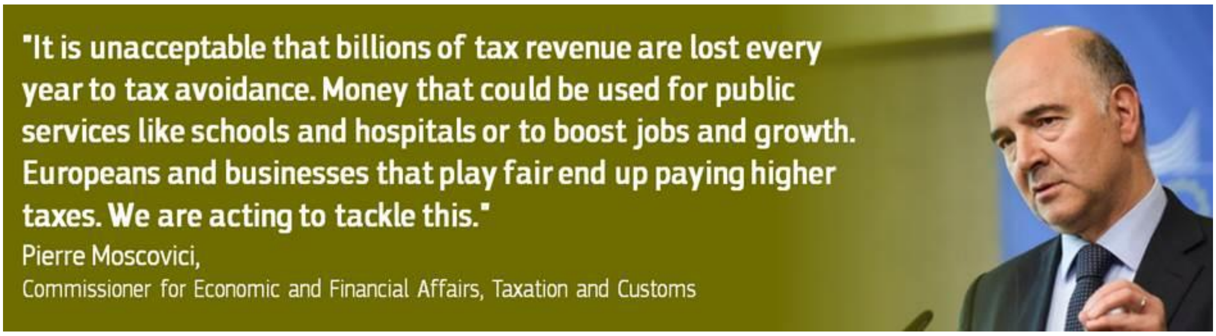
European Commission

2017

Annual Activity Report

DG TAXATION AND CUSTOMS UNION


"It is unacceptable that billions of tax revenue are lost every year to tax avoidance. Money that could be used for public services like schools and hospitals or to boost jobs and growth. Europeans and businesses that play fair end up paying higher taxes. We are acting to tackle this."
Pierre Moscovici,
Commissioner for Economic and Financial Affairs, Taxation and Customs

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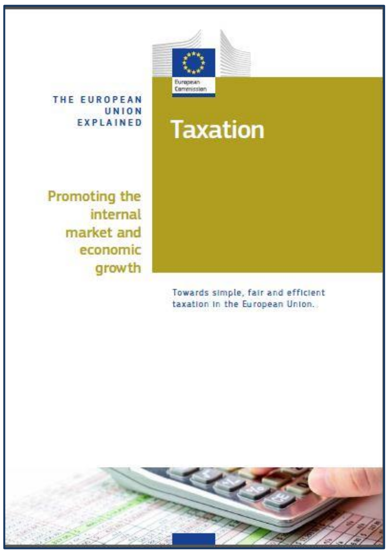
THE DG IN BRIEF

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

EU Taxation Policy

The EU has a **complementary role** when it comes to taxation, a competence at the core of national sovereignty. EU regulatory intervention aiming at harmonising taxes is limited by the Treaties to the area of indirect taxation (Article 113 TFEU). The power to introduce or remove taxes, of increasing and reducing them, but also of making sure they are actually collected and paid to the state budget, is in the hands of Member States. Concerning both direct and indirect taxation, there is **added value** in having EU-wide intervention when it comes to further improve the **Internal Market**, **make taxes fairer** or helping Member States in **tackling** cross-border **tax fraud, tax evasion and avoidance**. Often an **EU-wide approach** is the **only way** to avoid a series of individual national approaches which rather than closing loopholes open up new ones because of their uncoordinated nature.



National governments are broadly free to design their tax laws according to their national preferences, provided they respect certain fundamental principles, such as non-discrimination and respect for free movement in the Internal Market. However, when there is EU harmonised legislation Member States have to comply with it. **EU tax policy** aims at establishing and respectively improving the **common legal framework** in the areas of **direct and indirect taxes**. This common framework should minimize the risk of tax-induced relocation of economic activities while providing the **tools for administrative cooperation supporting revenue collection** for the EU and Member States' budgets and fighting tax fraud. Some indirect taxes are further harmonised at EU level. EU tax policy is a key element to **strengthen the Internal Market** in which the co-existence of 28 national tax systems may result in double taxation, but also double non-taxation or distortion of competition.

The European Commission presents **proposals for tax legislation** where it considers EU-wide action is needed for the Internal Market to work better. It can also make **recommendations** and issue **policy guidance** in specific areas. Any European Union tax legislation and subsequent changes thereto must be **unanimously agreed** by all EU countries before entering into force.

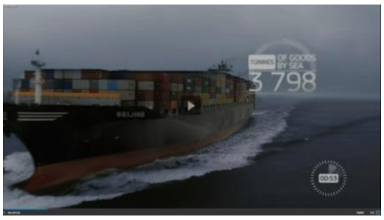
The **digitalisation of the global economy** is happening fast and permeates almost all areas of society. Tax administrations are faced with its impacts, notably new economic models such as e-commerce or the sharing economy. Resource cuts in the tax administrations are another direct consequence of digitalisation. Close to a third of the growth of Europe's overall industrial output is already due to the uptake of digital technologies. In 2017, 9 out of the top 20 companies were technology companies accounting for 54% of the total top 20 market capitalisation. A challenge for tax policy is the diversity of business models enabled through technology and the exploitation of large amounts of data.

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

The **Fiscalis 2020 funding programme** has a key role by enhancing cooperation between participating countries, their tax authorities and their officials to improve the functioning of the taxation systems in the Internal Market.

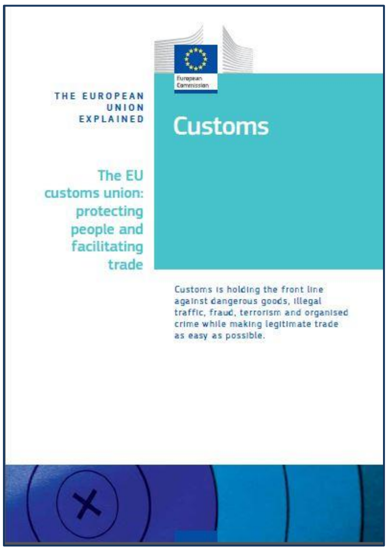
In the framework of the **European Semester**, DG TAXUD has responsibility for the economic analysis of national tax policies and preparing the **country-specific recommendations** in the field of tax policy and supporting reforms to improve the fairness and efficiency of national tax systems.

EU Customs Policy



The Customs Union, a basic pillar of the European Union, supports and protects the Internal Market. The Treaty on the Functioning of the EU (TFEU) provides that the Customs Union is an **exclusive competence** of the European Union built on the principles of **free movement of goods** within the Union and a **common external tariff** towards third countries. The treaty also emphasises the importance of the promotion of trade in this context.

The common legislative framework adopted at the EU level is implemented by the 28 national customs administrations. As a result, **close partnership with Member States** is crucial for the effective, efficient and uniform performance of the Customs Union. The Communication "EU Customs Union Governance" gave this partnership a new boost.



The **Union Customs Code** is key for a well-functioning and performing Customs Union with full digitalisation of all customs procedures. The Commission ensures through the **Customs 2020 funding programme** that the customs administrations are interconnected and the Customs Union is equipped with modern automated **electronic systems**.

The Commission is **actively supporting Member States in implementing the Customs Union** by, for instance, managing on a day by day basis most of the EU **import quotas** and keeping up to date all **tariff-related information**. The Commission also supports Member States through guidance and assistance with interpretation of legislation to implement customs rules. Together with Member States and trade stakeholders, the Commission also develops examples and models of best practice.

For the EU as a whole, external demand is a major source of growth; in the next decade 90% of demand is expected to come from outside Europe. In a period of economic recovery and rebuilding of government finances, there is increasing pressure to **manage international trade transactions efficiently**, including for customs authorities which are responsible for **securing international supply chains** besides their traditional task of collecting revenues. As such, customs authorities **help legitimate EU business** to be competitive on the world markets. The OECD has estimated that a comprehensive trade facilitation reform could cut trade costs by up to 10% for OECD countries. On a global level, reducing trade costs by even 1% would increase worldwide income by EUR 30 billion. This represents a massive potential to tap into and means that the **efficiency of customs** is pivotal.

Because of their presence at the EU external border, customs are also called upon to **implement** in a coherent and harmonised way more than **60 pieces of non-customs EU legislation** relating, for example, to dual use, fire arms, intellectual property, public health, consumer protection, transport, the environment and agriculture. Amongst other things, work on the EU Single Window environment for customs is aimed at helping Member States to achieve this objective.

As gatekeeper for the EU borders for the EU flows of goods, EU customs play a crucial role implementing the EU Security Agenda by protecting the EU and its residents. With the current focus on security and migration, Customs has a key role in **supporting action at external borders** to ensure coherent policy action in relation to the movement of people.

The **enforcement strategy** in the area of customs focuses on the correct application of the Customs Code as both a protection for the functioning of the Internal Market and the related revenue, and for trade facilitation.

The Commission represents EU customs policy at **international** level to promote good EU practice, facilitate legitimate trade and secure the international supply chain. It achieves this, in particular, by negotiating and implementing **agreements and arrangements with trading partners** and by participating actively in **international standard-setting in multilateral fora** and by **implementing these standards** in the EU.

Cooperation with external partners

DG TAXUD works closely with several institutional stakeholders, especially other services of the European Commission, the ECOFIN Council and the European Parliament.

We engage regularly with international organisations like the World Customs Organisation (WCO), the Organisation for Economic Co-operation and Development (OECD), the Intra-European Organisation of Tax Administrations (IOTA) and the International Monetary Fund (IMF), and external partners such as the European External Action Service (EEAS), Europol, Frontex, Eurojust and the European network of judicial authorities.

We interact regularly with businesses and civil society representatives through various expert groups such as the VAT Expert Group, the EU VAT Forum, the Joint Transfer Pricing Forum, the Platform for Good Tax Governance and the Trade Contact Group.

DG TAXUD reports to Pierre Moscovici, Commissioner for Economic and Financial Affairs, Taxation and Customs and to Valdis Dombrovskis, Vice President for the Euro and Social Dialogue.

EXECUTIVE SUMMARY

The Annual Activity Report is a management report of the Director-General of DG TAXUD to the College of Commissioners. Annual Activity Reports are the main instrument of management accountability within the Commission and constitutes the basis on which the College takes political responsibility for the decisions it takes as well as for the coordinating, executive and management functions it exercises, as laid down in the Treaties[1]*.*

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

EU customs and tax policy plays a crucial role in delivering on the Commission objective related to creating a **deeper and fairer Internal Market**. **Tax fraud**, tax evasion and aggressive tax planning mean **less money** for the public budgets limiting the capacity of EU countries to implement their economic and social policies. They lead to unfair competition and tax burden-sharing.

The **current tax framework** does not fit with modern realities. The tax rules in place today were designed for the **traditional economy** and cannot capture activities which are increasingly based on intangible assets and data. Today, customers are able to purchase goods and services from anywhere in the world via the internet rather than the local high street. The challenge is to make the most of these **digital opportunities** to ensure Europe's competitiveness, while ensuring fair taxation.

Therefore, the Commission adopted on 21 September 2017 a **Communication** launching a new EU agenda to ensure that the **digital economy** is **taxed in a fair and growth-friendly way**. This paves the way for a legislative proposal on EU rules for the taxation of profits in the digital economy in spring 2018 and will also feed into international work in this area, notably in the G20 and the Organisation for Economic Co-operation and Development (OECD).

In the interinstutional sphere, DG TAXUD **worked** throughout 2017 **for the adoption** by Member States of key pieces of EU law for a **fair coporate tax framework** notably the Common (Consolidated) Corporate Tax Base **(C(C)CTB).** This work is closely linked to and will feed into the digital tax agenda. DG TAXUD also contributed to the compilation by Member States of the first ever **EU list** of non-cooperative tax jurisdictions and the new proposal for enhanced transparency of tax intermediaries.

The Commission proposed on 4 October 2017 a far-reaching **reform of the EU Value Added Tax** (VAT) system. New VAT rules should be simpler and more consistent and introduce a new definitive **single EU VAT area**. The new VAT system is meant to be much more fraud-proof, and in line with today's digital and mobile economy, setting up a **one-stop shop** which will make it easier for companies that sell across borders to deal with their VAT obligations.

In addition, the Commission unveiled on 30 November 2017 new tools to make the **VAT**

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

system more fraud-proof and close loopholes which can lead to large-scale VAT fraud. The new rules aim to **boost cooperation** between national tax authorities and law enforcement authorities, including customs. This was complemented early 2018 with an initiative on VAT rates and one to facilitate VAT compliance for small and medium sized entreprises.

DG TAXUD contributed throughout 2017 to the agreement reached on 5 December 2017 by economic and finance ministers of EU Member States on new rules for **VAT on e-Commerce**. This will improve how VAT works for online sales to consumers in the EU and make it easier for consumers and businesses to buy and sell goods cross-border online.

Throughout 2017, DG TAXUD ensured follow up to the major elements of its 2016 **Customs Governance** Communication while the Commission, Member States and trade stakeholders continued to cooperate closely to facilitate implementation of the many new features and provisions of the **Union Customs Code** (UCC). Work continued in managing tariff classification issues and during the year 56 legislative implementing measures were adopted by the Commission to ensure uniform treatment across the EU.

The 2017 Annual Work Programmes of **the Fiscalis and Customs 2020 programmes**, adopted in February 2017, were the basis for all the activities (Joint actions, Training and European information Systems) undertaken during this year.

As of 2 October 2017, traders submit all new **applications for customs decisions** or authorisations electronically through a **single electronic access point** at EU level which is linked to the central Customs Decisions System (CDS). Importers in all Member States now use the same portal and the information is exchanged between all relevant customs authorities.

In the context of the **fight against financing for terrorist groups** and other warring factions, the Commission adopted this year a **proposal on the import of cultural goods** to prevent the entry of illicitly exported cultural goods, a known source of financing for illegal and terrorist activities.

