DG TAXUD has cross-sub-delegated appropriations to DG DEVCO, DIGIT and DG EMPL. Being Commission services themselves, their AOD is required to implement the appropriations subject to same rules, responsibilities and accountability arrangements.

[38] 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.



DG DEVCO did not commit appropriations in 2014

Cross-sub-delegations

- A cross-sub-delegation was given to DG DEVCO in the scope of the "Tax and Development" Communication. DG DEVCO made no commitments in 2014 and paid €4.725.26 (on the Fiscalis 2013 budget line[39]). The DG DEVCO AOD submitted a report without reservation on the use of these payment appropriations on 2 February 2015.
- A cross-sub-delegation was given to DG EMPL in the scope of the "Tax Wedge and Effective Tax Rates on Labour" action and the contribution to the Agora-meeting project. DG EMPL committed €76 560.55 (from the administrative envelope[40]) and paid €39.430,17 (from the Internal Market budget line[41]). The DG EMPL AOD issued a report without reservation on the use of these appropriations on 29 January 2015.
- A cross-sub-delegation was given to DIGIT in the scope of the development and operational support of the Uniform User Management and Digital Signature (UUMDS) system and the electronic procurement system (e-Prior). DIGIT committed 466.839,94 (on the Customs 2020 budget line[42]). The DIGIT AOD submitted a report without reservations on the use of these payment appropriations on 2 February 2015..

The cross-delegation agreement requires the AOD of DG DEVCO, EMPL and DIGIT 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 2014 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

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[39] BGUE-B2014-14.035100-C1-TAXUD/DEVCO

[40] BGUE-B2014-14.010201.00.02.20-C1-TAXUD/EMPL

[41] BGUE-B2014-14.040100-C1-TAXUD/EMPL

[42] BGUE-B2014-14.020100-C1-TAXUD/DIGIT

serious control issues.

Considering the relatively small amount entrusted to these other DGs, and bearing in mind the reports without reservation from the Authorising Officers in those DGs, DG TAXUD does not make additional controls as regards legality, regularity and error rates.

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 own internal audit capability (IAC), the Commission internal audit service (IAS), DG Budget and the European Court of Auditors (ECA).

Performed audits in 2014

During the period of reference, the IAS finalised the two audits which started in 2013; one horizontal multi-DG audit on the "Planning stage of the selection process" and an audit on "Performance Measurement system in DG TAXUD Customs activities". Furthermore, DG TAXUD was included in the audit scope of the multi-DG IAS audit on "The administrative processes supporting the implementation of the European Semester". The IAS performed jointly with IAC a follow up engagement of the audit on "Monitoring the implementation of EU law".

The IAC of DG TAXUD carried out a total of two new audits and three follow-up audit engagements 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.

DG Budget performed the follow-up audit on the "Validation of local systems in TAXUD" and the ECA addressed recommendations to DG TAXUD following its performance audit on preferential trade arrangements (Special Report 02/2014) and in the ECA's Annual Report concerning the financial year 2013.

Internal Audit Service (IAS) audits

Planning stage of the selection process

The overall objective of the audit was to assess the effectiveness and efficiency of the current planning stage of the selection process in replying to the EU Institutions' needs of new staff. It covered 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 covered a sample of operational DGs/Services, among them DG TAXUD. The audit focused on the operational DGs'/Services' level on their methods to determine the needs of new staff, the reliability of data used and the adequacy of the local HR tools available.
DG TAXUD received the final audit report on 13/06/2014. **There were no very important**

or important recommendations issued for TAXUD. DG TAXUD was not requested to prepare a formal action plan.

Performance measurement system in DG TAXUD Customs Activities

The audit started in 2013 with a limited review on Customs activities and has been converted into a performance audit. The main objective of the audit was to assess the extent to which DG TAXUD had an adequate performance measurement framework in place for customs activities both in terms of its day-to-day operational and administrative activities (internal) and in terms of the delivery of policy objectives (external). The final audit report was sent to TAXUD on 02/06/2014 containing **2 very important and 1 important recommendations**.

The two very important recommendations address:

- a more effective performance measurement system for Committees and Groups and
- the improvement of the own performance measurement system by using more effectively the Management Plan and risk management as management tools and by strengthening the internal communication.

An action plan was elaborated in June. The implementation of the actions is on-going and planned to be completed in the first half of 2015.

