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European Commission

Annual Activity Report 2022

DG TAXATION AND CUSTOMS UNION

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TAXUD IN BRIEF

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

We uphold the principle of fair taxation and strive for a simpler tax environment, in which businesses can innovate and grow. Modernising our tax policies and fighting tax abuse is a key way to boost public finances and stimulate investment, in an equitable manner.

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

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

DG TAXUD works in partnership with EU Member States and businesses in delivering on all of our policies and priorities. We also work with third countries and international organisations to make our above-mentioned objectives a reality, influence international standards and reinforce the implementation of EU trade policy. We support the ambitious reform of the World Customs Organisation, with a view to improving the green and digital nature of customs. We promote better and closer cooperation between Member States through our funding programmes. DG TAXUD manages the Customs and Fiscalis programmes, as well as the Customs Control Equipment Instrument, through direct management.

In 2022, DG TAXUD reported to Paolo Gentiloni, Commissioner for Economy, and the Director-General was Gerassimos Thomas.

EXECUTIVE SUMMARY

This annual activity report is a management report of the Director-General of department Taxation and Customs Union to the College of Commissioners. Annual activity reports are the main instrument of management accountability within the Commission and constitute the basis on which the College takes political responsibility for the decisions it takes as well as for the coordinating, executive and management functions it exercises, as laid down in the treaties ([1]).

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

A. Key results and progress towards achieving the Commission’s general objectives and department's specific objectives

In 2022, **DG Taxation and Customs (TAXUD)** celebrated important breakthroughs in our policy area, as agreements were reached on key initiatives of high political priority. We also advanced on our ambitious tax and customs agendas, while providing active support to the Commission’s crisis response, in the face of Russia’s aggression in Ukraine.

In December, Council and Parliament reached political agreement on the **Carbon Border Adjustment Mechanism (CBAM)** - a major step in delivering the Commission’s Green Deal. The agreement came after months of intense negotiations, which DG TAXUD supported at every stage**.** CBAM is a central part of the Fit for 55 package and will put a fair price on the carbon emitted during the production of carbon intensive goods entering the EU. As such, it will reduce the risk of carbon leakage and encourage cleaner industrial production in non-EU countries. CBAM is the first of its kind in the world, and DG TAXUD worked closely with international partners to promote it as an example to follow. We also invested heavily in the negotiations on the **revision of the Energy Tax Directive** – another core component of the Green Deal and an essential measure to align the taxation of energy with the EU’s climate goals.

In the field of **corporate taxation**, there was also an important success-story at the end of 2022, when Member States agreed on a minimum effective tax rate in the EU. The **Pillar 2 Directive**, proposed by the Commission less than a year earlier, will ensure that large multinational companies have an effective tax rate of at least 15%. This delivers on the EU’s commitment to implement the global agreement on corporate tax reform as quickly as possible. The EU is now set to become the first region in the world to introduce a common floor for corporate tax rates, thereby serving as flagbearer for fair taxation globally.

In parallel to supporting the Pillar 2 negotiations at EU-level, in 2022 DG TAXUD invested heavily in the OECD’s technical work on the reallocation of taxing rights – so-called **Pillar 1** of the global reform. This work should result in an international Multilateral Convention on Pillar 1 in 2023, after which the Commission will propose EU legislation to implement the provisions. Once implemented, the two pillars of the global reform will give national governments access to more stable and equitable corporate tax revenues, while allowing businesses worldwide to enjoy greater tax certainty and fairness.

Beyond the global reforms, DG TAXUD also launched work to re-shape Europe’s business tax environment, so that it is simpler for business and more conducive to growth. We started the groundwork on the much-anticipated **BEFIT** proposal, due in 2023. BEFIT should substantially reduce compliance costs and red tape for companies and encourage productive investment and entrepreneurship in the Single Market. It has also been identified as a possible new own resource for the EU budget. It has also been identified as a possible new own resource for the EU budget. In May 2022, we proposed new measures to tackle the debt-equity bias in taxation (**DEBRA**). This proposal aims to help businesses to better access the financing they need to grow. We also began preparations for a new proposal on withholding tax procedures (**FASTER**), which will tackle one of the major tax obstacles that cross-border companies face in the Single Market today.

Also with a view to simplifying and modernising the tax environment in Europe, DG TAXUD put forward a major package of proposals in the area of **Value Added Tax (VAT)** in December 2022. The **VAT in the Digital Age** package seeks to overhaul the current VAT rules and make better use of digital solutions to enhance compliance and fight fraud. The package is fully aligned to the EU's digital agenda, using linked-up digitalised processes to secure public revenues and facilitate cross-border business.

Adapting our tax rules to the digital age was also the rationale behind **new transparency requirements** for crypto-currencies, e-money and high-worth individuals (**DAC 8**), which DG TAXUD put forward in December. This proposal, which builds on the EU's already robust tax transparency framework, will give Member States much more oversight over the proceeds from crypto-currencies, so they can ensure that they are fairly taxed.

In addition to our active legislative work in 2022, DG TAXUD launched a major reflection process which should help to re-orientate taxation policy for the future. We combined analytical work with stakeholder outreach activities, to examine how best to respond to new and emerging trends and challenges in taxation. Our **Annual Report on Taxation, Tax Trends Report** and **VAT Gap study** all fed into this reflection process, which cumulated in the first high-level **Tax Symposium** event in November.

In the area of customs, DG TAXUD accelerated the work on the **reform of the Customs Union**, to make it fit the modern, digital economy and to improve its capacity to deliver on multiple, critical tasks. Following the report of the independent **Wise Persons' Group**, set up to objectively assess customs' reform needs, DG TAXUD prepared the impact assessment and carried out consultations, which will shape the proposals due in 2023. We also published an interim **evaluation of the Union Customs Code**, which provided further insights during this preparatory phase, while advancing on the work on **prohibitions and restrictions** and on **risk management**, which will be integrated into the wider reforms.

At international level, we also pushed for ambitious reform of the **World Customs Organisation**, with a view to improving the green and digital nature of customs and ensuring a future-fit body for the global customs community by 2025. The EU's initiative for a holistic WCO reform was successfully integrated in the WCO Strategic Plan 2022-2025 and endorsed by the WCO Council.

Important advances were also made last year with the new, digitally-driven tools, developed to help customs better identify risks and target controls. These systems are also part of the groundwork for the wider modernisation and reform of the EU Customs Union. Notably, the **Single Window Environment for Customs** (EU-SWE) was agreed by Council and Parliament towards the end of the year and entered into force in December. The EU-SWE will ensure quicker and more efficient data-sharing between all border enforcement authorities and will streamline the procedures for clearing goods electronically. DG TAXUD also ensured the smooth operation of the EU's new system for pre-arrival safety and security controls, **ICS2**, with round-the-clock support for traders.