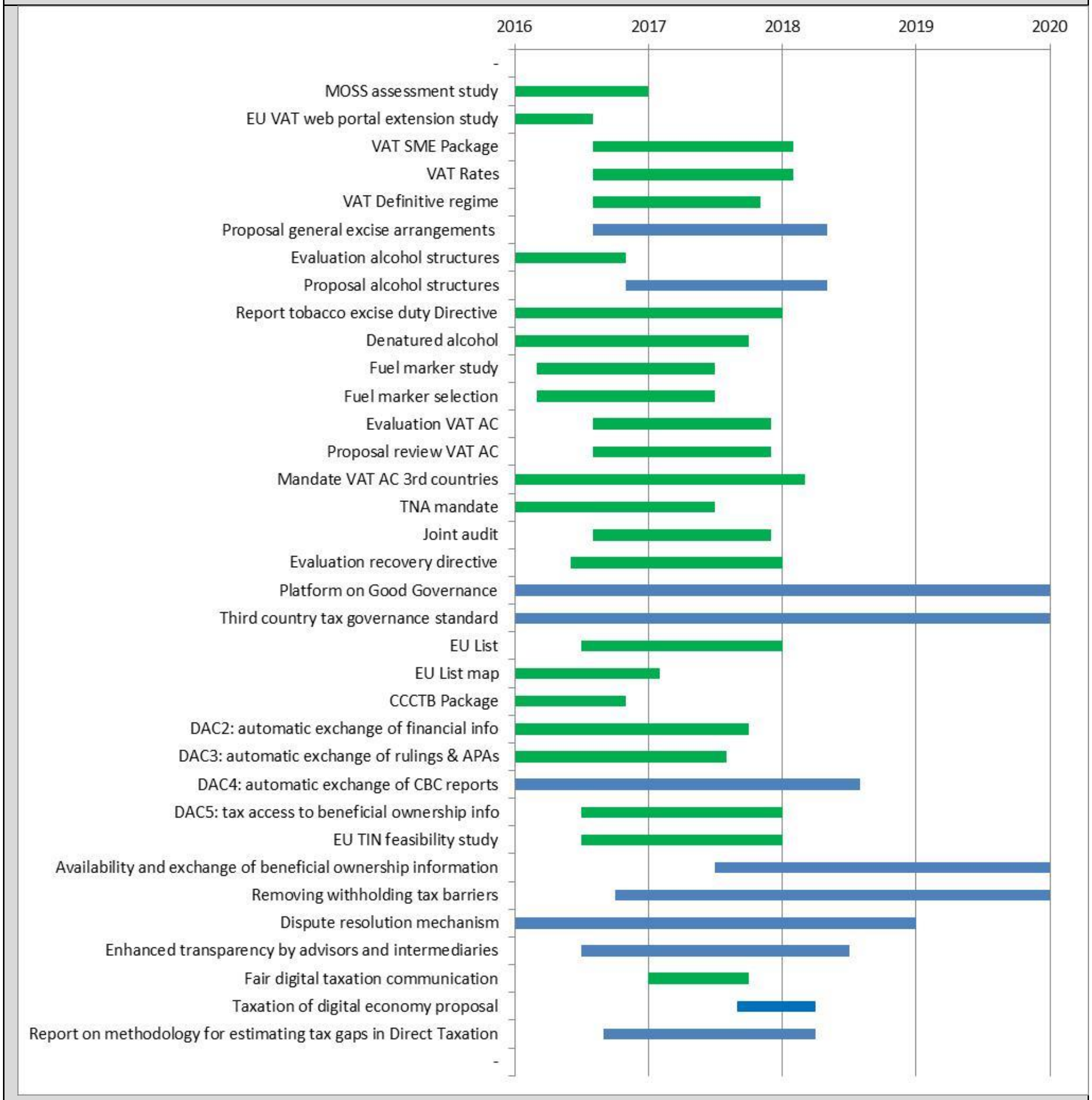
DG TAXUD contributed also to the interinstitutional negotations in Council and EP on the new **cash control** initiative proposed in December 2016, another measure in the fight against financing of organised crime and terrorism.

In 2017, on behalf of the EU and together with the customs administrations of the Member States, the Commission ensured the **implementation** of the customs-related provisions of **customs or free trade agreements**.

A detailed overview of the evaluation exercises performed in 2017 can be found under chapter 2.2.2 on Better Regulation.

b) Key Performance Indicators (KPIs)

KPI 1: Tax Action Plans Implementation Indicator

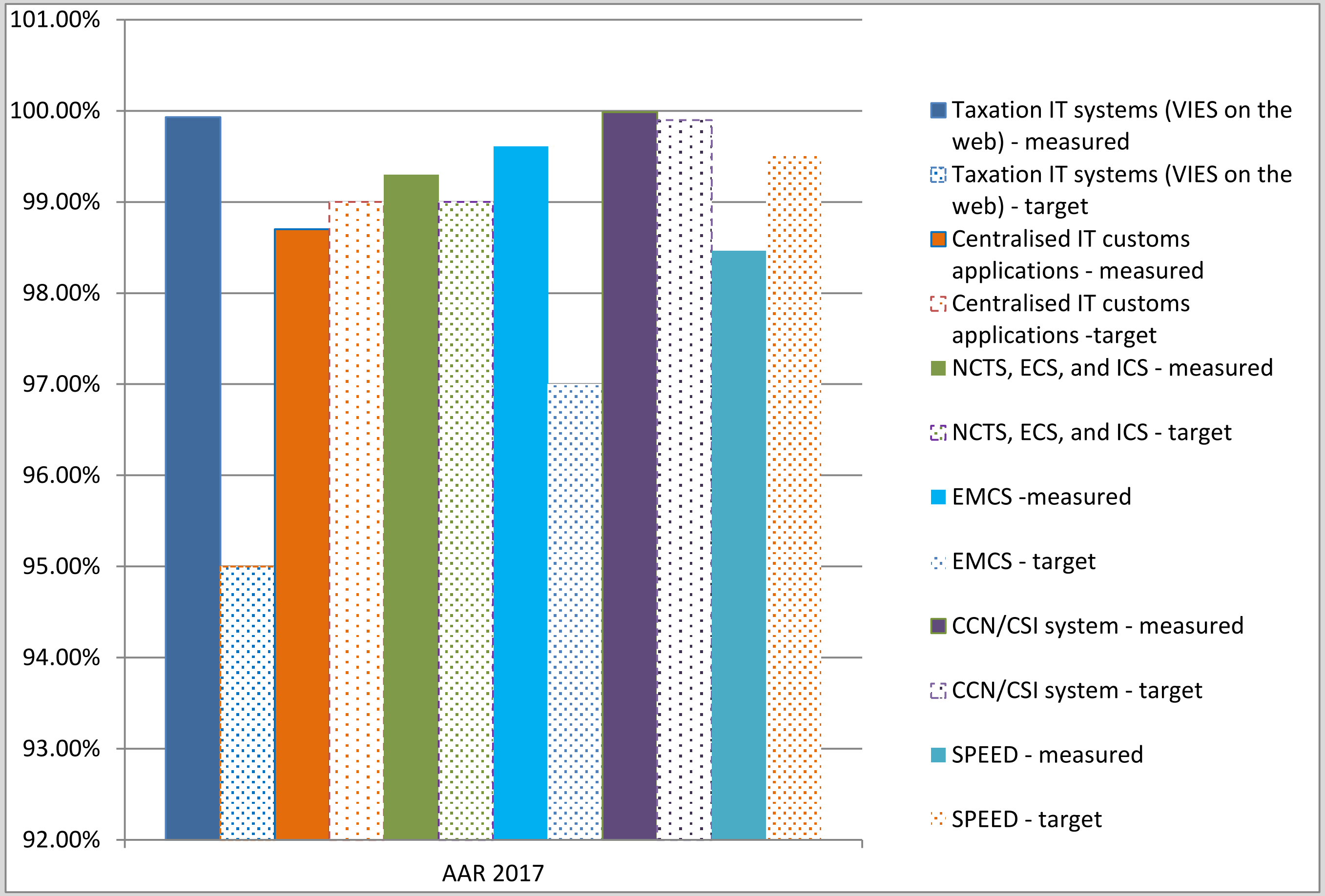


This indicator monitors the policy work carried out by the DG, measuring if and when DG TAXUD delivers on key actions laid down in the action plans. The indicator provides a percentage of the actions implemented over time. In 2017, 19 actions were closed (green bars) (54%), while 3 actions were newly started (bars starting in 2017) (9%).

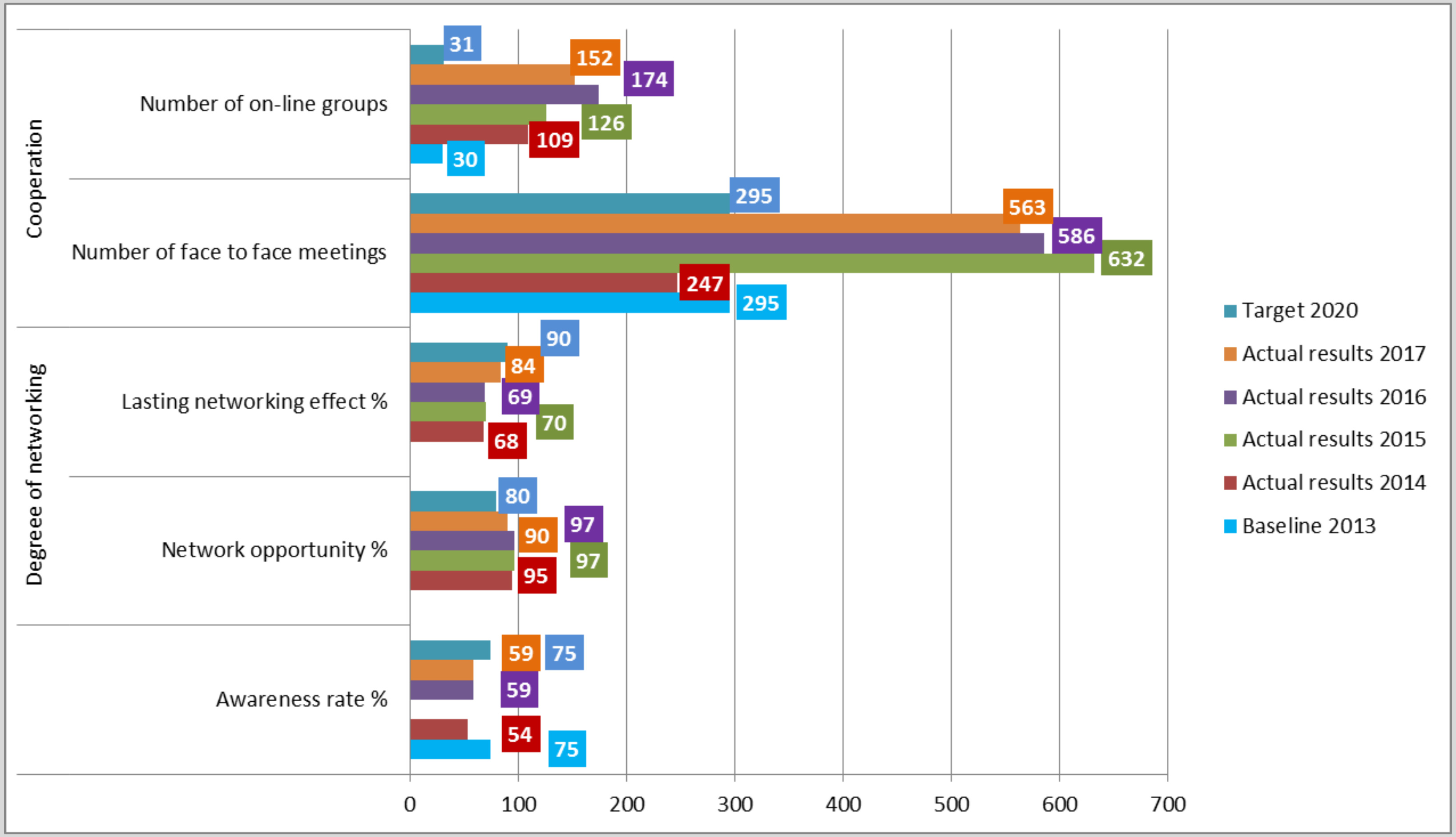
KPI 2: Modernisation and simplification of the Union Customs Legislation indicator

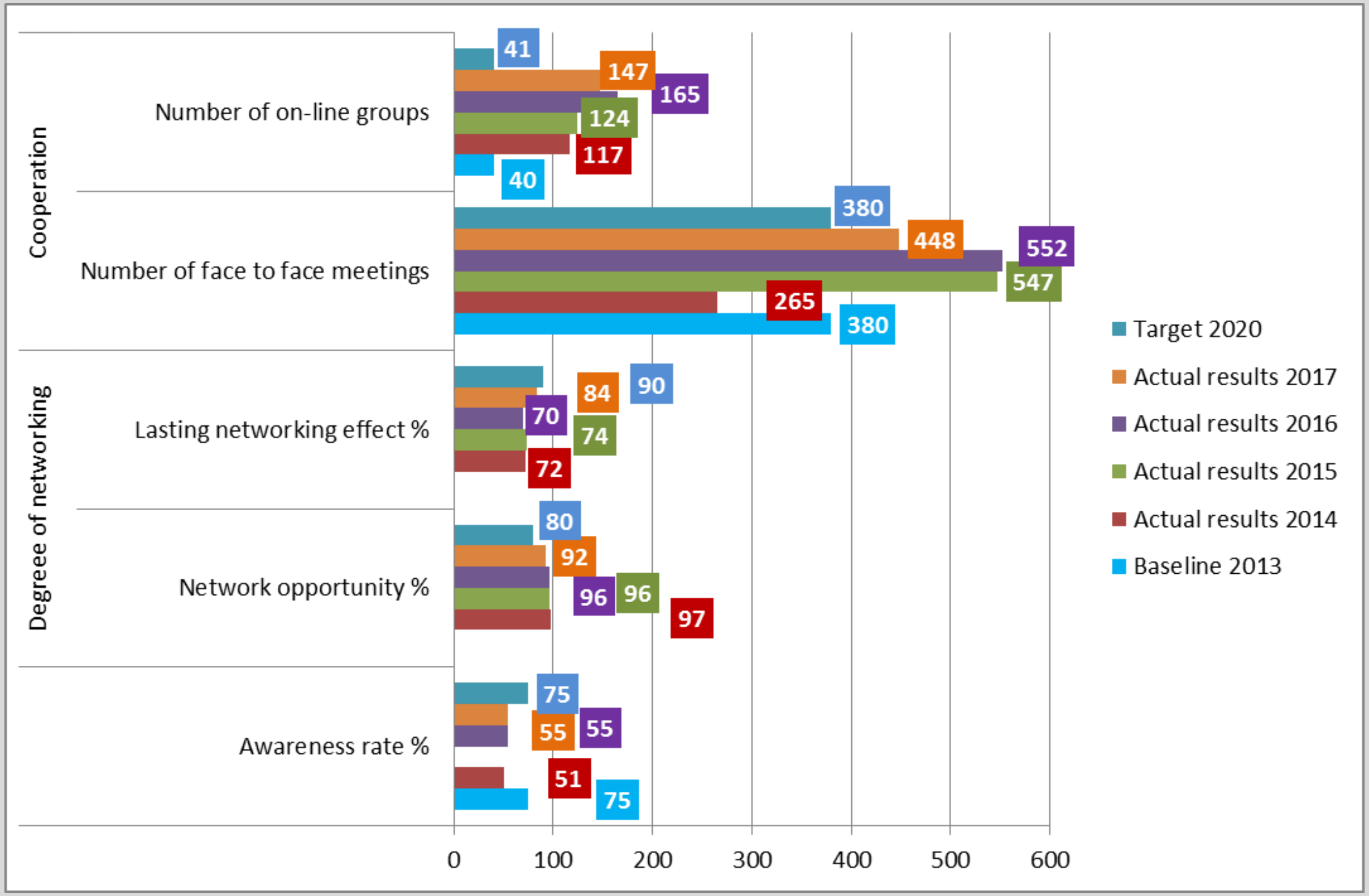
			Project Initiation (BPM, BC & VD)	Functional Analysis & Specifications	Technical elaboration, specifications & development	Roll-out & Deployment	Achieved Legal Milestone TSS	Achieved Legal Milestone Date of Deployment	UCC WP dates of deployment
1	**REX**						✓	✓	01/01/2017
2	**BTI**	*phase 1 - step 1*					✓	✓	01/03/2017
		phase 1 - step 2					✓	✓	01/10/2017
		phase 2					✓		01/10/2018
3	**Customs Decisions**						✓	✓	02/10/2017
4	**UUM&DS**						✓	✓	02/10/2017
5	**AEO**	*phase 1*					✓		01/03/2018
		phase 2					✓		01/10/2019
6	**EORI2**						✓		01/03/2018
7	**SURV 3**						✓		01/10/2018
8	**PoUS**		on hold						1/03/2019-1/10/2019
9	**NCTS**								1/10/2019-2/03/2020
10	**AES**	*component 1*							1/10/2019-2/03/2020
		component 2	national project						02/03/2020
	AES, NCTS,	*transition strategy*							
11	**SP INF**								02/03/2020
12	**SP**	*component 1 SP_EX*	national project						02/03/2020
		component 2 SP_IM	national project						national
13	**NA, PN, TS**		national project						national
14	**National Import upgrade**		national project						national
15	**CC Import**								as of 1/10/2020
16	**GUM**	*component 1*	on hold						01/10/2020
		component 2	national project						national
17	**ICS 2**								as of 1/10/2020