Administrative processes supporting the implementation of the European Semester (ES) across the Commission

The audit started in DG TAXUD in July 2014. The overall objective of the audit engagement was to address the key question whether the administrative processes supporting the European Semester are effective and efficient across the Commission. The audit showed that the design and the implementation of the ES process in DG TAXUD ensure the achievement of its objectives. The IAS had no specific issues for DG TAXUD to report on.

Monitoring the Implementation of EU Law (joint IAS/IAC audit)

The follow-up audit started at the end of 2013 and was finalised in March 2014. The IAS and IAC concluded that all recommendations had been adequately and effectively implemented and the audit has been closed.

Follow-up of IAS audit recommendations and impact on assurance

Only one out of the three performed IAS audits resulted in formal recommendations addressed to DG TAXUD. None of these recommendations was critical and only two out of the three are assessed as very important. The two very important recommendations address performance measurement issues whose implementation is on-going in the DG. Furthermore, the performed follow-up audit on “Monitoring implementation of EU law” concluded that all recommendations issued by the IAS had been adequately and effectively implemented. Consequently, the current state-of-play does not lead to any assurance-related concerns.

Internal Audit Capability (IAC) audits

DG TAXUD's IAC performed two new audits and three follow-up audits during the reporting year. There were four IAC audit action plans under implementation in 2014 from which two could be closed as result of the follow-up audit engagements.

New audits started in 2014:

Audit on the external communication strategy

The audit started in February 2014. The final audit report was issued on 12 January 2015.
The objective of this audit was to give a reasonable assurance that the Sector responsible for Information and Communication and other TAXUD units in charge of external communication put in place adequate measures to ensure that communication processes are effectively and efficiently implemented in order to provide reliable, relevant and up-to-date external communication.

The scope of the audit covered activities performed since 2011 and analysed external communication defined as the management of the relationship between DG TAXUD and its external stakeholders. The audit covered the following aspects: Governance, Strategy and planning, Implementation of communication strategy and Monitoring, reporting and evaluation.

In the audit conclusions, the auditors highlighted the strategic importance of the communication activities. Furthermore, they stressed the need to strengthen the communication team in DG TAXUD, enhance the collaboration with the policy units in a frame of a multi-annual strategic plan of the external communication activities and also pointed at the need to ensure a performance management system for the external communication activities.

The auditors issued 7 very important, 6 important and 1 desirable recommendation. An action plan is currently being prepared.

Audit on procurement of studies and databases

The objective of the audit was to provide the Director-General with a reasonable assurance that the systems in place for planning, procurement, contractual management and use of external studies undertaken at the level of the DG are effective and efficient to support the achievement of the DG's objectives, and implemented in compliance with the relevant rules.

The scope of the audit covered the management of all categories of studies undertaken in DG TAXUD: (1) 'Regular' studies (including evaluations), (2) IT studies, (3) studies in the area of scientific customs.

The final audit report was issued on 05/02/2015.

Based on the audit results, the auditors concluded that the internal control system in place provides reasonable assurance regarding the achievement of the objectives set up for the audited activities, except the following two issues:

- Annual planning and management oversight

- Publication of studies

Progress on audit action plans under implementation throughout 2014 :

Audit on the capitalisation of intangible assets in DG TAXUD

The scope of the audit covered the accounting of internally developed intangible (IT) assets or purchased existing technologies adjusted to EC environment.
All together 8 (4 very important, 3 important and 1 desirable) recommendations were issued in the audit report in 2013.

All recommendations are considered as fully implemented except one important recommendation whose implementation is still pending[43].

Resulting from the findings of this IAC audit and the audit performed by DG Budget "Validation in the local systems", ICS13 "Accounting and Financial Reporting" was one of the priority control standard in 2014.

No follow-up exercise has been performed by the IAC of DG TAXUD in 2014.

Audit on intra-muros

The Action Plan was fully implemented in 2014. The IAC of DG TAXUD performed a follow-up engagement in January 2015. Based on the results of the follow-up audit, the auditors concluded that all recommendations had been adequately and effectively implemented and the audit has been closed[44].

Audit on Ethics in DG TAXUD

The final audit report was issued in February 2014 containing 19 recommendations with priority very important (1), important (13) and desirable (5). The implementation of the action plan is almost completed.