For DG TAXUD's new **Programmes**, 2022 was the first full year of implementation. The **Customs programme** played an important part in helping Member States to address the challenges posed by Russia's war in Ukraine, amongst other things, while the **Fiscalis programme** supported more digitalised taxation, in line with the digital transition. Under the new **Customs Control Equipment Programmes**, over EUR 271 million in EU funding was committed to assist Member States in buying, upgrading and maintaining vital equipment for border posts and customs laboratories. This equipment will improve customs' capacity to detect and prevent safety and security risks and block illegal goods from entering the Single Market.

In addition to our core policy agenda, in 2022 DG TAXUD once again actively contributed to the Commission's response to several unexpected, exogenic **crises**. In the face of Russia's barbaric war in Ukraine, the EU took swift and determined action against Russia and Belarus, while offering unwavering support to Ukraine and its people. DG TAXUD ensured that taxation and customs were used to their full potential in this crisis response. Our actions ranged from coordinating **customs' enforcement of the war sanctions** and **preventing sanctions circumvention,** to launching a new **tax enforcement plan** to crack down on sanctioned Russians and Belarussians. To support Ukraine, we implemented **VAT and duty waivers** for humanitarian goods and worked to **avoid the double-taxation of Ukrainian refugees**. We also accelerated our **pre-accession work** with Ukraine, welcomed them into the Customs and Fiscalis Programmes, and supported their accession to the Common Transit Convention. At all times, we remained vigilant that the vital flow of goods between the EU and Ukraine continued to pass smoothly through customs.

The **energy crisis** that was provoked by Russia's war of aggression also called for quick and decisive action. The Commission was called on to alleviate the spiralling costs for consumers and businesses, without compromising the green transition. In September, as energy prices soared, DG TAXUD made a valuable contribution to the Commission's package of emergency measures to alleviate the worst impacts of the crisis. We proposed a temporary **Solidarity Contribution** from the fossil fuel sector, to ensure fair burden-sharing and to generate revenues that could be redistributed to the most vulnerable in the crisis. This measure was adopted by Member States within weeks.

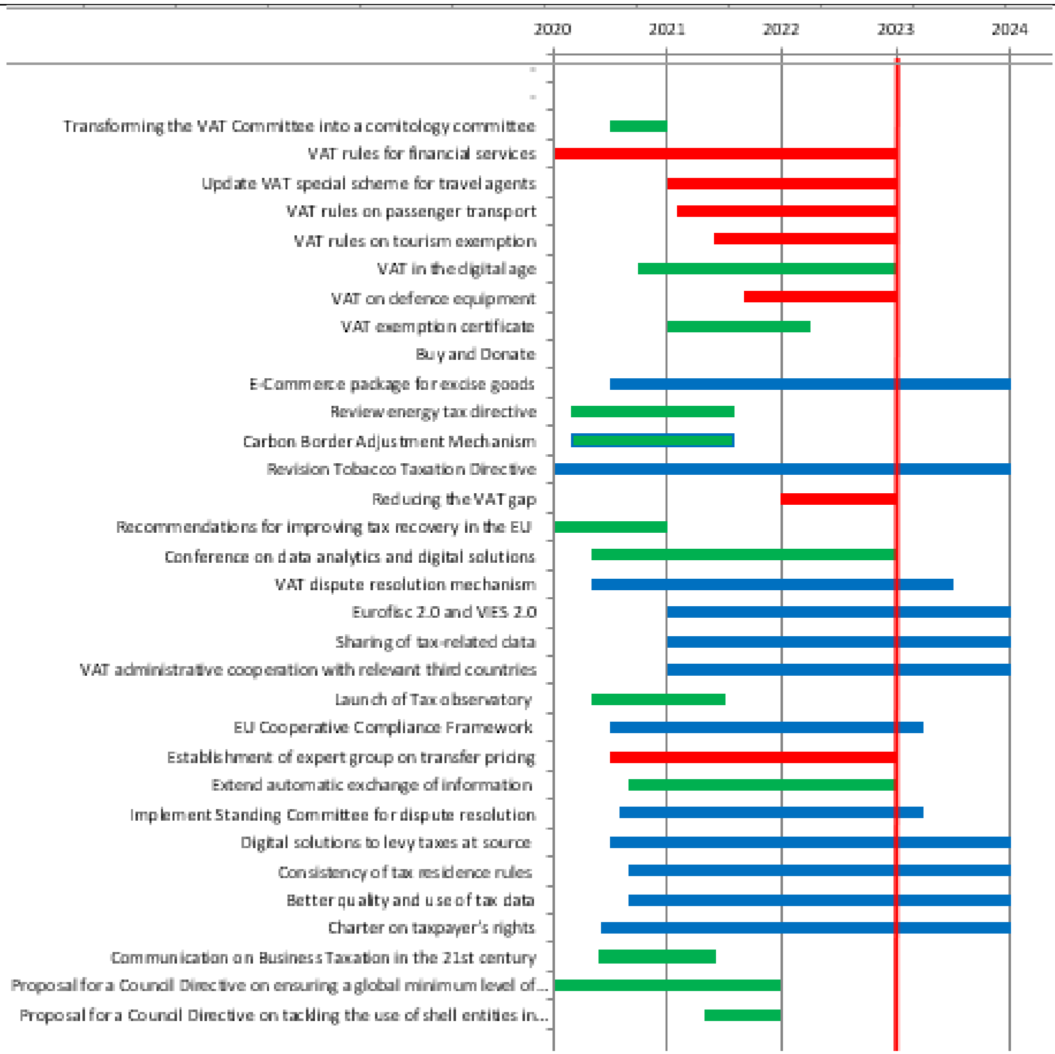
DG TAXUD also supported the work on **REPowerEU** – the Commission's ambitious plan to reduce EU dependence on Russian fossil fuels and to accelerate the move to clean energy. REPowerEU encouraged Member States to use taxation in the work to green their economies, and DG TAXUD provided support and guidance to them in doing so. We assisted with the work on the **Recovery and Resilience Facility (RRF)**, helping Member States with the implementation of national tax and customs reforms. We also liaised closely with DG REFORM, to assess Member States' requests for assistance with their reforms, under the **Technical Support Instrument**.

Finally, DG TAXUD continued to support the EU's highest political priorities in other policy fields in 2022. In particular, we actively worked on initiatives related to the **Security Union,** the **Health Union** and the **Digital Transition**, as well as contributing to the EU's overall agenda for recovery, growth and competitiveness.

Throughout 2022, DG TAXUD supported both our own policies and proposals, and those of the Commission, through an array of **external communication activities**. Through our social media channels, we raised awareness of our initiatives from public consultation stage right through to the final inter-institutional agreement, as well as informing our stakeholders on all aspects of our work that were of relevance to them. DG TAXUD also worked closely with the spokesperson service to ensure clear, timely and relevant information for the press on tax and customs issues, and with DG COMM on wider information campaigns for those impacted by our policies. In 2022, we organised 5 separate events on themes ranging from fair and simple taxation to the green deal, including the high-level **Tax Symposium** in November, which was followed by over 1000 participants.