This indicator monitors the implementation of the IT related tasks assigned to the Commission and Member States by the UCC work programme aiming for modernisation and simplification of the Customs Union. The graph demonstrates for the different IT systems which project phases have been completed on 1 January 2018 since the adoption of the first version of the UCC Work Programme in 2014 (revised in April 2016).

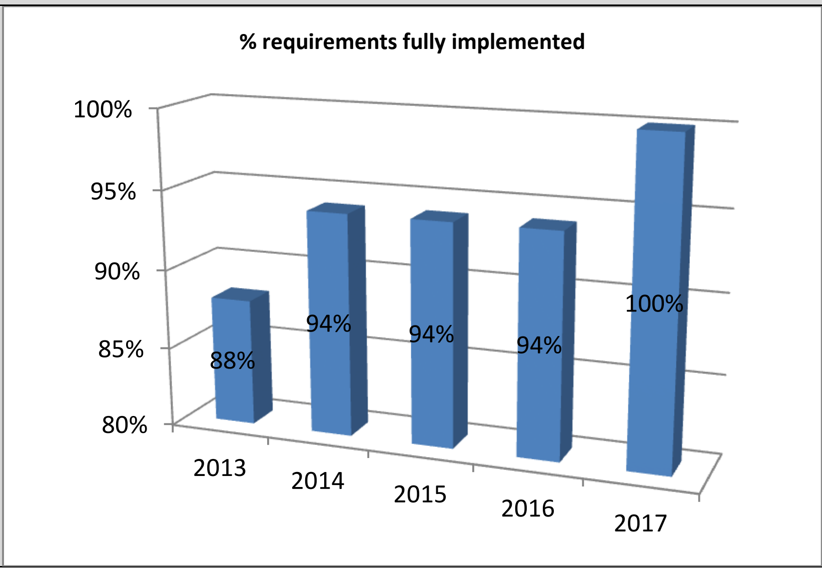
KPI 3: Availability of Taxation and Customs IT Systems indicator	

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

KPI 4 Collaboration Robustness Indicator **Fiscalis 2020**	 ** No data are available for the awareness rate 2015, 2017 as measured bi-annually. Figure for 2017 is the latest available.* *** Lasting networking effect and networking opportunity measured as from 2014, baseline 2013 being 0.* **** Actual results 2017 are the data available in February 2018*

Customs 2020	 ** No data are available for the awareness rate 2015, 2017 as measured bi-annually. Figure for 2017 is the latest available* *** Lasting networking effect and networking opportunity measured as from 2014, baseline 2013 being 0.* **** Actual results 2017 are the data available in February 2018*

This collaboration robustness indicator measures how the activities organised for the Customs/Tax officials improved cooperation and networking between them.

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

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

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

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

In addition, DG TAXUD has systematically examined the available control results and indicators, including those 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 Section 2.1 for further details.

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

d) Provision of information to the Commissioner

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

1. KEY RESULTS AND PROGRESS TOWARDS THE ACHIEVEMENT OF GENERAL AND SPECIFIC OBJECTIVES OF THE DG

GENERAL OBJECTIVE 1

A fairer and deeper Internal Market

In general, the DG TAXUD initiatives that were taken to support a fairer and deeper Internal Market, worked towards tackling tax fraud, ensuring sustainable revenues and supporting a better business environment in the Internal Market. In 2017, DG TAXUD in particular continued the reform of the corporate tax framework to make corporate taxation in the EU fairer and better adapted to the modern economy. Another priority was the design of a definitive VAT regime.

SPECIFIC OBJECTIVE 1.1

Fight against tax fraud and aggressive tax planning

Tax fraud, tax evasion and aggressive tax planning mean less money for the public budgets limiting the capacity of EU countries to implement their economic and social policies. They lead to **unfair competition** and **tax burden-sharing**: if tax cheaters do not pay their fair share, honest taxpayers have to pay more. The recent media scandals involving big digital players have made the public aware of the huge divide in how big tech companies are taxed compared to brick-and-mortar businesses. A notable example: a local bookshop is often taxed at a higher effective rate than an online platform that sells books.

Today customers are able to purchase goods and services from anywhere in the world via the internet rather than the local high street. Businesses of all kinds now derive much of their value from intangible assets, information and data. There is no single defining feature of these new ways of doing business in the digital space and the different aspects are often combined together in a single business. All this makes it harder to answer two essential questions: what is the value and where is the value created?

The current tax framework does not fit with these modern realities. The tax rules in place today were designed for the traditional economy and cannot capture activities which are increasingly based on intangible assets and data. At the same time, a patchwork of unilateral measures taken by Member States to address the problem threaten to create new obstacles and loopholes in the Internal Market. The challenge for the Commission is to make the most of these digital opportunities to ensure Europe's competitiveness, while ensuring **fair taxation**.

Therefore, the Commission adopted on 21 September 2017 a Communication launching a new **EU agenda to ensure that the digital economy is taxed in a fair and growth-friendly way**. Its aim is to ensure a coherent EU approach to taxing the digital economy that supports the Commission's key priorities of completing the Digital Single Market and ensuring the fair and effective taxation of all companies. The Communication paves the way for a legislative proposal on EU rules for the taxation of profits in the digital economy in spring 2018 and will also feed into international work in this area, notably by the G20 and the Organisation for Economic Co-operation and Development (OECD).

In the interinstutional sphere, DG TAXUD worked throughout 2017 for the adoption by Member States of key pieces of EU law for a fair coporate tax framework, notably the **Common (Consolidated) Corporate Tax Base** (C(C)CTB) and an agreement on **transparency measures for intermediaries**, a proposal the Commission launched on 21 June 2017. Negotiations with Member States will continue in 2018. This work is closely linked to and will feed into the digital tax agenda. Another DG TAXUD proposal, the new directive on Tax Dispute Resolution Mechanisms in the European Union, was agreed in May 2017 by Member States.

In 2017, DG TAXUD also contributed to the compilation of the first ever **EU list of 17 non-cooperative tax jurisdictions.** Compilation of the list has prompted active engagement from many of the EU's international partners. The list was ultimately agreed by Member States on 5 December 2017. The whole point of having a common EU list is to protect the Internal Market, and to encourage companies and individuals to pay the taxes that they should be paying within the EU. This unprecedented exercise should raise the level of tax good governance globally and help prevent the large-scale tax abuse exposed in recent scandals such as the Panama and Paradise Papers.

DG TAXUD also worked to enhance the fight against tax fraud by working together with Member States to have the information systems ready to exchange:

- As of 1 January 2017, Member States are obliged to automatically exchange information on all new cross-border tax rulings that they issue, through a central depository accessible to all EU countries. The first exchanges took place between 1 July and 30 September 2017.
- By 1 January 2018, Member States provided the same information for all cross-border rulings issued since the beginning of 2012.

Also, DG TAXUD and DG FISMA, together with Member States developed a Code of

Conduct on Withholding Tax to improve the efficiency of withholding tax procedures, **removing another obstacle** hampering the proper functioning of the Internal Market.

European Information Systems for Taxation

The European Information Systems for Taxation are a vital element in the fight against tax fraud. DG TAXUD continued to ensure in 2017 that the European Information Systems for taxation were running and were appropriately improved. The main achievements in 2017 were:

- The underlying network Common Communication Network/Common System Interface (CCN CSI) was running continuously without interruptions,
- Systems critical for the functioning of the Internal Market, like the VAT Information Exchange System (VIES) and the VAT number database (VIES-on-the-WEB) were running without major interruptions. VIES on the WEB did suffer in January 2017 from significant perturbations of service for a few days, which gave rise to significant corrections of the infrastructure later in the year to avoid their reoccurrence,
- A secure central repository allowing to record and share between the Member States the rulings made by the EU tax administrations, has been put in production as of September 2017 (DAC3),
- A system for the automatic exchange of financial account information, as regards accounts that persons may hold in Member States in which they are not resident, entered in production in September 2017 (DAC2),
- A system for the automatic exchange of information setting reporting obligations for multinational enterprise groups as regards their global allocation of the income, economic activity and taxes paid among countries, had its specifications approved by the Member States (DAC4),
- A facility allowing exchange of information with third countries in the field of direct taxation by bridging CCN/CSI with the relevant OECD platform has been put in production in September 2017,
- A more comprehensive message to the users in case of invalid verification of VAT number via the VIES-on-the-Web was deployed in December 2017 adressing a recommendation of the Ombudsman,

In addition, in 2017 research analysed the potential impact of the blockchain technology in transeuropean systems of tax and customs. Promising results were obtained and will be the subject of further collaboration with the Joint Research Centre in 2018 to strenghten DG TAXUD's capacity to use this innovative technology and establish a common approach with the Member States.

SPECIFIC OBJECTIVE 1.2

An EU tax framework that is fit for purpose

The Internal Market allows business and citizens to move freely to work and to create wealth, innovation and jobs everywhere in Europe. Yet, uncoordinated tax rules, lack of cooperation between tax authorities and red tape hamper competitiveness and the willingness to invest. Throughout 2017, DG TAXUD proposed several measures to make this EU tax framework simpler and more predictable.

Value Added Tax

In the area of Value Added Tax (VAT), the Commission proposed on 4 October 2017 a far-reaching **reform of the EU VAT system**. The most important aim of this package is to bring the notorious 'carousel fraud' to an end. New VAT rules should be simpler and more consistent, introducing a new definitive single EU VAT area. In a nutshell, the new VAT system is meant to be:

- much **more fraud-proof**, and
- **in line with** today's **digital and mobile economy**.

For these purposes, **VAT** should be **charged** on **cross-border trade between businesses** inside the EU. Currently, this type of trade is exempt from VAT upon supply, providing an easy loophole for unscrupulous companies to buy goods from another EU country without paying VAT. Subsequently, they collect VAT when they sell the goods on the domestic market and then vanish without remitting the money to the government.

To make it easier for companies that sell across borders to deal with their VAT obligations, the Commission proposes to set up a **one-stop shop**. As such, traders will be able to make declarations and payments using a single online portal in their own language, and according to the same rules and administrative templates as in their home country. Member States will then pay the VAT to each other directly. This way of work is already applicable for all supplies of e-services to consumers. This would actually introduce the **principle of 'destination'**, whereby the final amount of VAT is always paid to the Member State of the final consumer and charged at the rate of that Member State.

The first VAT package was complemented early 2018 with an initiative on **VAT rates** and one to facilitate **VAT compliance for small and medium sized entreprises** (SME VAT package). Before the summer of 2018, the Commission will still lay down the detailed technical provisions needed to operate the definitive VAT system.

On 30 November 2017, the Commission unveiled the new tools to make the **VAT system more fraud-proof** and close loopholes which can lead to large-scale VAT fraud. These new rules aim to **boost cooperation** between national tax authorities and law enforcement authorities, including customs, by exchanging and analysing together more information. Finally, in December 2017, the Commission published three reports highlighting the benefits of European cooperation in collecting taxes, but also indentifying the gaps and areas where tax administrations must improve their performance and their cooperation.

DG TAXUD contributed throughout 2017 to the **interinstitutional negotiations** on new rules for **VAT on e-Commerce**. One year after the Commission launched its ambitious proposals, on 5 December 2017 economic and finance ministers of EU Member States reached agreement on these measures which improve how VAT works for online sales to consumers in the EU and make it easier for consumers and businesses to buy and sell goods cross-border online.

This agreement will also support Member States to recoup the current estimated EUR 5 billion of VAT lost on online sales every year. This is part of the annual loss of VAT receipts, the **VAT gap**, which is estimated to amount over EUR 150 billion - revenue that Member States miss out and cannot be used for schools, healthcare or infrastructure projects. Of this, around EUR 50 billion - or EUR 100 per EU citizen each year - is estimated to be due to cross-border VAT fraud. Moreover, part of this money is used to finance criminal organisations, including terrorism. The Commission believes these losses, equal to the entire EU budget, could be reduced by 80% thanks to the VAT reform proposed on 4 October 2017.

Excise duties

In April 2017 the Commision issued a report on the functioning of arrangements for the supervision of the holding and movement of excise goods, including the alignment with relevant customs provisions and automation of arrangements of interest to small and medium enterprises. The Council conclusions adopted in December 2017 were largely in line with the recommendations of this report.