Audit on the management of the implementation of recommendations of the ECA and the Discharge Authority

All very important recommendations have been implemented by end of 2013. The follow-up audit has been performed and the audit has been closed in 2014.

Follow-up audit performed and closed by IAC in 2014:
As regards the following audits, the IAC came to the conclusion that the following audits **can be closed:**

- Follow-up audit on Financial circuits (audit performed in 2011)
- Management of ECA recommendations implementation (audit 2012)

[43] i.e. recommandation n°7
[44] Ares(2015)409269

- Audit on intra-muros (audit 2013)

Follow-up of IAC audit recommendations and impact on assurance

The two audits which started in 2014 have been recently completed. The final audit reports were communicated to the audited units in January and February 2015 respectively. Management has accepted the auditors' recommendations; the preparation of the action plans is progressing. As regards the implementation of recommendations issued in the previous years, the relevant action plans are implemented as foreseen. The recommendations that are still open do not undermine the declaration of assurance.

In its opinion on the state of control in DG TAXUD in 2014[45], 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 audited processes except for some issues which are assessed as (very) important by the auditors in the context and the scope of the audits but which did not have a material impact on the accounts of the DG:

1) studies launched during the year are often not in the management plan;
2) studies are not appropriately deposited with the Publications Office;
3) reimbursement of experts are not in conformity with the document handling rules, and risk undermining the reliability of data on payment delays;
4) lack of an action plan to follow-up on European Court of Auditors recommendations/observations.

DG BUDG audit

Validation of the local systems (audit 2013, follow-up audit 2014)

The audit was performed in 2013 included 8 recommendations. The action plan was under implementation in 2014.

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 7 out of the 8 recommendations issued by TAXUD.IAC in the scope of its audit on the capitalisation of intangible assets in DG TAXUD. All 7 recommendations linked to this very important recommendation are considered as implemented in 2014.

DG BUDG performed a follow-up exercise in the second half of 2014 (except for the implementation of the very important recommendation linked to the TAXUD IAC "ITFA" audit. Based on the results of the findings, four recommendations have been closed, and the four remaining ones will be assessed during the next follow up in 2015.

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[45] (Ares(2015)599692),

European Court of Auditors (ECA) audits

Following a performance audit launched by the Court of Auditors on preferential trade arrangements in 2012, **Special Report 02/2014** "Are preferential trade arrangements appropriately managed ?" was published in 2014. Apart from trade issues, this Special Report covers some of issues falling under DG TAXUD's remit. Out of 10 recommendations, 4 recommendations were addressed to DG TAXUD and accepted by the management, 2 of them have been completed in 2014:

Recommendation asking the Commission to require the MS to improve the quality of information provided by them concerning administrative cooperation has been completed in May 2014, when the Commission asked Member States to provide statistics in the improved new format which allowed a better sorting and evaluation of the data. In addition, the Commission regularly – i.e. upon receipt of statistics from MS – evaluates the raw data in order to improve the quality of the information concerning administrative cooperation provided by the Member States.

Recommendation asking the Commission to create EU risk profiles on PTAs so that Member States have a common approach to risk analysis in order to reduce losses to the EU budget, has been completed in April 2014, when the Commission published a RIF (Risk Information Form) on imports of products with a high-sugar-content (RIF with an open end-date). In addition, the Commission will continue creating risk profiles whenever there is a special risk related to origin.

The remaining 2 recommendations remain open and the Commission has been taking action in this regard: Recommendation to follow up of those countries benefiting from preferential treatment where problems concerning administrative cooperation exist is expected to be completed by end 2015. Recommendation requesting to promote the replacement of origin and movement certificates with exporters' self-certification is expected to be completed in 2017, when the REX (Registered Exporters) system supporting self-certification of origin by economic operators should be implemented by the beneficiary countries of the EU GSP scheme.

With regard to the **ECA's Annual Report** concerning the financial year 2013, there is one new recommendation for DG TAXUD issued in 2014, which was accepted by the management. This recommendation concerns the establishment of minimum risk analysis standards for the customs post-clearance audits, including building upon the information in the existing database of imports, in order to allow Member States to better target risky importers. In this respect, the Commission has been taking action: the new version of the Customs Audit Guide (2014) sets out risk indicators for the post-clearance audits and changes to the existing database are planned, but will not be fully operational until 2018.