B. Key performance indicators

KPI 1
Tax Action Plan Implementation Indicators



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Customs Action Plan Implementation Indicators</td>
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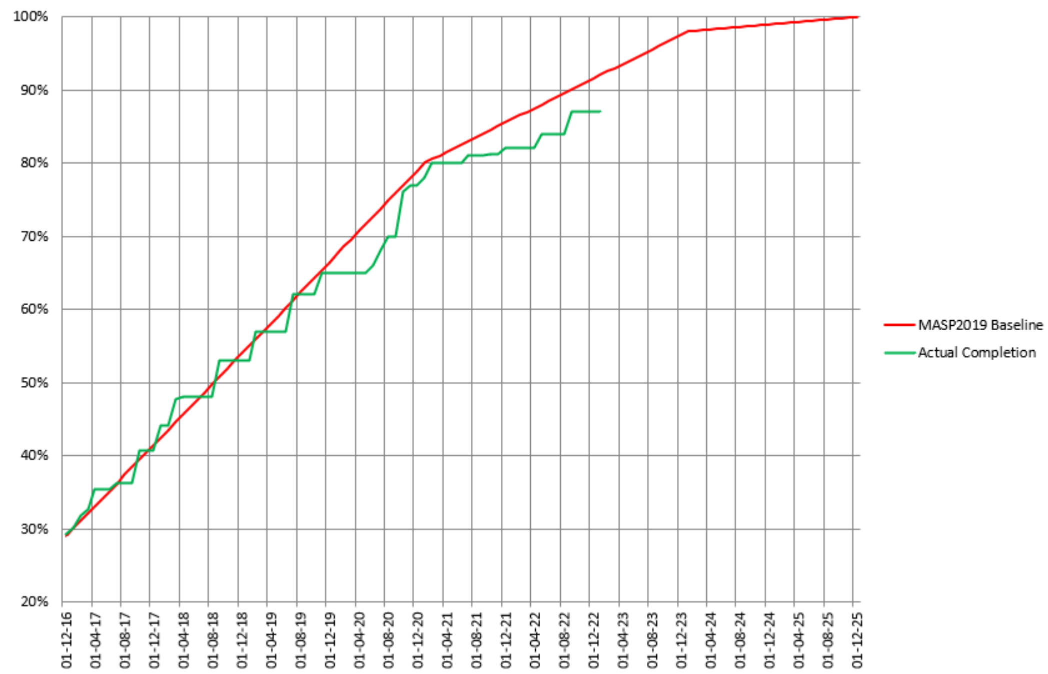

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C. Key conclusions on financial management and internal control

In line with the Commission’s Internal Control Framework DG TAXUD has assessed its internal control systems during the reporting year and has concluded that it is effective and the components and principles are present and functioning as intended. Please refer to annual activity report section 2.1.3 for further details.

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

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

D. Provision of information to the Commissioner

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

1. KEY RESULTS AND PROGRESS TOWARDS ACHIEVING THE COMMISSION'S GENERAL OBJECTIVES AND SPECIFIC OBJECTIVES OF THE DEPARTMENT

General Objective 1: European Green Deal

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

The Green Deal is the flagship initiative of the Von der Leyen Commission: the EU's growth plan for a greener, more sustainable and more resilient future. Europe has committed to being climate neutral by 2050, while boosting EU competitiveness and fairness through a green transition in which no one is left behind.

A major step towards delivering on the Green Deal objectives was the Commission's "Fit for 55" Package in 2021, to which DG TAXUD contributed two important proposals: the **Carbon Border Adjustment Mechanism (CBAM)** and the **revision of the Energy Tax Directive**. These proposals will ensure that the treatment of carbon-intense imports and the taxation of energy products are fully in line with the EU's climate ambitions.

In 2022, we worked to support the Council and Parliament (the 'EU co-legislators') on these two proposals, providing technical support and expertise in the negotiations. In December, a breakthrough **political agreement on CBAM** was reached by EU co-legislators. As an integral part of the EU's Green Deal, CBAM will make sure that the carbon price of imports of specific goods is equivalent to the carbon price applicable to EU domestic products. This mechanism aims to address the issue of carbon leakage, encourage cleaner industrial production in non-EU countries and ensure that the EU's climate objectives are not undermined. The CBAM is a game changer on the global scene, as the first of its kind. Since it was proposed in 2021, many other countries have expressed an interest in introducing their own CBAM and carbon pricing system, as part of their domestic climate policy.

DG TAXUD worked actively with global partners on the issues of carbon mitigation and carbon pricing instruments last year, as well as engaging with stakeholders in the EU and third countries to explain the impact of CBAM. DG TAXUD also promoted international discussions on carbon pricing and carbon mitigation policies in all relevant fora, including the OECD, G7/G20 and WTO. In November 2022, DG TAXUD organised a **panel at COP27** in Egypt on carbon pricing and the role of carbon border adjustment mechanisms, which was one of the most attended Commission events at the conference.

Progress was also made in negotiations on the revision of the Energy Tax Directive in 2022. The revised Directive will update the EU's framework for taxing energy products, by taxing polluting fuels more heavily, while encouraging the use of cleaner fuels. In addition to supporting the climate agenda, the revised Energy Tax Directive should support the EU's goal of reducing dependence on foreign fossil fuels. DG TAXUD will continue to push for quick agreement on this file in Council and the European Parliament in the year ahead.

In 2022, the Commission was called on to react quickly and decisively to the **energy crisis** that erupted, largely as a result of Russia's aggression in Ukraine. The **REPowerEU** plan, presented in May, sought to address the double urgency of ending dependence on Russian fossil fuels while continuing to tackle the climate crisis. DG TAXUD supported the work on this ambitious plan, which included an array of financial and legal measures to accelerate the move to clean energy and reduce the EU's dependence on energy imports. As of part of the REPowerEU plan, we encouraged Member States to consider taxation measures to support the greening of their economies. We provided guidance and explanations to Member States on sustainable ways of using taxation to alleviate the impact of the energy crisis and responded to a large volume of requests for derogations on EU excise duty and VAT rules.

In September 2022, as the energy crisis peaked, DG TAXUD developed a new **Solidarity Contribution** from the fossil fuel sector, as part of the Commission's package of emergency measures to address high energy prices. This temporary and targeted measure aims to ensure fair burden sharing, by using a portion of the excess profits of the fossil fuel sector to redistribute towards those most impacted by the crisis. The Solidarity Contribution was agreed by Member States within weeks of the proposal and applies to fiscal profits starting in 2022 and/or 2023 (depending on national fiscal rules).