In January 2018 the Commission reported that it will not revise at present the tobacco excise duty legislation because of a lack of data for harmonized taxation of e-cigarettes and the fact that the issues identified in the 2014 evaluation have since been solved.

Application of EU tax law

For fulfilling the objectives of the Internal Market and ensuring the respect of the fundamental freedoms of movement, effective and coherent application of EU tax law is essential. DG TAXUD promotes the removal of tax obstacles for economic operators and citizens that are resulting from the incorrect application of EU law by Member States.

In the area of **indirect taxation**, emphasis was put on the horizontal application of judgments of the Court of Justice of the EU, which provided a general interpretation of the VAT Directive, the Excise Duty Directives, and on car taxation cases. A horizontal check of problems encountered with domestic and cross-border VAT refund procedures was also launched.

In the field of **direct taxation**, the Commission's top priority was to ensure that Member States have completely and correctly transposed recent amendments to the Council Directive on Administrative Cooperation, known as 'DAC', whose scope was enlarged step by step starting with income on dividends and interest, adding later on tax rulings, country-by-country reporting, and finally anti-money-laundering information.

SPECIFIC OBJECTIVE 1.3

Well-functioning and modern Customs Union

The Customs Union is an **exclusive competence** of the European Union built on the principles of **free movement of goods** within the Union and a **common external tariff** towards third countries, and is protecting the Internal Market. The Customs legislation is laid down in directly applicable Council and Parliament regulations whose implementation relies on a **close partnership** with the Customs administrations of the **28 Member States**. In many cases, the Commission acts as an active participant supporting Member States with the day-to-day implementation.

DG TAXUD contributed to the preparatory work regarding the orderly **withdrawal of the UK** from the Union amongst others with the publication of its Position paper on Customs related matters.

Customs Governance

Throughout 2017, DG TAXUD ensured follow up to the major elements of its 2016 Governance Communication to reinforce its partnership with the Member States, notably by

- formalising the role of the Customs Policy Group,
- reviewing the mechanisms for the trade consultations and
- strengthening the co-operation between Customs and Border Guards.

In the context of the Customs Union performance project, the risk-based indicators were aligned with the Union Customs Code; an IT availability indicator was introduced while the protection indicators were further developed in line with the EU Security agenda.

Union Customs Code

The Union Customs Code (UCC), which came into force on 1 May 2016, aims at facilitating and streamlining customs procedures, based on the digitalisation of all processes and procedures and a harmonised implementation by all Member States. These rules apply to all goods entering or leaving the Union. It should also create a level playing field for all economic operators, including small and medium sized enterprises (SMEs).

Throughout 2017, the Commission, Member States and economic operators continued to cooperate closely to implement the **new legal rules**, by for instance:

- making the issuing of long-term supplier's declarations easier, and
- further aliging the Common Transit Convention with the UCC transition arrangements.

More **specific guidance** was issued for the implementation of customs provisions, including simplifications and guarantees, and for special procedures. The guidance concerned, for instance, transfers of rights and obligations and the discharge of special procedures in specific situations such as destruction or natural losses.

The Union Customs Code is accompanied by two specific Implementing acts, one establishing the timelines of the electronic projects (UCC Work Programme) and another describing the technical arrangements for the **electronic systems**.

European Information Systems for Customs

Regarding the electronic systems, in 2017 the work progressed in line with the Union Customs Code Work Programme. From an Information System perspective, the main DG TAXUD achievements in 2017 were:

- As for taxation, the underlying network, the Common Communication Network/Common System Interface (CCN CSI), was running continuously without interruptions,
- Systems critical for the functioning of the Internal Market, like the tariff database (TARIC), were running without interruptions,
- The new Customs Decisions System (CDS), the EU Trader Portal and the supportive trader authentication module (called Uniform User Management System) went live successfully on 2 October 2017 (*see also 2.2*),
- The first phase for the deployment of the Authorised Economic Operator system and the Binding Tariff Systems was fully completed,
- The functional specifications of the UCC project on standardardised exchange of INFormation for the special procedures of inward and outward processing (INF) were approved by Member States,
- The business case, vision document and functional specifications for the UCC projects on the Automated Export System (AES) and the New Computerised Transit System (NCTS) were completed and the approval process with Member States is planned to be finalised early 2018,
- The business case for the UCC project on Centralised Clearance at Import was approved and the work started on the functional specifications in close collaboration with a selected group of experts from the Member States,
- For the Economic Operator's Registration and Identification Number Database (EORI2) and for the Surveillance System (SURV3), work was ongoing throughout 2017 to prepare their 2018 deployments,
- The EU Customs Data Model (EUCDM) was further updated and published, accompanied by a guidance document, and used for defining the functional specifications for the different systems,
- The first version of the UCC implementing regulation regarding the technical arrangements for the electronic systems, scoped to the Customs Decisions

System and the Uniform User Management System, was adopted and published in November 2017,

- As regards the planning for the UCC national systems, the Commission continued to collect, consolidate and publish the national plans from the Member States twice a year, in March and October.

Common Customs Tariff

DG TAXUD continued to ensure the daily update of the Integrated Tariff of the European Union **(TARIC)**:

- providing up-to-date data for the customs clearance systems of the Member States,
- giving economic operators a comprehensive view of all tariff measures applicable when importing or exporting goods into/from the EU,
- adopting nine implementing regulations ensuring the management of tariff quotas and daily allocations for more than 1,000 tariff quotas in 2017, and
- adopting 56 legislative tariff classification measures to ensure uniform tariff treatment across the EU.

DG TAXUD contributed to the 2022 revision of the worldwide **Harmonised System (HS)** which every five years is agreed at the level of the World Customs Organisation (WCO).

The "Binding Tariff Information (BTI)" project was also finalised updating amongst others the IT environment for monitoring the usage of Binding Tariff Information by the Customs authorities. This addressed a recommendation in the Court of Auditors 2017 report on "Shortcomings on import procedures" (*see also 2.1.2*).

Customs law enforcement

The Commission continued contributing to the **negotiations** on the proposal for a Union legal framework for **customs infringements and sanctions**. This **proposal** is an important element to ensure uniform application and effective enforcement of the EU customs law.

The **enforcement strategy** in the area of customs focuses on the correct application of the Customs Code as both a protection for the functioning of the Internal Market and for trade facilitation. Focus is also given to charges with equivalent effect to customs duties even within the EU. In addition, certain subject matters have been identified where horizontal inquiries are currently being undertaken (e.g. cash control and postal fees).

SPECIFIC OBJECTIVE 1.4

The EU programmes supporting EU tax and customs policy

The Customs and the Fiscalis 2020 programmes offer Member States a European framework for cooperation amongst national customs and tax administrations and their officials and underpin the European Information Systems (EIS) for Customs and Taxation. The 2017 Annual Work Programmes of Customs and Fiscalis were adopted in February 2017. Under this umbrella, national customs and tax authorities create together, and under DG TAXUD's steering, synergies and joint approaches for common and trans-national challenges. The two mid-term evaluations of the two programmes were launched end 2017 and will be used for the impact assessment foreseen in 2018.

Five Expert Teams[2] **worked** throughout the year on IT collaboration and exchange of information in the taxation area as well as customs laboratories, Binding Tariff Information and operational cooperation at the EU Easter and South-Eastern land border. The latter (CELBET), grouping 11 Member States of this region, carried out a mapping and analysis of border crossing points (BCPs), and developed instructions and a methodology for evaluating the level of smuggling through random controls. The customs laboratories (CLET) Expert Team pools expertise and equipment to analyse samples and to share analytical results. As such, a Member State not having a specialised analytical capacity, can submit a request for analysis to another Member State who will provide the analytical result free of charge.

The 2017 EU Training and Human Competency Building programme supported the uniform implementation of EU customs legislation (UCC) by producing 2 new **EU eLearning** modules on:

- the new Customs Decision Systems, and
- the new European Binding Tariff System system.

The common 2017 **multi-annual customs and tax training and staff development Action Plan** (2017-2020) will provide the necessary policy back-up and national engagement for common EU training and staff development measures in the years to come. This Action Plan will support the implementation of the EU Customs Governance Initiative as well as the Administrative Capacity building initiative for taxation.

In the context of the **European Parliament Pilot** Project on digital tax education (**TAXEDU**), DG TAXUD realised an 'EU tax educational portal' equipped with a multitude of digital tax educational material for young Europeans.

[2] A collaborative approach bringing together officials from Member States for a long term and dedicated cooperation activity.

GENERAL OBJECTIVE 2

A new Boost for Jobs, Growth and Investment

SPECIFIC OBJECTIVE 2.1

Taxation enhancing EU competitiveness

The activities launched on taxation and digital economy contributed to the Commission's objective for a fairer and deeper Internal Market as well as its objective for boosting jobs growth and investment. A detailed description of the activities realised is available under specific objective 1.1.

SPECIFIC OBJECTIVE 2.2

Ensuring efficient customs fostering EU competitiveness

As external demand is the European Union's most important source of growth, legitimate trade should cross borders as quickly and as efficiently as possible. The Union Customs Code introduces specific **simplifications** of existing procedures facilitating trade and reducing company costs.

In 2017, several **customs procedures** were **made simpler**, facilitating economic activities and ensuring that customs formalities do not hamper the competitiveness of EU industries. For instance, the administrative procedures became simpler:

- to import a civil aircraft under the "end-use" procedure, and
- for the use of goods with EU origin when processing milk products.

DG TAXUD proposed an amendment to the existing rules to **allow EU residents** to **temporarily import**, with **total or partial relief from duty**, certain goods, such as those to be used for events, disaster relief material and medical, surgical and laboratory equipment. This has an **important impact**, because being able to temporarily import, free of charge:

- **goods destined for events** will increase the attractiveness of Europe as a location for global sale events;

- **disaster relief material and medical surgical equipment** will make it easier to have that equipment at the disposal of rescue teams and people in need; and
- **laboratory equipment** will help to foster the research and development capabilities of EU businesses, and hence their competitiveness.

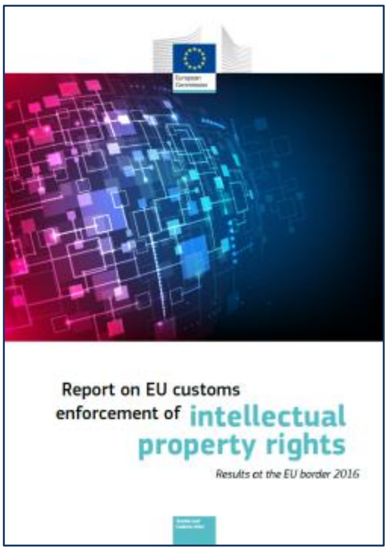
EU industry competitiveness was also enhanced by the fact that **International Road Transport** became **more secure in financial terms** because the limit up to which any guaranteeing association may become liable in relation to a particular international road transport (TIR) operation increased from EUR 60.000 to EUR 100.000.

As of 2 October 2017, traders submit all new applications for customs decisions or authorisations electronically through a single electronic access point at EU level which is linked to the central **Customs Decisions System (CDS)**. Importers in all Member States now use the same portal and the information is exchanged between all relevant customs authorities. Some Member States will use the system also to manage their national customs decisions. This development will considerably facilitate the flow of more than EUR 3 trillion worth of goods in and out of the EU each year.

The **Customs Decisions System** (CDS) manages 22 different types of authorisations. It enables European traders to benefit from authorisations having been granted with EU-wide validity and being managed in a harmonised way. The system allows economic operators to file electronically and in one place applications for these 22 customs authorisations.

Sectors which are intensive in intellectual property account for around 42% of EU GDP, some EUR 5,7 trillion per year. They generate 38% of all jobs and contribute to as much as 90% of EU exports. The **protection of intellectual property rights** is therefore **essential for EU companies**, in particular for small and medium sized enterprises which do not have the resources to engage in protracted litigation.

Customs are responsible for **tackling** the increasing volume of **trade in goods infringing intellectual property rights**. Figures released by the European Commission show that customs authorities detained more than 41 million fake and counterfeit products **at the EU's external border** in 2016. The goods had a total value of over EUR 670 million. It is estimated that 5% of all imports into the EU are counterfeit and pirated goods, which amounts to EUR 85 billion in illegal trade. Everyday products which are potentially dangerous to health and safety – such as food and drink, medicines, toys and household electrical goods - accounted for over a third of all intercepted goods. The main findings indicate that:



- Cigarettes were the top category (24%) for articles detained and toys the second largest group (17%), followed by foodstuffs (13%) and packaging material (12%),
- The number of intercepted articles rose by 2% compared to 2015,
- China remains the clear leader when it comes to the provenance of fake goods: 80% of articles arrived from China in 2016,

- Large amounts of seized cigarettes originated in Cambodia and Pakistan, while Singapore was the top source for counterfeit alcoholic beverages. Iran was the main source country for fake clothing accessories. Hong Kong was the leader for counterfeit mobile phones and India topped the list for counterfeit medicines.

To ensure sufficient and uninterrupted supplies of certain goods that are not available in the Union, or are available in insufficient quantities, and to avoid any disturbances on the market for certain agricultural and industrial products, certain **autonomous** Common Customs Tariff **duties** have also been partially or totally **suspended** in 2017.

The European Commission published in October 2017 the version of the **Combined Nomenclature** (CN) applicable as from 1 January 2018. It determines which rate of customs duty apply when goods are declared and how the goods are treated for statistical purposes. The Combined Nomeclature is a vital working tool for business and the Member States' customs administrations and is updated every year.

GENERAL OBJECTIVE 3

A secure European Union

SPECIFIC OBJECTIVE 3.1

Strengthening security and contributing to tackling terrorism and serious crime

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

Throughout 2017, DG TAXUD contributed to the interinstitutional negotations in Council and EP on the new **cash control** initiative proposed in December 2016. This regulation should improve the current system of controls on cash amounts of EUR 10.000 or more that are entering or leaving the EU. The intiative takes into account the recent best practices on combating money laundering and terrorist financing developed by the Financial Action Task Force (FATF). As such, the definition of cash is extended to non-currency payment methods like (traveller's) cheques, gold and prepaid cards while the scope is widened to cash sent in post, freight or courier shipment.

The collaboration between **Customs Administrations and Border Guards** is vital for the functioning of border management at the EU external borders. High level representatives of the two communities met in Autumn 2017 evaluating amongst others their mutual cooperation and presenting revised cooperation guidelines. Newly identified solutions included establishing of one-stop controls at borders, exchange of information between both authorities and joint investigations. The revised guidelines for co-operation between Customs and Border Guards, that were finalised in 2017, will become the basis for a further Commission initiative planned for 2018.