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 was published in 2014.

Previous financial years: follow-up of open ECA recommendations

There is one Special Report of the European Court of Auditors which concerns DG TAXUD and contained open recommendations issued in previous financial years:

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, 1 by end February 2014 (the revision of the Customs Audit Guide). The implementation of the remaining 2 is on-going:

- 1 important recommendation requiring computerisation by end of 2015;
- 1 important recommendation requiring further simplifications by May 2016.

Conclusion of chapter 2.3

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.

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 system (ICS- 15) was based on an initial desk review by unit R1 followed by a screening exercise of the 16 internal control standards involving the relevant horizontal units responsible for the implementation of the ICSs. For the prioritised ICSs, special attention was given throughout the reporting year. The declaration of the Authorising Officers by sub-Delegation 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, reports to the management, 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 three standards: ICS10 Business continuity, ICS12 Information and Communication (prioritised on requirement 27[46]) and ICS13 “Accounting and Financial reporting”. By the end of the reporting year, the measures taken to further improve the effectiveness of the standards were satisfactorily implemented.

The main improvement actions and measures taken by the DG in 2014:

As regards ICS10 “Business continuity”

The reasons behind the prioritisation were the several organisational and operational changes in TAXUD in the second half of 2013 such as the change of the major IT contractors, migration towards ITIC, the relocation of the ICT operational infrastructure to two new data centres in Luxembourg and a minor internal re-organisation in September 2013. Due to these changes, the Business Continuity **documentation needed to be updated** which could not be finalised by the end of 2013.

Actions taken:

Concerning the update / revision of the **documentation:**

- Business Impact Analysis (BIA) and Business Continuity Plan (BCP) updates have been finalised and approved by the Management Board of DG TAXUD in March[47]
- BCP annexes are updated continuously (list of critical and essential staff upon staff movement and across the DG before big holiday periods)
- The major IT service provider has updated its IT Service continuity plan relying on several Disaster Recovery Plans in June 2014.
- The preparation of the Cabinet relocation plan is currently ongoing.

Concerning the performed exercises:

DG TAXUD participated in a BC exercise with DIGIT for some of its systems hosted at the DIGIT data centre on 4 and 5 July. Furthermore, DG TAXUD was running several BCP exercises with its contractors in order to validate and/or update the BCP plans for the involved contractors.

In order to keep up efforts with already started actions in 2014, ICS10 is also a priority standard in 2015. Measures to continue the efforts have been defined in the 2015 Management Plan of DG TAXUD.

As regards **ICS12 “Information and Communication”**

The reason behind the prioritisation of this standard was to increase the overall compliance towards the EC Information Systems Security Policy (ISSP). Therefore ICS12 was prioritised on requirement 27.

Actions taken:

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[46] Ares(2014)1329924

[47] *Ares(2014)815636*);

- A complete inventory of IT systems, together with a system classification is maintained and revised by the system owners (yearly exercise).
- An **assessment on compliancy** towards the Commission Decision C(2006) 3602 and its implementing rules as well as the EC standards is performed and communicated to HR/DS and DIGIT (yearly exercise).
- Contributions to the annual assessment towards the EC ISSP for 2014 were received during the first quarter of 2014. The analysis showed an increase in maturity in 2014. Two out of the three domains (HR security and IS Security Incident Management) have improved. The report with detailed analysis was issued in September48.

As regards **ICS13 "Accounting and Financial Reporting":**

Audit results revealed[49] 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 was also prioritised in 2014.

Actions taken:

- The implementation of the action plans linked to the two audits which triggered the prioritisation of the standard is almost finalised[50].
- A deep revision of the "Accounting Manual" has been carried out. The completely revised Finance and Accounting Manual summarises the financial and accounting procedures into one single document. The Manual has been finalised[51] in December 2014 and communicated via Ares to all involved actors. The updated document has been also published on the TAXUD Intranet[52]:
- Within this Finance and Accounting Manual, a dedicated specific chapter addresses the priority issue of ITFAs "Procedure for the registration of intangible assets developed internally (ITFA) applicable to IT project".

3.2 Risk environment and challenges in 2014

DG TAXUD is a policy DG with a relatively small budget (107 million Euro committed in 2014) that mainly serves to finance the trans-European customs and taxation IT systems.