The role of taxation in supporting both the green transition and EU energy autonomy were a large focus of the first ever **Tax Symposium** in 2022, which launched a reflection process on the right tax mix for the future. At the Symposium event in November, high-level participants shared their views on how green taxation could be shaped to support the EU's environmental objectives and generate revenues for a just transition. DG TAXUD also organised a panel session on the same topic at the **European Sustainable Energy Week**.

The general consensus is that green taxation must be part of any holistic tax reform, whether at local, national, EU or international level.

In this vein, DG TAXUD continued to provide support and guidance to Member States in their own tax reforms, particular through the **Recovery and Resilience Facility** and **European Semester**. We encouraged them to use taxation to create the right price signals and incentives, while ensuring fair distributive effects, and over half of all Member States have now included green tax measures in their reform plans. We continued to work on improving the set of indicators related to environmental taxation.

In addition, DG TAXUD supported the work in other policy areas to advance the EU's green agenda. We closely followed negotiations on the other climate files, given the inextricable link between the different initiatives in the "Fit for 55" package. We also liaised with other DGs on new environmental measures, such as deforestation-free products, to ensure the rules could be properly enforced at customs.

General Objective 3: An economy that works for the people

Specific Objective 3.1: Develop tax policy actions for a stronger, fairer and more efficient Single Market[2]

DG TAXUD has put the reform of taxation at the heart of its agenda in this mandate, given its importance in delivering sustainable revenues, supporting businesses, and promoting economic growth. In our work for tax reforms – at international, EU and national level – DG TAXUD has focussed on policies and processes that will boost the fairness, effectiveness and transparency of taxation, while making it as easy as possible for taxpayers to comply. We are pushing for the digitalisation of systems and administrations, and the full exploitation of data, as critical components in delivering these results.

I. Implementing corporate tax reform for a fairer system that supports business and investment

The EU agenda for corporate tax reform is built on the twin pillars of of fairness and simplicity, to ensure that taxation supports Europe's economic recovery and long-term growth. Last year, DG TAXUD continued to deliver initiatives in line with the **Tax Action Plan** and the **Business Taxation in the 21st Century Communication,** to make life easier for honest businesses, while making life harder for those that try to cheat the system.

Progressing with the implementation of the ground-breaking **global tax reform**, at both EU and international level, was a high priority in 2022. The two-pillar reform entails the reallocation of taxing rights for the biggest and most profitable multinationals and the establishment of a minimum effective tax rate worldwide. It aims to create a fairer global tax framework, fit for the modern, digitalised economy. Throughout the course of the year, DG TAXUD was heavily involved in the OECD's work to develop technical specifications for the implementation of the two pillars of reform.

At EU level, a year of intense negotiation on the Commission's proposal to implement the **minimum effective tax rate (Pillar 2)** across the Union cumulated in political agreement on the initiative in December. This was a major achievement and allowed the EU to become the flag-bearer in the swift implementation of the globally agreed measure. The Pillar 2 Directive includes a common set of rules on how to calculate the tax rate which large groups of

[2] This chapter includes the activities that were described in the Strategic Plan and the 2020 Management Plan under the headings 3.1 and 3.2 except for the taxation activities (notably excise) supporting other EU policies which are to be found in chapter 3.3 of the 2021 Activity Report

companies must pay per jurisdiction in which they are present. It also includes rules on top-up taxes, which may be needed in order to reach the 15% minimum tax rate. Member States are required to implement the new rules by the end of 2023.

DG TAXUD also invested heavily in the technical work at OECD level on **the reallocation of taxing rights (Pillar 1)**, which should allow a Multilateral Convention to be signed on this issue in 2023. Once the Multilateral Convention has been signed at international level, the Commission will come forward with an approach to implementing this important measure within the EU, in a way that is compatible with the Single Market.

In parallel to the international reform process, DG TAXUD started preparations for important reforms to the EU's rules for business taxation. In line with President Von der Leyen's pledge to create a favourable business environment in our Single Market, to boost EU competitiveness, DG TAXUD began the groundwork on a proposal for a simpler and more modern corporate tax framework in Europe. **BEFIT** will create a common rulebook for calculating companies' tax base, replacing the 27 different national systems that businesses in its scope must deal with today. This will cut red-tape, reduce compliance costs and foster an environment that supports cross-border enterprise, investment and growth. It will also facilitate SMEs that are looking to expand beyond their domestic markets. BEFIT has also been identified as a potential new own resource for the EU budget. In 2022, DG TAXUD continued to work on BEFIT as an own resource, as well as identifying **additional new own resources** to mitigate increases on Member States' contribution to the EU budget. DG TAXUD laid the basis for the forthcoming BEFIT proposal, including by preparing the **impact assessment**, discussing options with stakeholders and Member States and carrying out a **public consultation** on the issue.

In May, DG TAXUD presented a new proposal which also focussed on supporting companies across the EU. The Debt-Equity Bias Reduction Allowance (**DEBRA**) aims to help businesses to access the financing they need, by granting similar tax treatment to equity as to debt. This will enable companies to choose the type of financing that is best for them, without being influenced by tax considerations. Negotiations on this proposal were launched under the French Presidency and continued into the second half of the year but were put on hold at the request of the Czech Presidency.

A healthy and positive environment for businesses also relies on fairness and a level playing field. In this respect, DG TAXUD continued full pace with its work for fairer and more transparent taxation in 2022. New **transparency rules for crypto-assets** (**DAC8**) were proposed in December, to help Member States detect and counter tax fraud, evasion and avoidance in this field. Under the DAC8 proposal, crypto-asset service providers will have to report all transactions of EU-based clients to the national tax authorities, while transparency requirements were also extended to cover e-money, digital currencies and tax rulings for high-worth individuals. In addition, the proposal contains provisions for minimum penalties in cases of serious non-compliance with these rules. DG TAXUD also worked closely with Member States throughout the course of the year on the **implementation of DAC7**, which applies from 1 January 2023 and sets new reporting obligations for digital platform operators.

DG TAXUD also supported the negotiations on another important proposal to tackle tax abuse and aggressive tax planning: **UNSHELL**. This initiative, which the Commission had proposed in 2021, seeks to prevent the misuse of shell companies for tax evasion and avoidance purposes. As a complement to this proposal, DG TAXUD also began the preparatory work on a proposal to address the role of enablers that facilitate the use of complex structures in third countries for the purposes of tax evasion or aggressive tax planning: **SAFE**. In 2022, we worked on the **impact assessment** and **public consultation**, with a view to presenting a proposal in the year ahead.

DG TAXUD also launched the work on a proposal to make withholding tax procedures more efficient and robust against fraud ('FASTER'). In 2022, we began the **impact assessment** and engaged extensively with stakeholders. The **public consultation** generated a lot of interest, with more than 1500 replies. We will present a proposal on **FASTER** in 2023.