In 2017, in the context of the fight against financing of terrorist groups and other warring factions, the Commission adopted a proposal preventing the import of illicitly exported **cultural goods** into the Union territory, a known source of financing for illegal and terrorist activities. The new rules should ensure that the importation of illicit cultural goods becomes much more difficult in the future and includes:

- A new common EU definition for 'cultural goods' at importation which covers a broad range of objects including archaeological finds, ancient scrolls, the remains of historical monuments, artwork, collections and antiques,
- The introduction of a new import licensing system for the import of cultural goods which are known to be most at risk, such as archaeological objects, parts of monuments and ancient manuscripts and books,
- For other categories of cultural goods, importers will have to submit a signed statement as proof that the goods have been exported legally from the third country,
- Customs authorities will have the power to seize and retain goods when it cannot be demonstrated that the cultural goods in question have been legally exported.

The proposal is currently under discussion in the European Parliament and the Council.

GENERAL OBJECTIVE 4

EU as a strong global actor

SPECIFIC OBJECTIVE 4.1

Developing international customs and tax cooperation

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

On 2 June 2017, the Commission signed the **EU-China** Strategic Framework for Customs Cooperation 2018-2020 setting out the objectives and priority for action of the EU-China customs cooperation in the coming years. Another important step was the signing of an Agreement on

Cooperation and Mutual Administrative Assistance in Customs Matters with **New Zealand** creating a more secure and trade-friendly environment. Finally on 8 December 2017 the negotiations for a free trade agreement with **Japan** were finalised, which will eliminate 99% of custom duties between the two parties. Customs duties between the EU and Japan account for around EUR 1 billion per year. This agreement is the largest in the history of the European Union (EU) by volume of trade covered.

A selection of the other achievements:

- Azerbaijan gained an informal observer status to the Common Transit Convention working group,
- Ukraine became a contracting Party to the Regional Convention on Pan-Euro-Mediterranean Preferential Rules of Origin,
- CEFTA Additional Protocol 5 was signed. It should enter into force in the first quarter of 2018 and facilitate the trade in goods within the region.

DG TAXUD continued monitoring the implementation of **preferential trade arrangements** protecting the EU's financial interests and ensuring fair trade between the EU and third countries benefiting from preferential trade arrangements. This monitoring of compliance with the rules on preferential origin, also strengthens the Union's credibility when negotiating free trade agreements. In this context, DG TAXUD performed in 2017 monitoring visits to India, Indonesia and Myanmar providing their customs authorities with tailor-made explanations and advice. Monitoring visits were also carried out to Romania, Estonia, Sweden and Italy to identify best practices regarding the implementation of preferential trade arrangements.

As from 1 January 2017, the **Registered Exporter system** (REX) facilitates the certification of origin of goods applied in the Generalised System of Preference (GSP) of the European Union. It is based on a principle of self-certification by economic operators that were registered in a database by their competent authorities.

The Commission initialled in May 2017 an agreement between the **EU and Norway on administrative cooperation**, recovery assistance and combating fraud in the field of VAT, marking the end of the negotiation process launched in June 2015. The agreement was signed in February 2018.

2. ORGANISATIONAL MANAGEMENT AND INTERNAL CONTROL

This section answers to the question how the achievements described in the previous section were delivered by the DG. This section is divided in two subsections.

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

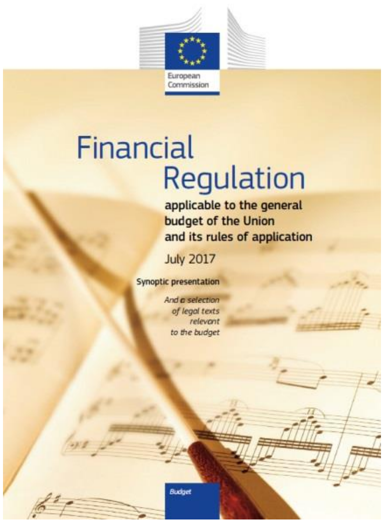
The second subsection deals with the other components of organisational management: human resources, better regulation principles, information management and external communication.

2.1 Financial management and internal control

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

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

- the reports from all DG TAXUD Authorising Officers by Sub-Delegation;
- the reports from Authorising Officers in other DGs managing budget appropriations in cross-delegation;
- the contribution of the Internal Control Coordinator, including the results of internal control monitoring at the DG level;
- the reports of the ex-post audits;
- the opinion of the internal auditor on the state of control, and the observations and recommendations reported by the Internal Audit Service (IAS);
- the observations and the recommendations reported by the European Court of Auditors (ECA).



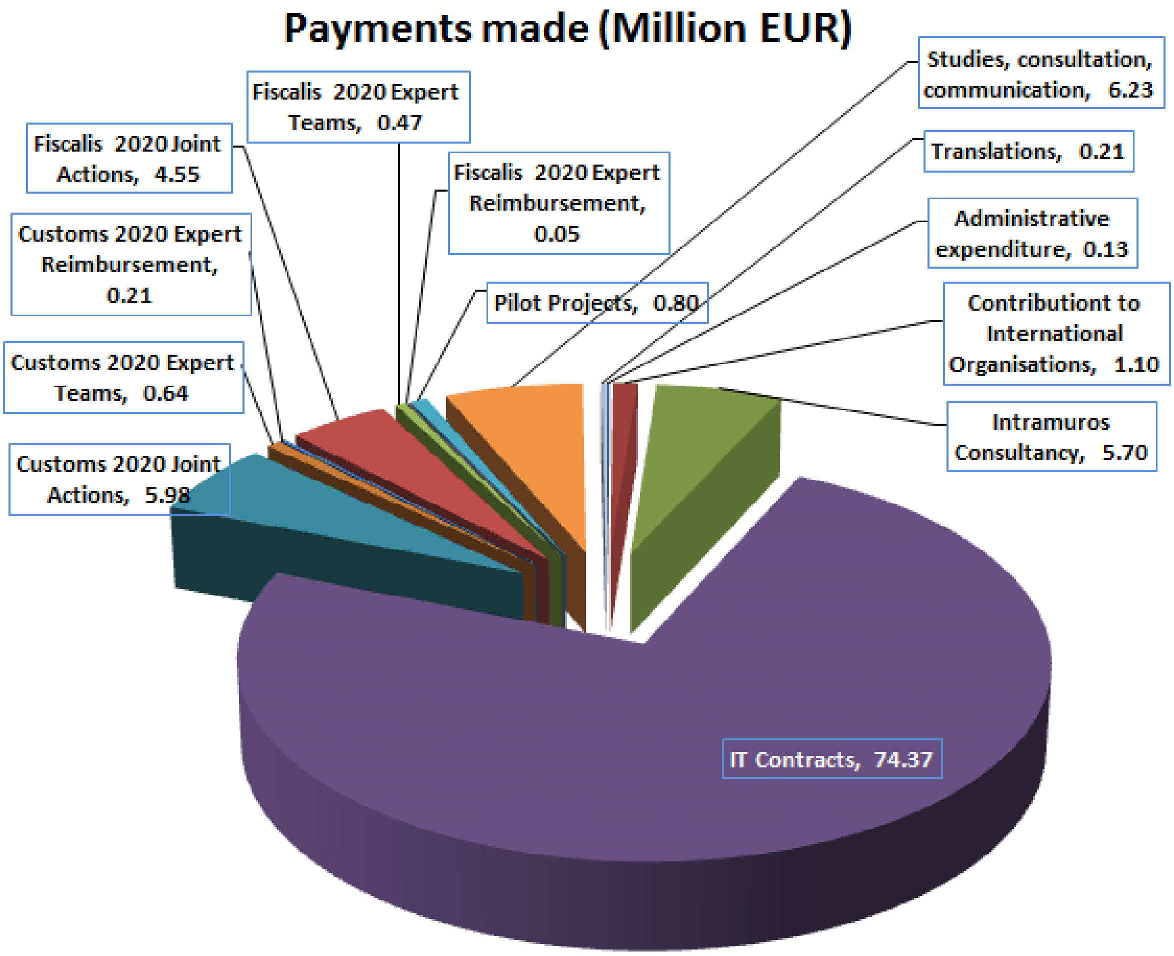
These reports analyse systematically the evidence available and provide a complete coverage of the budget delegated to the Director-General of DG TAXUD.

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

2.1.1 Control results

This section reports and assesses the elements identified by management that support the assurance on the achievement of the internal control objectives[3]. The DG's assurance building and materiality criteria are outlined in the AAR Annex 4. Annex 5 outlines the main risks together with the control processes aimed to mitigate them and the indicators used to measure the performance of the control systems.

DG TAXUD is a policy DG with a relatively small budget. An amount of EUR 100.437.094,11[4] was paid in 2017. The budget implementation is centralised.



[3] 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).

[4] See Annex 3, table 2

A. Expenditure

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

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

  Overall, the value of signed contracts represents about 85,93% of the total paid budget in 2017.

  The largest part of DG TAXUD's operational budget is dedicated to IT expenses (EUR 74.367.767,74 or 74,04% paid in 2017), through several framework contracts concluded between the Commission and IT suppliers. These contracts ensure the on-going work on the trans-European systems, networks and related databases, as well as the IT training tools, in line with the work programmes of the Fiscalis 2020 and Customs 2020 programmes.

  Other contracts related to procurement of different tools or services such as studies, databases, consultations, and communication activities (EUR 6.231.525,88 paid in 2017, i.e. 6,20%), technical and administrative assistance (EUR 5.701.630,23 paid in 2017, i.e. 5,68%).

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

  Overall, the expenditure related to the grants represents about 11,84% of the total paid budget in 2017.

  These grants (EUR 11.896.049,36 paid in total in 2017) represent the second major category of the expenditure in DG TAXUD. They are managed through 6 multi-beneficiary grant agreements (4 under the Customs 2020 programme and 2 under the Fiscalis 2020 programme).

  The 2 most important grants relate to Joint Actions (EUR 10.524.245,85 in total, 10,48% of payments made i.e. EUR 5.977.606,62 for Customs 2020 and EUR 4.546.639,23 for Fiscalis 2020) and aim at developing better coordination between the national administrations in the tax and customs areas. The expenditure in the framework of the Joint Actions consists of grants awarded to the participating National Administrations and reimbursement of costs incurred by experts. The beneficiaries of these grants are the public administrations of the 28 Members States and of 6 applicant countries (Albania, Bosnia and Herzegovina, FYROM, Montenegro, Serbia and Turkey).

  The 4 other grants (EUR 1.112.471 paid in total in 2017, 1,11% of payments made) related to expert teams under Customs 2020 for CELBET (11 Member States), BTI (13 Member States) and Labo projects (11 Member States), and under Fiscalis 2020 for IT collaboration (8 Member States). (*See 1.4 and 2.2 for more details on the expert teams*).

  Finally a small part (EUR 259.332,51 of the paid amount, 0,26%) is devoted to reimbursement of the travel and subsistence expenses of external experts under both programmes Customs 2020 (EUR 207.617,64) and Fiscalis 2020 (EUR 51.714,87).

- **Contributions to international organisations**

  This expenditure relates to the membership of the Union to the World Customs Organisation, and represents about 1,10 % of the total paid budget (EUR 1.103.865,82).

- **Pilot Projects**

  DG TAXUD paid EUR 798.275,80 (0,79% of the total paid budget) for 2 pilot projects: one in the field of digital fiscal education system and tax payments (EUR 263.346,47), and one in the field of capacity building, programmatic development and communication in the context of the fight against tax avoidance, tax evasion and tax fraud (EUR 534.929,33).

- **Administrative expenditure**

  The administrative expenditure managed by DG TAXUD (training, conferences, representation expenses and other miscellanea expenditure) represents about 0,13 % of the total paid budget (EUR 130.377,71).

  Throughout 2017, DG TAXUD paid EUR 207.601,57 (0,21% of the total budget) for translations made by the Commission's Translation Service (DGT).

B. Sub-Delegations

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

- a cross-sub-delegation from DG NEAR for the implementation of the "travel, accommodation and conference facility (TAC 2017) for the Western Balkan Countries and Turkey" under the Instrument for Pre-accession Assistance (IPA) Transition and Institution Building component. This cross-sub-delegation is a carry-over from 2016. DG TAXUD committed EUR 20.000 in 2017 and paid EUR 6.488,87 for the reimbursement of costs claims for travel and subsistence of experts coming from candidate countries or potentially candidate countries. DG TAXUD’s AOD issued a report without reservation on the status of the files on 29 January 20185.
- a cross-sub-delegation from ESTAT for the use of the Common Communication Network/Common System Interface (CCN/CSI) by ESTAT's application SIMSTAT. This cross-sub-delegation is a carry-over from 2016. DG TAXUD did not receive any commitment appropriations on the cross-sub-delegation budget line, but paid EUR 162.194,93 from the 2015 commitment. DG TAXUD’s AOD issued a report without reservation on the use of these appropriations on 29 January 20186. To be noted that this cross-sub-delegation was changed into a co-delegation from 2017 onwards.

Throughout the reporting period, DG TAXUD **delegated appropriations to** DG GROW for an amount of EUR 75.000 for an evaluation on the implementation of the EU drug precursor legislation. The DG GROW AOD issued a report without reservation on 17 January 2018[7] and without control issues. The report has been submitted to a desk review, which did not result in any observations.

For the 2017 reporting year, the DG TAXUD AOD gave reasonable assurance on the

[5] Ref. Ares(2018)513919

[6] Ref. Ares(2018)513893

[7] Ref. Ares(2018)280833- 17/01/2018

delegated budget managed by DG TAXUD on behalf of DG NEAR and ESTAT. DG TAXUD did not communicate any events, control results or issues which could have a material impact on assurance for the committed and/or paid amounts.

Considering the relatively small amount entrusted to DG GROW, and bearing in mind the report without reservation from the DG GROW Authorising Officer by Delegation, DG TAXUD does not make any additional controls as regards legality, regularity and error rates.