The inherent risk associated with the DG's activity is the smooth functioning of these trans-European IT systems which are supporting DG TAXUD's policy objectives. As a policy DG dealing with politically sensitive files, staff ethics, data, information and document security are important matters to focus on. Therefore, the internal control standards that are most important to DG TAXUD are generally those related to IT and (business) continuity (ICS10 and ICS12 requirement 27, 28, ICS7 IT governance), ICS11 Document management, ICS 2 Ethical and organisational values. This particular risk environment is fully reflected in the

[48] (Ares(2014)3409018).

[49] IAC audit on "Capitalisation of intangible assets" and BUDG validation of the local systems

[50] See chapter 2.3 IAC and DG BUDG audits

[51] Ares(2014)4190561 on 12/12/2014

[52] https://myintracomm.ec.europa.eu/dg/TAXUD/MyWork/Finance/Pages/Accountingguide.aspx

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[53] and underlined in the selected priority IC standards for 2014 and 2015.

In 2014, the challenges in this risk environment were related to the long and complex transitions between the incumbent and the new IT contractors. These facts were reflected in the critical risks in 2014 and in the focus area on business continuity especially BCPs of and BC tests with the contractors. The priority internal control standards in 2014 were also linked to this main challenge[54]. Thanks to the measures to mitigate the critical risks, none of them materialised in 2014 and assessed as critical in 2015.

The two new data centres of the DG in Luxembourg became operational during the reporting period and internal organisational change and senior management rotation in the DG took place in October. Apart from these circumstances, no major event influenced the risk environment of the DG.

In the current risk environment, ICS10 business continuity is further a focus area in 2015. Audit results revealed to enhance the efforts on performance measurement which led to the prioritisation of ICS5 Objectives and performance indicators. Two critical risks have been identified in the scope of the 2014 risk assessment exercise. Both of these risks are reported with the steps to mitigate them in the 2015 Management Plan.

3.3 Overall conclusion on the annual assessment of the internal control system

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 the Authorising Officers by sub-Delegation,
- 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.

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

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[53] *Ares(2013)3655698*

[54] See 3.1, ICS 10 and ICS 12

risks.

The internal control standards are effectively implemented with the exception of standard ICS1 which is resulting from the recent re-organisation in DG TAXUD. Even though this standard cannot be considered as fully implemented, the degree of non-effective implementation does not raise any assurance implication. Based on the results of the screening exercise, the annual risk assessment exercise, audit recommendations and taking into account the current risk environment, the management has decided to prioritise ICS 5 and ICS 10 in 2015.

The declarations of the Authorising Officers by sub-Delegation and the auditors' opinion on the state of the internal control system do not raise any assurance implications.

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 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 1,361 M€ for procurement and 1,083 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 2014. 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 Overall conclusion on assurance

In view of the control results and all other relevant information available, the AOD's best estimation of the risks relating to the legality and regularity for the expenditure authorised during the reporting year (EUR 85,77 million) is close to 0% (0% for procurement, 0,58% for grants) which implies an amount at risk below EUR 497.466.

The internal control strategy foresees the implementation of further controls during subsequent years aimed to detect and correct these errors. It is not possible to identify the specific errors and amounts which will be effectively corrected in the coming years, yet the implementation of these corrective controls since 2009 have resulted on average in recoveries and financial corrections representing 0.64% of the average payments over the same period. This percentage applied to 2014 payments made (resulting in EUR 0.548 million) provides the best available indication of the corrective capacity of the controls systems implemented by the DG.

Taking into account the conclusions of the review of the elements supporting assurance and the expected corrective capacity of the controls to be implemented in subsequent years, it is possible to conclude that the internal controls systems implemented by DG TAXUD provide sufficient assurance to adequately manage the risks relating to the legality and regularity of the underlying transactions, taking into account the multiannual character of programmes. Furthermore, it is also possible to conclude that the internal control systems provide sufficient assurance with regards to the achievement of the other internal control objectives.

DECLARATION OF ASSURANCE

I, the undersigned,

Heinz Zourek, Director-General of DG TAXUD

In my capacity as authorising officer by delegation

Declare that the information contained in this report gives a true and fair view[55].

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, 30 March 2015

(signed)

Heinz Zourek

[55] True and fair in this context means a reliable, complete and correct view on the state of affairs in the DG