Also with a view to ensuring the principles of fair taxation apply beyond EU borders, DG TAXUD continued to support the work on the **EU list of non-cooperative jurisdictions**. In addition to assisting Member States in their outreach to and assessment of third countries, we sought to strengthen the criteria of the listing process and enhance their effectiveness.

II. Upgrading VAT rules, for revenues and growth

The Commission's agenda for simpler, more modern and more resilient tax systems, to support the recovery and promote EU growth and competitiveness, also extends to the area of Value Added Tax (VAT). VAT is an important source of revenue for public budgets. However, as outlined in DG TAXUD's **VAT Gap report**, Member States lost €93 billion in VAT revenues in 2020, partly as a result in weaknesses in the overall VAT system.

Therefore, at the end of 2022, the Commission adopted a major package of proposals to modernise the EU VAT rules – **VAT in the Digital Age**. A **public consultation** and **impact assessment** supported the preparation of the proposals. The aim of this package is to overhaul the EU's VAT system, so that it is better shaped for the digital economy, more robustly protected against fraud, and easier for businesses to comply with. A core component of the initiative is to make better use of data and digitalisation, in order to modernise and streamline procedures for businesses and administrations and better detect abuse. Key elements in the package are a move to real-time reporting and e-invoicing for cross-border businesses, updated VAT rules for certain platforms and the introduction of a single VAT registration across the EU for companies in more than one Member State.

This last measure builds on the EU's rules for **VAT in e-commerce**, which entered into force in 2021. The VAT in the Digital Age package builds on the success of the One Stop Shop system for EU businesses, while improving the Import One Stop Shop for external traders. In 2022, DG TAXUD conducted a **communications campaign** to mark the first anniversary of the VAT in e-commerce rules, with a view to encouraging more businesses to avail of the simplicities of the new system.

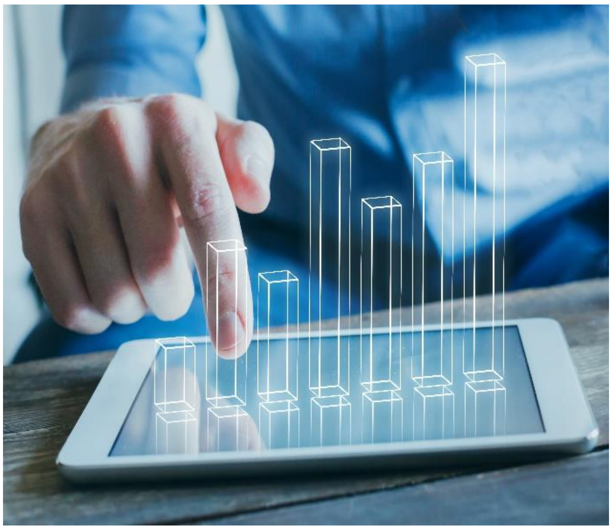
DG TAXUD also continued the work with Member States to explore how the fight against VAT fraud could be further improved, beyond the proposed new measures. The **TADEUS** group, comprised of the heads of national tax administrations and the Commission, is a particularly useful format in this respect. In September 2022, a high-level TADEUS meeting agreed on an ambitious work agenda for the years ahead, including projects on digital security, artificial intelligence and the better use of DAC data. We also supported TADEUS as they launched work on common methodologies to estimate the tax gap, with a particular focus on the VAT e-commerce gap and the gap linked to Missing Traders fraud. This is part of broader work with Member States that looks at estimating the tax gap for various types of taxes, including corporate income tax and personal income tax.

DG TAXUD also launched an **evaluation** of the EU rules on **VAT administrative cooperation** in 2022. The objective was to assess the current tools for cooperation between tax authorities in fighting VAT fraud and to plan a new proposal to enhance these measures. The results of this evaluation will feed into a report on the application of the Regulation on administrative cooperation and fight against fraud in the field of VAT, and a proposal in 2023.

III. Upgrading Excise rules, for revenues and growth

In the area of excise duties, DG TAXUD was extremely active last year, including with work to revise the rules on tobacco taxation and evaluate the current framework for alcohol taxation [see p. 28]. In addition, important work was undertaken to reduce the administrative burden for businesses, in line with President Von der Leyen's vision for the Single Market.

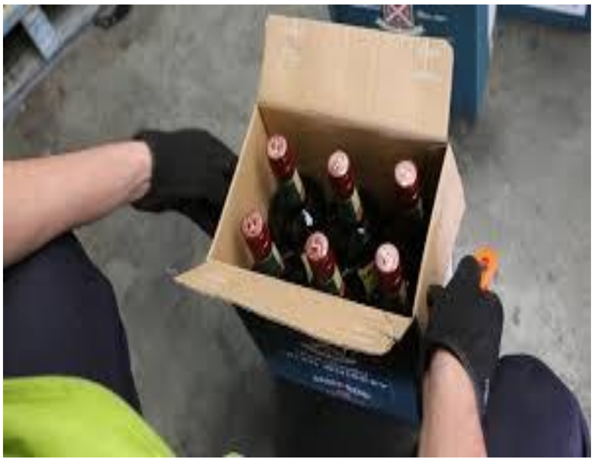
With regard to **general excise duties**, DG TAXUD made important advances in 2022 to upgrade the regulatory framework in line with the green and digital transitions. A number of key regulations, which constitute the main legal framework on excise duties, were amended to reflect the novelties brought about by the new Horizontal Directive. The "Horizontal Excise Directive" sets out general arrangements for goods subject to excise duty, including those around production, storage and movement of excise goods across the territory of the EU. Together with a range of other measures on excise duties, the new set of rules support a closer Single Market by digitalising declarations, reducing administrative burden for excise operators, and further preventing tax fraud.



Next to the legal updates, we also finalised technical specifications so that the EU **Excise Movement and Control System (EMCS)** could be substantially modified (the so called "EMCS Phase 4.0"). Phase 4.0 enables the exchange of electronic messages for the movement of duty paid goods and ends the use of paper documents. As a result of this automation, the **EU central register of excise economic operators (SEED)** also had to be upgraded and updated, to allow economic operators involved in duty paid movements to be registered.

The new excise duty rules mean that the taxation of alcohol, tobacco and energy products will be fully paperless across the EU from early 2023. The changes to the standardised electronic system will simplify life for traders, especially energy suppliers and smaller producers of alcohol, and will speed up trade in the relevant sectors. The move to digitalised and immediate information exchange will also help authorities to fight excise duty fraud, which costs Member States millions in budget contributions per year.

DG TAXUD also relaunched work **on distance selling of excise products** in 2022, to simplify procedures. The current rules make distance selling of excise goods complex, due to the regulatory burden and costs involved for small economic operators. A new working group with experts from Member States examined ways to simplify these rules, in order to minimise fraud and reduce the distortion of competition between online and traditional businesses. These rules must respect the destination principle, according to which excise goods are taxed in the country where they are consumed and should reduce risks of fraud to a minimum. An important task for this group is to estimate the costs and confirm the feasibility of possible new tools, from both an administrative and a technical (IT) point of view.