Risk-type / Activities	Grants (e.g. actual costs based, or lump sums, or entitlements)	Procurement (e.g. minor or major values)	*NEI, e.g. Revenues, Assets, OBS ((in)tangible or financial assets & liabilities)*	*ICO indicators available at this level ? (cf. L&R, SFM, AFS, SAI, TFV)*	*Independent info from auditors (IAS, ECA) on assurance or on new/overdue critical recommendations available?*	*Any reservation?*
Procurement		88.541.044,75	32.217.769,95	N	N	
Grants	11.896.049,36		11.989.267,66	N	N	
Other				N	N	
Totals (coverage)	*11.896.049,36*	*88.541.044,75*	*44.207.037,616*	*'overall' RER not meaningful; see overall AER & ARC*	Y	N
ICO-related indicators available at this level ? (cf. L&R, SFM, AFS, SAI, TFV)	Y RER : 1,01% CEC : yes L&R, SFM, AFS, AFS, TFV : OK	Y RER : 0,5% CEC : yes L&R, SFM, AFS, AFS, TFV, SAI : OK	*Clean Mngt Decl.* *SAI = OK* *TFV = yes*	*['overall' RER not meaningful; see overall AER & ARC]*	NA	N
Links to AAR Annex 3	*Overall total = EUR 100,44 M; see Table 2 – payments made*		*Table 4 – assets*	*n/a*	*n/a*	*n/a*

Acronyms used in the above table : L&R : legal & regulatory, RER : residual error rate, SFM : sound financial management, CEC : cost effectiveness of controls, AFS : anti-fraud strategy, SAI : safeguarding of assets and information, TFV : true and fair view, ARC : average recoveries and corrections, AER : average error rate

C. Coverage of the Internal Control Objectives and their related main indicators

- ***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, taking into account the multiannual character of programmes as well as the nature of the payments concerned.

Procurement

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

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

- During the reporting year, 9 exceptions and 6 non-compliance instances were recorded as control failure. None of these had an impact on the legality and regularity of the transactions. All concerned instances relate to formal compliance issues which do not have a negative impact on the budget.
- The correction of the detected erroneous invoicing which involved an amount unduly invoiced, resulted in 31 credit notes for a total amount of EUR 1.978.515,22 *(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 2017. Considering that all corrections take place before the actual payment is made (ex-ante), there are no errors left at the moment of payment. Nonetheless, to calculate the error rate for procurement, DG TAXUD has taken a most conservative approach and estimates the error rate for procurement at 0,50%.

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

Grants

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

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

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

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

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

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

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

Since 2015, the above controls are underpinned by ex-post on-the-spot audits. DG TAXUD targets on-the-spot audit missions in 3 to 5 Member States per year with the intention to cover the majority of the Member States/Candidate Countries till the end of the current program period.

In 2015, on-the-spot audits in three countries (covering six Member States' administrations), were performed. In 2016, one country, covering 2 National Adminstrations was checked. In 2017, two countries (covering four Member States' administrations) were audited.

The final results of the 2016 audit only became available in 2017.

The final results of the countries audited in 2017 are not yet known at the time of writing. The initially calculated error rate for these countries however is well below the materiality threshold (0,36% and 1,87% respectively).

This error rate will most likely either be confirmed or reviewed downwards during the adversarials with the concerned countries and therefore can be used for the calculation of the overall programmes error rates.

Therefore, for 2017, the average weighted error rate was calculated using the results of the 2016 and 2017 on-the-spot audits on the one hand, and, for the rest of the community, the average error rate of the audited countries in 2017.

	Value	Error rate	Estimate of error
Country 1	1.777.710,54	0,24%	2.801,74
Country 2	525.229,30	0,36%	1.895,09
Country 3	956.227,26	1,87%	17.854,52
Total auditted MS	2.659.167,10	0,82%	22.551,35
Rest of the community	9.236.882,26	0,82%	75.923,87
Total payments	11.896.049,36		
Weighted error		**1,01%**	

The above calculation, results in a best possible estimation for grants in 2017 of 1,01%.

In the context of the protection of the EU budget, at the Commission's corporate level, the DGs' estimated overall amounts at risk and their estimated future corrections are consolidated.

For DG TAXUD, the estimated overall amount at risk at payment[8] for the 2017 expenditure is EUR 0,57 M. This is the AOD's best, conservative estimation of the amount of relevant expenditure[9] during the year (EUR 102,08 M) not in conformity with the applicable contractual and regulatory provisions at the time the payment is made.

This expenditure will be subsequently subject to ex-post controls and a sizeable proportion of the underlying error will be detected and corrected in successive years. The conservatively estimated future corrections[10] for the 2017 expenditure are EUR 0,008 M. This is the amount of errors that the DG conservatively estimates to identify and correct from controls that it will implement in successive years.

[8] In order to calculate the weighted average error rate (AER) for the total *relevant expenditure* in the reporting year, the *detected*, estimated or other equivalent error rates have been used.

[9] "*relevant expenditure*" during the year = payments made, minus new pre-financing paid out [plus retentions made by the Cohesion family DGs], plus previously paid pre-financing which was cleared in the reporting year [minus retentions released or (partially) withheld by the Cohesion family DGs)].

[10] Even though to some extent based on the 7 years historic average of recoveries and financial corrections (ARC), which is the best available indication of the corrective capacity of the ex-post control systems implemented by the DG over the past years, the AOD [has adjusted] this historic average. Any coding errors, ex-ante elements, one-off events, (partially) cancelled or waived ROs, and other factors from the past years that would no longer be relevant for current programmes (e.g. higher ex-post corrections of previously higher errors in earlier generations of grant programmes) [have been adjusted] in order to come to the best but conservative estimate of the expected corrective capacity average to be applied to the reporting year's relevant expenditure for the current programmes in order to get the related estimated future corrections.

The difference between those two amounts leads to the estimated overall amount at risk at closure[11] of EUR 0,57 M.

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

Estimated overall amount at risk at closure

DG TAXUD	"payments made" (FY; m€)	*minus* new[a] prefinancing (in FY; m€)	*plus* cleared[c] prefinancing (in FY; m€)	**= "relevant expenditure"[d] (for the FY; m€)**	Average Error Rate (*weighted* **AER**; %)	estimated overall amount at risk *at payment* (FY; €)	Average Recoveries and Corrections (*adjusted* **ARC**; %)	estimated future corrections [and deductions] (for FY; €)	**estimated overall amount at risk *at closure*[e] (€)**
(1)	*(2)*	*(3)*	*(4)*	*(5)*	*(6)*	*(7)*	*(8)*	*(9)*	*(10)*
Programme, Budget Line(s), or other relevant level	as per AAR annex 3, table 2	as per ABAC DWH BO report on prefinancing [f]	as per ABAC DWH BO report on prefinancing [f]	= (2) – (3) + (4)	Detected error rates, or equivalent[g] estimates	= (5) x (6)	*based* on 7Y-avg historic ARC (as per ABAC DWH BO report on corrective capacity)[f]: (X,X%), but *adjusted*[h] to be the *best but conservative* estimate for the current MFF	= (5) x (8)	= (7) – (9)
Procurement	88,54	0	0	88,54	0,5%	0,44			
Grants (joints actions)	11,90	11,33	12,98	13,54	1,01%	0,14			
Overall, total	100,44	11,33	12,98	102,08	0,57%	0,58 mEUR and 0,57% of (5)	0,06%	= 0,008 mEUR; and 0,01% of (5)	0,57 mEUR and 0,56% of (5)

[a] New PF actually paid by out the DG itself during the FY (i.e. excluding any PF received as transfer from another DG)

[b] In Cohesion, the (10%) retention made, which is later released or (partially) withheld by the Commission

[c] PF actually having been cleared during the FY (i.e. their 'delta' in FY 'actuals', not their 'cut-off' based estimated 'consumption')

[d] For the purpose of equivalence with the ECA's scope of the EC funds with potential exposure to L&R errors (*see the ECA's AR methodological Annex 1.1 point 10*), also our concept of "relevant expenditure" includes the payments made, subtracts the new pre-financing paid out *[& adds the retentions made*], and adds the previous pre-financing actually cleared *[& subtracts the retentions released and those (partially) withheld; and any deductions of expenditure made by MS in the annual accounts*] during the FY. This is a separate and 'hybrid' concept, intentionally combining elements from the budgetary accounting and from the general ledger accounting.

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

[f] Differentiated for the relevant portfolio segments at a level which is lower than the DG total

[g] In Shared Management, e.g.: "validated/adjusted error rates", "residual error rates at MS-level, as reported by the MS Audit Authorities and applied/adjusted/projected by the DG", etc.

[h] Even though to some extent based on the 7 years historic average of recoveries and financial corrections (ARC), which is the best available indication of the corrective capacity of the ex-post control systems implemented by the DG over the past years, the AOD has adjusted this historic average (by neutralising the commercial credit notes from this calculation). Any coding errors, ex-ante elements, one-off events, (partially) cancelled or waived Recovery Orders, and other factors from the past years that would no longer be relevant for current programmes (e.g. higher ex-post corrections of previously higher errors in earlier generations of grant programmes) have been adjusted in order to come to the best but conservative estimate of the expected corrective capacity average to be applied to the reporting year's relevant expenditure for the current programmes in order to get the related estimated future corrections.

D. Cost-effectiveness and efficiency

Based on an assessment of the most relevant key indicators and control results, DG TAXUD has assessed the cost-effectiveness and the efficiency of the control system and reached a positive conclusion.

Cost-effectiveness of controls

Procurement

DG TAXUD has produced an estimation of the costs of the three main control processes. A quantitative estimation of the volume of errors prevented and detected is not available though, since it is not possible to quantify the related benefits, other than by the amounts recovered or discovered as wrongly invoiced as a result of these controls (*see previous section*). By consequence, it is not possible to determine the cost-effectiveness of controls by comparing costs with benefits and it is therefore necessary to consider only the efficiency indicators. To do so, DG TAXUD has defined efficiency measures for the controls associated with the three core processes:

- For **procurements**, an estimated EUR 198.845,45[12] were invested in controlling 6 procurement procedures for contracts which had a total value of EUR 138.644.803,01 (0,14% of the total contract value was dedicated to control). Each procurement procedure has an estimated total handling cost of EUR 228.855[13]. The average time to procure[14] was 178 days in 2017.

  The procurement procedures are to a large extent a regulatory requirement which cannot be reduced. These controls are undoubtedly a necessity to eliminate the risks outlined in annex 5.

- Overall, DG TAXUD also has a robust assurance about the management of the procurement procedures because :
  - no 2017 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;
  - there were no complaints from unsuccessful tenderers;
  - the Committee on Public Procurement did not reject any procurement procedure.

- For **payments**, an estimated EUR 520.950[15] were invested in preparing and controlling 1.061 payments worth EUR 100.437.094,11 (0,52% of the total

12 1,44 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.).

13 1,65 FTE, representing the combined efforts of actors in the operational and financial units in preparing and running a public procurement procedure

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

15 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

payment amount was dedicated to control). On average, a financial transaction costs an estimated EUR 491 for processing. The average time to pay in 2017 was 21,64 days[16].

DG TAXUD considers these controls necessary to be in compliance with regulatory requirements.

- For **contracts**, an estimated EUR 396.750[17] were invested in preparing and controlling about 245 contracts (or the amendments of the contracts) worth about EUR 128.775.310,25 (0,31% of the total amount contracted was dedicated to control). On average, preparation and controlling of each contract costs an estimated EUR 1.619.

  DG TAXUD considers these controls are necessary to ensure compliance with regulatory requirements.

- There were no specific ex-post supervisory measures on procurement in 2017.

Overall, during the reporting year the controls carried out by DG TAXUD for the management of the budget appropriations cost EUR 1.116.545,45[18] and are considered cost effective (in particular as the cost of these controls represents only 1,11% of the total payments made).

Procurement control cost effectiveness indicators	Result 2017
Procurement - overall cost of control (% over payments made)	1,11%
Procurement - cost of controls of the evaluation and selection procedure/ value contracted (%)	0,14%
Procurement - related cost of control of payments/ amount paid (%)	0,52%
Procurement - related cost of control of the supervisory measures/ value of transactions checked (%)	NA[19]
Average cost of a payment	EUR 491
Average cost of establishing and managing a contract	EUR 1.619
Average cost of a procurement procedure	EUR 228.855

Grants

The applied ex-ante controls ensure that the errors detected during the desk reviews are very limited. As the control strategy primarily aims to ensure compliance with the regulatory framework, its benefits are not quantifiable. DG TAXUD's grants define the beneficiaries and the amounts directly in the basic act; there are no calls for proposals.

During the reporting year the controls carried out by DG TAXUD for the management and control of the grant programme cost about EUR 260.945, representing 2,19% of the total grant payments. The cost of the ex-post on-the-spot audits in 2017 was EUR 51.438,64 which represents 3,47% of the total value of grants audited.

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

17 2,9 FTE, representing the combined efforts of actors in the financial and operational units involved in contracts preparation, verification and validation

18 A total of 8,09 FTE

19 There were no specific supervisory measures throughout 2017

The total cost of control for grants, i.e. the overall ex-ante controls and the cost of the ex-post on-the-spot audits was EUR 312.585,46 representing 2,63% of payments made. These controls are considered cost effective and essential to ensure compliance with regulatory requirements.

Grants control cost effectiveness indicators	Result 2017
Grants - overall cost of control (%) [cost of control from contracting and monitoring the execution up to payment included/ amount paid]	2,19%
Grants - cost of control ex post audits/ value of grants audited	3,47%

Control efficiency

The control efficiency indicators for procurement and grants are summarised in the below tables.

Procurement control efficiency indicators	Result 2017
Time to pay (days)	21,64 days
Time to procure (days)	178 days

Grants control efficiency indicators	Result 2017
Grants – time to pay	24,85 days

Conclusion

DG TAXUD quantifies the costs for carrying out the controls described in annex 5 on the basis of the resources and inputs required for these controls and estimates their benefits, in so far as possible, 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 covering non-financial gains like: better value for money, deterrent effects, efficiency gains, system improvements, protection from reputational damage and, above all, compliance with regulatory provisions.

In 2017, the overall cost of control was EUR 1.428.929,55 (EUR 1.116.545,45 for procurement and EUR 312.384,09 for grants) representing 1,42% of all payments made and are therefore considered efficient and cost-effective. These controls are essential to ensure compliance with regulatory requirements.

DG TAXUD does not intend to use the possibility in art 66.2 of the Financial Regulation to differentiate the frequency and/or the intensity of the DG's controls. No revisions were considered needed or cost-effective.

E. Fraud prevention and detection

DG TAXUD has developed and implemented its own Anti-fraud Strategy (AFS) in December 2013, elaborated on the basis of the methodology provided by OLAF. Since then, the AFS and its Action Plan have undergone several updates in order to align with the evolution of the DG as well as with the guidelines provided by OLAF or stemming by other relevant sources, such as - for example - IAS and ECA audits.