Proper Enforcement for Better Results in EU tax policy

In 2022, DG TAXUD intensively monitored the correct and timely implementation of EU law and prioritized its enforcement actions. In this context, DG TAXUD actively supported the Member States' efforts in transposing and implementing the revised common framework for excise products, the amended rules for excise duties on alcohol, and amendments that had been introduced to the Anti-Tax Avoidance Directive (ATAD) and the Directive on administrative cooperation (DAC). In addition, the Commission took action to ensure proper transposition of the temporary VAT exemptions in response to the COVID-19 pandemic and the Directive on tax dispute resolution mechanisms in the European Union (DRM).

DG TAXUD took enforcement actions against those EU countries, which failed to transpose and implement the required legislation on time, as well as those that had not transposed national measures in a manner fully conform with the relevant EU legislation. Through infringement procedures, DG TAXUD also targeted national fiscal measures creating distortions of competition in the Single Market. These included issues such as the VAT exemptions on postal services, withholding taxes for royalties or capital gains paid to non-resident taxpayers, provisions regarding work-related allowances affecting the free movement of workers, or action against less favourable withholding tax treatment of certain charitable organisations that impacts the free movement of capital. The enforcement actions resulted in 44 new infringement procedures being launched in 2022 in the field of indirect taxation and 6 in the field of direct taxation.

At the same time, working together with the Member States to ensure compliance with EU law led to 30 indirect taxation and 17 direct taxation related infringement cases being solved and thus, closed. Most importantly, the enforcement actions yielded tangible results for citizens and businesses. For example, Germany amended its VAT rules for farmers in line with EU law and thus corrected the distortion of competition in the Single Market created by its previous VAT rules; in another case, following DG TAXUD's action, Romania removed the restriction for specific categories of traders to the Union electronic portal used to deal with their VAT obligations; Belgium amended its law concerning immovable property situated abroad; Spain amended provisions to end the discriminatory taxation of non-resident non-profit organizations and of their contributors and donors, as well as measures that led to disproportionate penalties for failures to meet certain reporting obligations; Greece amended a law that ended the difference in tax treatment based on the criterion of place (state) where the inherited assets/investments are held.

IV. Looking ahead to a more prosperous and resilient future

Mega-trends such as ageing populations, changing labour markets, digitalisation and globalisation pose existential questions with regard to the sustainability of our current tax systems. The green and digital transitions, together with the need for fair and stable revenues for recovery and growth, have accentuated the need to re-think the role of taxation in delivering on the EU's highest goals. As tax reforms are rolled out at national, EU and international level, it has become increasing clear that the basic assumptions that have applied to tax policy for over a century may no longer be sustainable.

Therefore, in 2022, DG TAXUD launched an ambitious new reflection process, to examine the most pressing questions related to the future of taxation. This reflection process, which focussed on the theme of the "EU Tax Mix on the road to 2050", culminated in the first **EU Tax Symposium** in November. Smaller preparatory events on the tax mix and on green taxation were also organised by DG TAXUD in the months leading up to the main conference. The Tax Symposium brought together over 1 000 participants, including high-level politicians, policy-makers, academics and stakeholders, who discussed the challenges, opportunities and possible approaches for taxation in the decades ahead.

Valuable input into these discussions was provided by DG TAXUD's annual reports: '**Taxation Trends in the European Union**' and '**Annual Report on Taxation**'. These reports provide a comprehensive overview of Member States' tax systems, which enhances EU-level discussions and supports evidence based policy-making. An **event** in June marked the publication of the Annual Report on Taxation and looked at the mega-trends described above.

Meanwhile, DG TAXUD continued to ensure that tax policy was properly integrated into the EU economic governance processes, through the **Recovery and Resilience Facility** (RRF), and the **European Semester.** We followed and assisted with Member States' national reform processes, given that more growth-friendly tax systems and more efficient revenue collection are critical to the EU's long-term competitive sustainability. The Commission has now adopted all national recovery plans, including various tax-related measures. DG TAXUD also assisted in the assessment of payment requests. We supported DG REFORM in assessing Member States' requests for support with their reforms under the **Technical Support Instrument**. An important flagship on enhancing the quality and use of tax information exchanged between Member States under the Directive on Administrative Cooperation (DAC) was proposed for the 2023 cycle.

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

Last year was the first full year of implementation of the Customs and Fiscalis programmes and of the brand new Customs Control Equipment Instrument.

The Customs and Fiscalis programmes provide financial support to a range of actions aimed at achieving the programme' general and specific objectives. The eligible actions can be divided into the following main categories:

a) European electronic systems (EES);

b) Collaborative actions (including expert teams);

c) Human competency building and trainings;

d) Other actions (such as studies and communication actions);

e) Innovation (Customs programme only).

In 2022, the Customs programme provided significant support for the Customs Union, notably to address the challenges the EU is facing as a result of Russia's aggression to Ukraine. The programme also contributed to the delivery of the Union's priorities through its support to the functioning of key customs IT systems and to enhanced collaboration among Member States. The Fiscalis programme was instrumental in guaranteeing business continuity of the European Electronic Systems for taxation and, more broadly, in supporting developments in the field of digitalisation. It also served to foster cooperation among the tax authorities.

Both programmes continued supporting EU level training activities, such as eLearning courses on EU customs and tax legislation, as well as offering a platform to participating countries for the organisation of common learning events. Overall, the collaboration generated by the Customs and Fiscalis programmes remained strong in 2022. However, challenges in terms of under-implementation of budgetary commitments required the extension of several grant agreements beyond their initial planned duration.

In 2022, the Financing Decision with the next Multi-Annual Work Programme (2023-2025) for the Customs programme was prepared3, whereas the one for the Fiscalis programme, covering a longer period (2021-2023), was revised4 to reflect the most recent policy priorities, needs and opportunities.

[3] The procedure was on-going in 2022, adoption took place in January 2023

[4] In December 2022

Significant efforts were dedicated during the year to negotiating and adopting agreements with third countries[5], enabling their participation to the new Customs and Fiscalis programmes.

In 2022, DG TAXUD also established **comprehensive monitoring and evaluation frameworks** (MEF) for the three programmes, notably by using the Delegated Act procedure to supplement the core programme performance indicators established in the programme regulations.

Towards the end of the year, we published the **final evaluations of the Customs and Fiscalis 2020** programmes. Building on the outcomes of the evaluations and the Commission's reports, DG TAXUD is proceeding with a thorough assessment for the way forward, in order to leverage the impact of the programmes. DG TAXUD has already started implementing a more streamlined approach to the programmes' activities and providing a more strategic steer towards the expected results. We have also drawn up a specific **communication strategy** for the programmes, in increase their visibility and outputs. Participating countries have been encouraged to reinforce their ownership of various activities and to increase their initiative to launch and lead activities.

Last year was a landmark year for the **new Customs Control Equipment Instrument (CCEI)**, as the first full year in which the Instrument's activities were implemented and policy priorities were translated into operational action. The first call for proposals, launched under the 2021-22 Multi-Annual Work Programme, was concluded and the grant agreements were signed before their legal deadline of 22 October 2022. Through these grant agreements, over EUR 271 million of EU funding was committed to co-finance the purchase, maintenance, and upgrade of state-of-the-art customs control equipment in border crossing points (BCPs) and customs laboratories across the Union. The CCEI also demonstrated its ability to adapt and react very swiftly, by allocating funding to BCPs directly impacted by Russia's war of aggression in Ukraine. The CCEI Coordination Group, involving Member States' customs authorities continued to provide a platform to inform and discuss on policy, grant implementation, and other points of relevance.

[5] Albania, Bosnia and Herzegovina, Georgia, Kosovo*, Moldova, Montenegro, North Macedonia, Serbia, Türkiye, Ukraine

*-This designation is without prejudice to positions on status, and is in line with UNSCR 1244(1999) and the ICJ Opinion on the Kosovo declaration of independence.

Specific Objective 3.3: Support other EU policy priorities through taxation

DG TAXUD is committed to ensuring that tax and customs policies play their full part in delivering on the EU's highest political priorities and in supporting key initiatives in other policy areas. Taxation and customs have also been pivotal components of EU crisis response in recent years, helping the Commission to react in a decisive, agile and effective way to each crisis as it arose (see box below).

As outlined above (*see General Objective 1*), EU tax policy is central to the **Green Deal** and to the EU's quest for greater energy autonomy. Taxation is also highly integrated in the EU's **recovery and growth agenda**, while the ongoing tax and customs reforms are fully in line with the EU's **digital agenda**.

In 2022, in the face of war on European soil, the importance of the EU's **Security Union** and EU defence agenda rose to the fore. TAXUD contributed to the ongoing work in this area, collaborating with lead DGs to prepare proposals for 2023 to boost EU defence capabilities. DG TAXUD contributed to the new Action Plan on **Military Mobility** 2.0, in view of the automated exchange of information between customs and military forces.

DG TAXUD actively participated in the inter-service work to the prepare the proposals on **firearms** and against **goods produced by forced labour**, which the Commission proposed last year. Particular attention was given to ensuring that, once adopted, these rules can be properly implemented and enforced by customs at the EU's borders. Customs also contributed to the Security Union by tackling a wide range of risks at the external border, from drug precursors to illicit cash, to looting of cultural goods. In addition, customs remained at the frontline in ensuring that imports conform with EU product requirements and rules, to protect our citizens and the environment and to ensure a level playing field for EU businesses with third countries imports [*see p. 32*].

In 2022, DG TAXUD also worked on concrete contributions to support the **EU Health Union** and the Commission's Beating Cancer plan. We worked intensively on preparing a revision of the **Tobacco Taxation Directive**, with a view to presenting a proposal before the end of the mandate. Tobacco taxation has been long used as a tool by governments to reduce smoking, but current EU rules need to be updated in line with new market developments and public health objectives. DG TAXUD consulted extensively with stakeholders last year as we began to prepare the proposal, and carried out a comprehensive **impact assessment**.

We also launched an **evaluation** of the **Alcohol Rates Directive**, in line with Europe's Beating Cancer Plan. This evaluation seeks to evaluate the existing EU minimum excise duty rates for alcohol and alcoholic drinks in light of changes in the market and the rates currently applied by Member States. Once the external evaluation is concluded in 2023, DG TAXUD will recommend the most appropriate next steps.

CRISIS RESPONSE: UKRAINE

The recent series of exogeneous crises – from COVID19, to Brexit, to the energy crisis - have spotlighted the valuable contribution that taxation and customs policies can make in the face of unexpected or emergency situations.

In 2022, Russia's brutal aggression in Ukraine dominated the agenda. It called for a swift, decisive and determined reaction from the European Commission, both in tackling Russia and its allies and in supporting Ukraine. DG TAXUD was heavily involved in this crisis response, identifying and implementing actions in the fields of tax and customs to reinforce the EU stance.

From the adoption of the first sanctions package against Russia and Belarus in March 2022, customs played a central role in ensuring they were properly enforced. With each new sanctions package, DG TAXUD worked to ensure that customs could effectively **implement and enforce the EU sanctions**. We facilitated quick and regular information exchange between Member States (via TARIC and CRMS2) on sanctions and related risks, responded to Member States' and traders' questions on the implementation of the sanctions via the TAXUD crisis response mailbox, and held regular meetings with the heads of EU customs administrations to coordinate proper crisis management. We also assisted in setting up mechanisms to detect possible sanctions circumvention and compiled a weekly survey to monitor the situation on the ground. We provided regular support and guidance to customs authorities in dealing with this new challenge, including by visiting the Member States bordering Russia and/or Ukraine.

DG TAXUD liaised closely with third countries and stakeholders, to communicate and explain the sanction measures, to prevent circumvention and to ensure compliance. Within the World Customs Organisation, we took an active lead role in establishing a coordinated support scheme for Ukraine, which resulted in a **Statement in support of Ukraine** signed by around 50 WCO member countries.

DG TAXUD also collaborated with several other DGs in the adoption of the **Action Plan on Military Mobility**, which will allow the swift and smooth movement of military goods when requested. We will continue to assist in the implementation of that Action Plan.

On the taxation side, DG TAXUD created the **Tax Enforcement Plan**, to ensure effective tax enforcement action against sanctioned Russians and Belarussians, their companies and their associates. These actions include tax audits, screening refunds and information exchange between and by Member States tax authorities. A tax subgroup was set up within the EU's "Freeze and Seize" Task Force to coordinate the work on this plan and ensure its proper implementation.

At the same time, we stepped up our cooperation with Ukraine. We **accelerated the pre-accession work with Ukraine** around customs, opening the Customs and Fiscalis programmes to them and supporting them in their accession to the Common Transit Convention. We supported, through customs, the establishment of **Solidarity Lanes** to ensure the smooth and safe trade of goods between Ukraine and EU Member States, despite the ongoing war. On the humanitarian side, DG TAXUD drew up a Decision granting **VAT and customs duty relief** to goods imported by Member States' state organisations for humanitarian assistance to Ukrainians. We also launched discussions amongst Member States with a view to avoiding the double-taxation of Ukrainian refugees and started a reflection on other tax and customs measures that could facilitate the integration of Ukrainian people into the EU market.