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

During 2017, specific anti-fraud related actions were carried out in DG TAXUD:

- updated the action plan for 2016-2018 and drafted the action plan for the next period 2018-2020;
- monitoring of the AFS action plan at the end of 2017;
- maintaining of the "red flags" register with indicators pointing to possible irregularities and fraud;
- updated the dedicated intranet website to the implementation of the strategy and lobbyists instructions;
- a test verifying effectiveness of the system used for exchange of encrypted e-mails, resulting in 72% of positive replies.

The various training sessions, workshops and the communication to staff through updated information on the intranet resulted in a significant increase of awareness in the area of anti-fraud and ethics across the DG. So far, overall, about 40 training sessions aimed at the prevention, detection and reparation of fraud were organised, reaching up to 90% of staff in DG TAXUD. In particular, a specific training, which triggered strong interest by DG TAXUD staff, was organised in cooperation with OLAF on serious wrongdoings or frauds subject of their investigations.

The AFS is monitored regularly and proved to be a reliable tool to follow up anti-fraud controls in an effective and efficient manner. The state of implementation of the anti-fraud strategy is reported to the senior management at least once per year. In 2017 all planned actions in the AFS were implemented.

Following the IAS audit report on the performance and coordination of anti-fraud activities in the traditional own resources (TOR) area, a new 2018 AFS has been adopted aiming at:

- ensuring full compliance with the recommendations stemming from the IAS audit on TOR (*see also 2.1.2.*). In particular, the AFS identifies fraud risks in the TOR area and outlines the actions planned to address these risks;
- reinforcing the activities related to fraud proofing of legislation through compulsory consultation of OLAF during the related Interservice Consultations for any new legislative proposal in order for OLAF to proof read the concerned text;
- complying with the numerous requirements recently enforced by OLAF as a result of IAS recommendation in the framework of the IAS audit on TOR. In particular,

these requirements concern anti-fraud awareness activities in the context of the FPDNet, subsequent revision of the Commission Anti-Fraud Strategy (CAFS), the reporting at several levels on fraud risk assessment, etc.;

- highlighting the importance of awareness raising on ethics and integrity, through compulsory trainings for newcomers and presentations by OLAF and IDOC.

F. Other control objectives: safeguarding of assets and information, reliability of reporting

DG TAXUD manages a fair number of intangible assets (EUR 24.890.041,77 in 2017 – *see Annex 3, Table 4*).

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

Following the ex-IAC audit on intangible assets in 2013, DG TAXUD has developed a rigorous methodology to record and keep track of these intangible assets. A comprehensive manual, with clear responsibilities between the IT and Financial units has been elaborated and is followed ever since. Software purchases are recorded in ABAC Assets and declassifications are thoroughly documented. As required, the state of play regarding the inventory is reported yearly to the OIB[20].

For in-house developed Information Systems, the accounting correspondent and IT units perform a yearly scrutiny of all IT projects according to the procedures laid down in the internal Accounting Manual of DG TAXUD and update the SAP accounting system accordingly.

At the moment of writing, there are no known elements or weakness that would deserve making a reservation.

[20] Ares(2018)588163

2.1.2 Audit observations and recommendations

This section reports and assesses the observations, opinions and conclusions reported by auditors in their reports as well as the limited conclusion of the Internal Auditor on the state of control, 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.

AUDIT ENGAGEMENTS in 2017

In 2017, the following audits, follow-up audits and implementation of action plans took place in DG TAXUD:

AUDITS

1) IAS audit on performance and coordination of anti -fraud activities in the traditional own resources (TOR)

The objective of the audit was to assess whether the anti-fraud activities in the area of TOR are planned, managed and coordinated in an effective manner to ensure the best protection of the Commission's financial interests.

The scope of this audit engagement covered the Commission's anti-fraud activities in the TOR area with a particular focus on customs duties and cigarette smuggling. The audit focused on the activities of OLAF, DG BUDG and DG TAXUD.

The IAS concluded that despite the high risk of fraud in the TOR area, the focus of the Commission Anti-fraud Strategy and the individual AFSs for a Directorate General is primarily on prevention and detection in the expenditure area. This resulted in one very important recommendation (related to roles and responsibilities in the TOR area) and two important recommendations (related to operational cooperation and reflection of fraud in customs in its AFS and Management Plans, with one annexed to the main action plan).

The action plan to the two recommendations have been implemented and is ready for the IAS' review.

Further to the IAS audit on traditional own resources, OLAF concluded its investigation (OF/2014/1274/B1) on the undervaluation of textiles and footwear imported in the UK. This undervaluation has an impact on the revenue part of the budget (*see also the reservation in DG Buget's Annual Activity Report, section 2.1.5*). In line with the IAS audit and OLAF's investigation, DG Budget, DG TAXUD and OLAF are committed to strengthen the co-operation among the services and to achieve a more efficient risk-based approach of TOR control systems aimed at fraud prevention and detection.

2) IAS audit financial management & IT procurement

The overall objective of this audit was to assess the adequacy of the design and the effective implementation of DG TAXUD's internal control system during the IT procurement, contract and financial management processes as well as the effectiveness and efficiency of the related financial circuits.

The scope included IT procurement procedures, framework contracts, specific contracts and requests for actions as well as the related financial transactions performed.

The audit identified a number of areas for improvement, reflected in three important recommendations which relate to the improvement of procurement and contract management guidance, and revision of the financial circuits and the control strategy.

The action plan to the above recommendations have been implemented throughout 2017 and the follow-up has been completed. The Internal Audit Service assessed three important recommendations as implemented. The audit was closed in January 2018[21].

3) IAS audit on IT operations and user access management in DG TAXUD

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

The scope covered the definition of business requirements and their translation in IT operations terms, and the processes DG TAXUD put in place to ensure proper supervision, monitoring and measurement of external provider performance.

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

The related action plan has been issued and will be implemented throughout 2018 and 2019.

4) IAS audit on internal processes supporting trade policy negotiations

The IAS announced this multi DG audit in November 2016.

The overall objective of the audit is to assess if the internal processes supporting trade policy negotiations are effective and efficient across the Commission.

The audit will also assess whether the internal control system provides reasonable assurance regarding various processes supporting trade negotiation activities.

The audit was closed without specific recommendations for DG TAXUD.

5) IAS audit on the management of legislative initiatives under the better regulation package in DG TAXUD

The IAS announced this audit in September 2017.

The overall objective of the audit is to assess effectiveness and efficiency of the internal control system, the risk management and the governance process supporting the EU law design in DG TAXUD, including the compliance of DG TAXUD with the Better Regulation Package.

The audit work is in progress.

[21] Closing note, Ares(2018)581548 dated 31/01/2018

FOLLOW-UP AUDITS

6) Follow up of the audit on external communication strategy

The objective of this audit was to give a reasonable assurance that the sector responsible for Information and Communication and other DG 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 audit resulted in seven very important (two downgraded by IAS to important), six important (one downgraded by IAS to desirable) and one desirable recommendation.

As a result of the follow up all recommendations were assessed by the IAS as fully implemented and the audit was closed in 2017.

7) Follow up of the audit on customs performance measurement system

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 audit resulted in 2 very important and 1 important recommendations.

Based on the results of the follow-up audit, recommendation number 1 "*Performance measurement of committees and groups* (rated Very Important)" and recommendation number 3 "*Customs programmes evaluations and monitoring"* (rated Important) have been adequately and effectively implemented.

The only outstanding part of recommendation 2 was the bi-annual reporting to DG TAXUD senior management on KPIs which has been implemented.

This audit was closed in 2017.

SUMMARY OF THE STATE OF RECOMMENDATIONS' IMPLEMENTATION

AUDIT/FOLLOW-UP AUDIT (FU)	RECCOMENDATIONS		
	ISSUED	IMPLEMENTED	PENDING
Performance of Anti-Fraud Activities in the Own Resources, Customs and Taxation	3	2	1
Financial Management & IT Procurement	3	3	0
IT Operations and User Access Management	4	1	3
External Communication Strategy (FU)	14	14	Audit closed
Customs Performance Measurement System (FU)	3	3	Audit closed
TOTAL	**27**	**23**	**4**

EUROPEAN COURT OF AUDITORS (ECA)

CURRENT FINANCIAL YEAR: New reports and recommendations

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

European Court of Auditors (ECA) Special Report 19/2017 – Shortcomings on import procedures

On 5 December 2017, the Special Report 19/2017 entitled *"Import Procedures: Shortcomings in the legal framework and an ineffective implementation impact the financial interests of the EU"* was published. This report, for which DG TAXUD was Lead DG, contains several important recommendations for DG TAXUD, in particular in relation to the next Multiannual Financial Framework.

The Commission is asked to strengthen support for national customs authorities given their important EU-level role in the MFF. Furthermore, in the context of the preparations for the next MFF, the Commission shall ensure contribution of future EU programmes to the financial sustainability of European customs information systems.

Other recommendations concern the request to amend customs legislation in 2018 as regards the indication of the consignor in customs import declarations as well as improvements to the surveillance database in terms of customs procedure 42. Finally, the ECA issued a recommendation on follow-up checks in Member States on Binding Tariff Information (BTI) decision compliance. A total of eight recommendations were attributed to DG TAXUD as lead, three of which were rejected, necessitating therefore the follow-up to be assured on five recommendations. (*See also the paragraphs on Common Customs Tariff under objective 1.3 Well-functioning and modern Customs Union.*)

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

1) ECA Special Report 01/2010: Simplified customs procedures for import

One recommendation open: Given the entry into force of the Union Customs Code [Regulation (EU) No 952/2013)] the follow-up activities are limited to a single remaining recommendation supporting Member States' transition to process simplified procedures. Despite the fact that several systems are gradually deployed in 2017, the full roll-out as described in the UCC work programme is envisaged for end 2021 only.

2) ECA Annual Report 2013

One recommendation open: An important recommendation required 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. The new version of the Customs Audit Guide (2014) sets out risk indicators for the post-clearance audits. Changes to the existing database are planned to be fully operational by 2018.

3) ECA Annual Report 2014

No open recommendations: The remaining open recommendation as regards the improvement of guidance on post-clearance audits was followed up by a project group of Member States whose results enabled the Commission to consider this recommendation as closed.

4) ECA Special Report 02/2014: preferential trade agreements

No open recommendations: The last remaining recommendation issued by ECA was closed in the course of the year due to the fact that the Registered Exporter (REX) system became operational with a first set of GSP beneficiary countries already using the application.

5) ECA Special Report 24/2015: Fraud and Irregularities

Two recommendations open: The implementation of still pending recommendations to DG TAXUD stemming from this report advanced well. The adoption of a legislative proposal (*COM(2017)706)* modifying Council Regulation No 904/2010 in November 2017 lays the basis for reinforcement of administrative cooperation.

At the same time, the Commission presented a report on existing methodologies to estimate VAT fraud and carried out visits to 10 Member states for the preparations of the Eighth Report under Article 12 of the Regulation on VAT collection and control procedures.

A slight delay in the development of the Transaction Network Analysis (TNA) tool prevented the Commission from closing the related recommendation issued to DG TAXUD under this Special Report as well. Since October 2016, a project group of the Council Working Party on Tax Questions is preparing the IT-development of a transaction network analysis tool for Eurofisc. Work on this tool is ongoing and it will become fully operational in 2018. Consequently, the remaining open recommendations may be closed in the course of the year 2018.

6) ECA Annual Report 2015

One recommendation open: The Court invited the Commission to facilitate the recovery of customs debt by Member States where the debtor is established in a third country. The Commission will in due course examine and assess the effectiveness of the new Union Customs Code in this respect.

2.1.3 Assessment of the effectiveness of the internal control systems

The Commission has adopted an Internal Control Framework based on international good practice, aimed to ensure the achievement of policy and operational objectives. In addition, as regards financial management, compliance with the internal control framework 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.

In the context of the Internal Control Framework revision, during the last months of 2017, extensive consultations of all involved actors took place in order to define new framework. This new framework, which foresees 35 indicators, comes into force as of 1 January 2018 in pursuance of the Management Plan 2018, to which it will be annexed.

Therefore, the 2017 Internal Control assessment is based on the current framework, as it was for the last years.

It has to be noted that the current revision of the Internal Control Framework is an exercise involving all the Commission services which provides the DGs with a transitory period until next year to fulfil the requirements of the new framework.

Notwithstanding this flexibility, DG TAXUD intents to be amongst the first services of the Commission in finalising the exercise in order to be fully compliant for 2018. DG TAXUD annually assesses the effectiveness of its key Internal Control Standards (ICS). The assessment relies on a number of monitoring measures and sources of information.

The 2017 review of the internal control system was based on desk review, followed by a screening exercise of the 16 internal control standards involving the relevant horizontal units responsible for the implementation of the ICSs.

In conclusion, the internal control standards are effectively implemented.

ICS 10 Business Continuity (BC) (requirement 20) which required further actions in 2017, is now considered fully implemented: DG TAXUD Business Contimuity Plan was transferred into Secretariat General's template, the project of the Cabinet Relocation Plan was accepted and some practical aspects are being finalised (taking into account foreseen reorganisation in 2018). In addition, the Intranet page was updated with BC related leaflets, and recent BC event which took place in 2017 forced amplified activities in this respect.

ICS 12 Information and communication (requirement 24, 25) considered partly implemented in 2016, can be accepted as fully implemented as the only outstanding action, i.e. development of the Internal Communication Strategy for DG TAXUD was completed in 2017.

Each year a risk assessment exercise is carried out as part of the Management Plan process and in accordance with DG BUDG's guidance. The risk identification and assessment exercise also included the analysis of possible fraud risks. The objectives and actions set in the DG's Anti-fraud strategy were based on the results of these fraud risk analysis.

In order to follow *IAS' audit on the performance and coordination of anti-fraud activities in the traditional own resources area*, DG TAXUD ensured that objectives regarding prevention of fraud in the customs area are clearly reflected in its Annual Risk Assessment.

As reported in Section 2.1.2, the audit recommendations are regularly monitored. The outstanding audit issues do not relate to controls concerning the implementation of the Commission's budget.

The declarations of the Authorising Officers by sub-Delegation and the Internal Audit Service's limited conclusion[22] confirming that the internal control systems audited are effective, do not raise any assurance implications.

Following the adoption of the Communication on the Revision of the Internal Control Framework[23], the Resources Director was nominated as Director in charge of Risk Management and Internal Control (RMIC) for DG TAXUD.

DG TAXUD has assessed the internal control system during the reporting year and has concluded that the internal control standards are implemented and functioning as intended.

[22] Ares(2018)898238 dated 15/02/2018

[23] C(2017)2373 final, 19.4.2017

2.1.4 Conclusions as regards assurance

This section reviews the assessment of the elements reported above (in Sections 2.1.1, 2.1.2 and 2.1.3) and draws conclusions supporting the declaration of assurance and whether it should be qualified with reservations.

The information reported in the above sections 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.

It was demonstrated that the combination of substantial ex-ante controls (both technical and financial) performed during the tendering procedures together with the extensive ex-ante controls of financial transactions and ex-post on-the-spot audits ensures that the assigned resources have been used for their intended purpose and in accordance with the principles of sound financial management. The total control cost of EUR 1.116.545,45 for procurement and EUR 312.384,09 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.

Concerning the overall state of the DG's control system, the DG generally complies with the Internal Control Standards. The chosen in 2017 prioritised standards and requirements for further monitoring (business continuity) and derived actions clearly reflected and responded to the current risk environment of the DG.

Furthermore, it was demonstrated that the results from the audits performed in the past years, their recommendations and follow-ups support the above mentioned reasonable assurance about the correct use of the resources. Any on-going issues do not relate to controls concerning the implementation of the Commission's budget. The Internal Auditor's overall opinion on the year 2017 concluded that the internal control systems audited are effective.

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

In summary, the information reported in part 2 covers the entire budget delegated to DG TAXUD in 2017. It represents a true and reliable view of the resources used for the intended purposes and in accordance with the principle of the sound financial management. The information reported in sections 2.1.1, 2.1.2 and 2.1.3 does not result in any major issues deserving a reservation:

- The amount at risk for the total expenditure managed by DG TAXUD is below the materiality level.
- No critical issues were highlighted by internal or external auditors;
- No issues were pointed out by the Authorizing Officers by Sub - delegations;
- Full compliance with the Internal Control Standards.

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

Overall Conclusion

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

2.1.5 Declaration of Assurance

DECLARATION OF ASSURANCE

I, the undersigned,

Director-General of Directorate-General Taxation and Customs Union

In my capacity as authorising officer by delegation

Declare that the information contained in this report gives a true and fair view[24].

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

This reasonable assurance is based on my own judgement and on the information at my disposal, such as the results of the self-assessment, ex-post controls, the limited conclusion of the Internal Auditor on the state of control. [the observations of the Internal Audit Service - delete this if not applicable] [and the lessons learnt from the reports of the Court of Auditors - delete this if not applicable] for years prior to the year of this declaration.

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

Brussels, 28 March 2018

(signed)

Stephen Quest

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

2.2 Other organisational management dimensions

The examples of efficiency and economy mentioned in the 2017 Management Plan have been established.

Customs and Fiscalis 2020 expert teams

The 5 Expert Teams that were created in 2016 started to produce their outputs in the taxation area (IT collaboration and exchange of information) and in customs (laboratories, Binding Tariff Information, operational cooperation at the EU Easter and South-Eastern land border). One additional expert team was created in the area of taxation, continuing the work on IT collaboration. All the Expert Teams are active between 14 and 24 months. Some of the most relevant deliverables were produced by the CELBET Expert Team for border management between 11 Member States of the eastern and south-eastern land border. CELBET carried out a mapping and analysis of border crossing points (BCPs) and developed instructions and methodology for evaluating the level of smuggling (random controls). The CLET Expert Team, in the area of customs laboratories, pools expertise and equipment in a network (Meta-laboratory) to analyse samples and to share analytical results. One Member State, not having analytical capacity in a specialised area, can submit a request for analysis to another Member State who will provide the analytical result for free.

These expert teams allowed for resource reallocation of both Commission and programmes' beneficiaries (national customs or tax administrations) particularly towards larger and better integrated EU projects with a more effective and economic achievement of the set programmes' objectives.

Synergies in the area of IT

During 2017, DG TAXUD continued efforts towards achieving synergies with other Commission services, in particular:

- the developments in the customs' Uniform User Management and Digital Signature (UUM&DS) application should provide the basis for a corporate service in the future,
- the internet connectivity project aiming at using the corporate Internet access instead of the one specific to DG TAXUD is now in its last steps,
- the preparatory steps for a future IT Security Operations Centre for the DG TAXUD infrastructure services where a realistic objective is to reach an agreement in 2018,
- the launching of the Due Diligence work in preparation of a future consolidation of DG TAXUD Data Centres with the corporate Commission Data Centres,
- the Search Engine of the UCC CLASS application was further developed. A first example of the upcoming corporate search engine,
- A new initiative was launched to reuse a common solution for System to System communications (TAXUD Access Point in DG TAXUD's infrastructure) based on a solution (eDelivery building block) developed in the context of the Connecting Europe Facility programme of DG CNECT. The eDelivery building block is maintained and provided by DG DIGIT. The future DG TAXUD Access Point for System to System communications will be used, for example, for the

communications with traders in the context of the Import Control System (ICS2) project.

2.2.1 Human resource management

The HR Modernisation project implemented in 2017 according to the Communication on Synergies and Efficiencies of April 2016 has fundamentally changed the way that HR services are delivered. General policy is developed by the corporate HR Centre of Expertise (CoE) and HR services are now delivered by the **Account Management Centres** (AMC) inside DG HR. Each DG has an HR Business Correspondent (BC), responsible for defining HR strategy and taking HR decisions, in consultation with the management of the DG, as well as ensuring that the DG gets the HR service it needs, in cooperation with the AMC. DG TAXUD is supported by AMC1 which serves the following group of DGs: COMP, ECFIN, EMPL, FISMA, GROW, TAXUD & TRADE.

In 2017 the DG improved the **gender balance** at senior and middle management level, appointing one new female director and three female Heads of Unit. Also, an important functional reorganisation has been prepared for early 2018 strengthening the digital dimension of the DG by creating a dedicated Directorate. This reorganisation will also group all Customs activities in one single Directorate, while the horizontal customs and taxation international activities will be integrated in the horizontal "International and General Affairs" Directorate reinforcing the strategy with regard to international matters of DG TAXUD's policies. This reorganisation has been prepared through an inclusive process involving strong communication actions, open discussions towards and with staff. Besides the changes at management level and linked to the growing importance of the digital implementation of political decisions, the DG has also seen an important increase in the level of intramuros personnel which is likely to continue in the coming years.

In order to better **understand the needs and motivation of staff** with regard to career, mobility and talent management, DG TAXUD organised in 2017 a survey among its AD staff. Based on its outcome it was proposed to set up of a number of focus groups on e.g. internal mobility within DG TAXUD, support needed to achieve a rewarding career, reasons for not applying for a management position despite being interested and meeting the criteria.

The 2016 staff survey demonstrated that the perception of **wellbeing** from DG TAXUD staff further decreased. DG TAXUD's management has therefore reinforced the actions already taken after the publication of the results of the 2014 survey amongst others building further on the corporate fit@work action. This includes awareness raising on ergonomics and exercise at the workplace, as well as the setting up of a dedicated wellbeing room.

In 2017 the DG actively promoted training activities and almost fully consumed its training budget. The DG also continued in 2017 and will continue in the coming year to communicate in a proactive way and to involve DG TAXUD staff through open forums for an in depth reflection process on different topics (*see reorganisation process*).

2.2.2 Better regulation

In 2017, DG TAXUD continued to prepare impact assessments and evaluations following the revised horizontal guidelines for better regulation. During the year, the DG faced increased pressure on the timeline of the individual projects in order to honour commitments made by policy decision makers. Where in a limited number of cases certain standard procedures outlined in the Better Regulation Guidelines could not be met, requests for exemptions were submitted and agreed by the respective authorizing officers. The DG is committed to further reinforce the commitment to the principles of better regulation and improved important aspects in stakeholder consultations like the number of languages in which the stakeholders were consulted or the length of consultations.

In 2017, DG TAXUD also started contributing to the IAS Audit on the management of legislative initiatives under the better regulation package.

DG TAXUD finalized in 2017 two **retrospective evaluations of legal instruments**, gradually improving on the performance indicator on the share of TAXUD acquis evaluated in the previous five years (*see Annex 2.B*). Out of seven impact assessment reports submitted for independent quality control, the Regulatory issued positive opinions for three first submission. The other four reports were revised substantially to integrate the suggestions for improvement of the Board at the first hearing and subsequentially received a positive opinion for their second submission (*see also the standard performance indicator relating to impact assessment reports in Annex 2B*).

An overview of the evaluations performed is available in annex 9.

The **evaluation on VAT administrative cooperation** was taken on board in the impact assessment and proposal to amend the current Regulation (EU) No 904/2010 (*see annex 9*). Member States' opinion is overall positive with the vast majority of them considering that the framework provided by the Regulation has contributed to improve administrative cooperation between them and is essential in the proper functioning of the EU VAT area. The instruments most appreciated included the exchanges of information on request, automated exchanges (VIES), cooperation under Eurofisc and multilateral controls. The reported drawbacks pointed to the late replies to requests for information – in 33% of cases - as the most hindering factor, despite the general positive trend. Another weakness of the framework was the accuracy of data exchange through VIES, where concerns were expressed by both the Member States and businesses. Dealing with administrative cooperation was reported burdeonsome by the Member States, which however predominantly stem from the sheer number of instances of cooperation, requiring administrative resources to handle them. All in all however, the Member States found the framework provided by Regulation (EU) No 904/2010 as an effective and efficient tool, with costs incurred by those participating in administrative cooperation proportionate to the benefits achieved, although no precise figures on the fraud prevented were reported by the administartions. All administrative cooperation instruments were deemed relevant, however development of new instruments or new ways of cooperating seems to be needed. For example, under the Eurofisc umbrella, Member Sates would particularly support the possibility to implement a joint processing of VAT data. There also seems to be room to further develop automated exchange of information or access to new sets of data, such as customs or car registration information. However, the Member States did not express a strong desire to cooperate closer with other EU law enforcement authorities, such as Europol or OLAF.

The **evaluation of Directive 2010/24/EU on mutual recovery assistance** concluded that the EU legislation and framework for tax recovery assistance has facilitated tax recovery assistance between the EU Member States. In order to guarantee the efficiency and effectiveness of mutual recovery assistance, Member States should strengthen their internal tax recovery systems and deploy sufficient resources to deal with recovery assistance requests. Improving different (legal and technical) aspects of the functioning of the system may still be considered with the Member States and other stakeholders, including taxpayerrs. More communication to explain and promote this legislation would contribute to increase tax compliance and respect of taxpayers' rights. As a consequence of the international development of exchange of information, recovery assistance between the EU and third countries will become a more prominent issue.

Following analytical work performed in 2017, a report analysing the performance of the common fiscal marker will be published in 2018. An evaluation of the Directive on fiscal marking of gas oil and kerosene is still ongoing and will be published in 2018.

2.2.3 Information management aspects

DG TAXUD continued to ensure that appropriate processes and procedures are in place for a secure and efficient document management compliant with the e-Domec principles.

DG TAXUD is coordinating DG for the "PANA" Committee, the European Parliament Investigating Committee set up in the wake of the Panama Papers leaks. At the same time, DG TAXUD is confronted with a large number of access to document requests. Frequently, these concern a very large number of documents and/or documents originating from third parties on which these parties need to be consulted. In 2017, DG TAXUD replied to 257 requests for access of documents releasing around 640 documents.

2.2.4 External communication activities

In 2017, DG TAXUD has considerably extended the portfolio and scope of Communication actions towards both internal and external stakeholders and the general public.

These included, amongst others:

- **Europa Website**: a large number of webpages have been (re)drafted (e.g. new webpages on the VAT proposals, Cultural Goods proposal, Customs Decisions system, EU list, etc.). The DG has also taken the first steps towards a revision of the whole DG TAXUD website, in the framework of the Digital Transformation exercise.
- **Press and Media material**: In 2017, outreach activities in the Member States were organised during visits of senior management in Bulgaria, Finland, Italy, Spain, and Slovakia. New media materials were created such as videos on VAT and a number of factsheets and leaflets (VAT, Digital Taxation, Cross Border Rulings) in addition to the publishing of press releases and memos. On 5 September 2017, DG TAXUD organised a VAT Film Night presenting to an audience of over 100 MEPs, journalists, representatives of NGOs and fiscal attachées two films about VAT

fraud made by Danish and Dutch journalists. The screening was followed by a discussion with the journalists and the commissioner.

- **Social Media presence**: a very actively managed Twitter account, including creative communication campaigns on different topics (VAT, Cultural Goods, Digital Tax, Fair Taxation, etc.) as well as joint campaigns with the Corporate social media team of DG Communication, resulting in a considerable increase (56%) in Twitter followers and in particular high engagement of 12.000 retweets, replies and likes in the last quarter of the year.
- **Internal Communication**: a number of new initiatives have been developed to increase transparency and two-way communication between management and staff as well as staff engagement. Examples are Open Forum, Communication Fair, Housewarming event, lunchtime talks and newcomers' welcome package.
- **Corporate communication and the corporate campaigns:** DG TAXUD has worked closely together with central services, in particular DG COMM's Social Media and Audio-visual teams, to provide information on a number of Taxation and Customs related topics to be communicated through corporate channels. DG TAXUD was consulted for communication on several actions in relation to the 10 political priorities. Examples are the communication actions on a proposal for new VAT rules for e-commerce (Digital Single Market) and communication on "Fair Taxation" initiatives, such as the Common (Consolidated) Corporate Tax Base (Internal Market). We are also working closely with DG COMM on the upcoming corporate EU Protects campaign, which in 2018 we will compliment with the communication activities to celebrate 50 years of the Customs Union.

The main communication actions in 2017 concerned the following policy files:

- **Fair Digital Taxation** – pre-proposal, launch and legislative stage support;
- **Legislative Proposals on VAT** – launch and legislative stage support (three videos, website, press-material, fact-sheets, social media campaign, film-night with a screening of a documentary on VAT fraud);
- **Package on e-Commerce** – post-adoption communication actions (videos, website, press-material, fact-sheets, social media campaign);
- **Common EU-list of non-cooperative jurisdictions for tax purposes** - (videos, website, press-material, fact-sheets, social media campaign);
- Preparations to Celebrate the **50 years of EU Customs** – annual communication campaign;
- **TAXEdu** – Communication around the online portal to educate young citizens on Taxation issues (press-material, launch-event, social media campaign);
- Launch of the **Customs Decisions System**.