General Objective 5: Promoting our European Way of Life

Specific Objective 5.1: Develop a more modern Customs Union, to facilitate trade, safeguard revenues and protect citizens and businesses[6]

In her political guidelines at the start of her mandate, President von der Leyen announced that it was *"time to take the Customs Union to the next level, equipping it with a stronger framework that will allow us to better protect our citizens and our single market"*. In 2022, DG TAXUD intensified the groundwork to design, prepare and propose a major customs reform. At the same time, DG TAXUD continued to work closely with Member States, customs authorities, third countries and stakeholders to ensure that customs served as an effective gatekeeper to our Single Market while continuing to facilitate smooth trade flows. We also focussed on ensuring the full digitalisation of the customs formalities provided for in the Union Customs Code, with the deployment of new systems for entry, transit, import and export.

I. **Reforming the Customs Union, to make it fit for the Future**

DG TAXUD's top priority in customs policy is to radically overhaul the EU Customs Union, and make it more modern, digital, agile and inter-connected. The current rules and governance of the Custom Union are inadequate for the challenges that customs face today. Soaring trade volumes, an increase in e-commerce, an ever-growing number of EU product standards and non-fiscal risks that need to be checked at the border, and a lack of joined-up action with other customs points and border authorities all put serious pressure on customs capacity to deliver. These issues need to be urgently addressed, given the importance of customs in protecting EU citizens and businesses, securing public revenues, enforcing crucial EU standards and facilitating trade.

[6] This chapter includes the activities that were described in the Strategic Plan and the 2020 Management Plan under the headings 3.4, 3.5 and 5.1 except for the international activities which are to be found in chapter 5.2 of the 2021 Activity Report

In 2022, substantial progress was made in advancing towards the **reform of the Customs Union**, with a view to presenting a major legislative package in 2023. In March, Commissioner Gentiloni received the official report from the **Wise Persons Group**, which he had set up to examine the challenges facing the Customs Union and to propose possible solutions. The report concluded that the Customs Union needs to be better prepared to address forthcoming challenges, such as growing trade volumes and new trade models, technological developments, the green transition, the evolving geopolitical context and security risks. It sets out a package of 10 measures that should be implemented by 2030, in order to ensure that customs is fit for purpose.

On the basis of the Wise Person's Group report, as well as the 2021 Court of Auditors' report on customs controls and several external studies, DG TAXUD began work on an **impact assessment** on the reform of the Customs Union, while also consulting widely on the future legislative proposals. The interim **evaluation of the Union Customs Code** (UCC), which was published in June, also provided important insights and direction to this preparatory work. Among the key findings of this interim evaluation were that the implementation of the UCC does not avail of the potential synergies with other policy areas, nor does it ensure proper coordination between customs authorities and other border enforcement authorities. It also highlighted a lack of coordination between Member States, insufficient harmonisation in key areas such as risk management and controls and inadequate levels of digitisation. These are issues that have been fully integrated into the ongoing work to reform the Customs Union, with a view to ambitious proposals in 2023.

Reaping the fruits from the ongoing digitalisation of customs processes and bringing it up to the next level in terms of efficiency and effectiveness will be a key part of the reform. As such, this work also contributes to the **General Objective of creating a Europe fit for the Digital Age**.

II. Protecting EU citizens and businesses against non-financial risks

As indicated above, in addition to its traditional roles, today EU customs has to uphold EU rules in a wide array of different policy areas. In fact, customs is currently responsible for enforcing more than 350 EU laws at the external EU borders. EU customs controls range from intellectual property rights to drug precursors, product compliance to firearms. These controls will only increase in the years ahead, as customs is called on to implement key initiatives linked to the green and digital transitions, including the Carbon Border Adjustment Mechanism (CBAM).

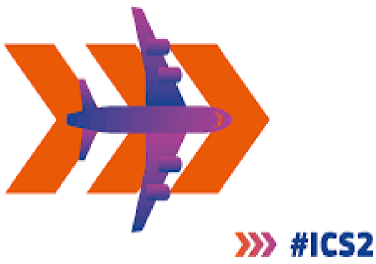
In 2022, DG TAXUD compiled and published an integrated list of all existing **prohibitions and restrictions** at EU level. This is intended as a practical instrument for authorities and stakeholders, in clarifying the scope of customs controls. The list was published at the same time as the Wise Person's Group report [*see above*], which highlighted the need for such a common list of prohibitions and restrictions legislation, to address the divergent approaches and practices across Member States. We also progressed in the work to establish an electronic, centralised, trans-European system for information related to the **import of cultural goods** into the EU territory (the "ICG system"). This should enter into operation in 2025 and will have a significant role in protecting against smuggling, as well preventing terrorist financing and money laundering

In recent years, particular focus has been put on **strengthening risk management**, optimising the use of data. This included developing the Joint Analytics Capability, together with DG BUDG, OLAF and JRC, and improving the inter-connectivity of enforcement authorities and systems. Several important new tools have been established to better identify and manage risks using data and digitalised processes. These systems will be founding stones on which the modernisation of the EU Customs Union is built.

A major achievement in 2022 was the agreement by Council and Parliament on the EU **Single Window Environment for Customs (EU-SWE).** This new legislation, which entered into force in December 2022, will improve digital cooperation and facilitate quicker and more efficient data sharing between the authorities in charge of border controls. It will streamline the electronic exchange of documents and information required for the goods clearance process, thereby making processes simpler and more interoperable. In 2022, DG TAXUD also started to develop **e-Learning courses** on the EU Single Window Environment, so that customs officers and economic operators have access to the training that they need on the new system.

Within the EU Single Window Environment for Customs, EU CSW-**CERTEX**[7] system is a crucial component. It links EU databases and systems managing non-customs requirements with Member States' customs systems. This is particularly important given the growing scope of the non-customs rules and standards that customs have to control [*see above*].

The **Customs Risk Management System** (CMRS2) is another IT system designed to reinforce customs controls. In 2022, it played a particularly important role in helping with the enforcement of EU sanctions against Russia and Belarus at customs. DG TAXUD worked continuously to ensure that the system was used to its full potential, including in crisis, and started to reflect on how it could be further expanded in light of the upcoming customs reform.



Another major system designed to improve customs' risk management and safety and security controls is the new **Import Control System** (ICS2). This was launched in 2021, and throughout the past year, DG TAXUD worked on its implementation as well engaging intensively with stakeholders and third countries on the new requirements. DG TAXUD ensured the smooth operational running of ICS2, which entails a 24x7 service for traders and around 100 million messages per month. We also started preparations for the next Release of ICS2 in March 2023, which will cover postal operators, express and air carriers and freight forwarders. DG TAXUD continued the worldwide **information campaign** to ensure that all relevant economic operators are aware of the new obligations under ICS2 and are sufficiently prepared in advance.

Finally, to ensure that the **deterrents and sanctions** against illicit and illegal trade are effective across the EU, DG TAXUD launched a review of national customs infringements and sanctions in 2022. The outcome of this review has been taken up in the framework of the work on the reform of the Customs Union, with a view to establishing a more uniform EU approach.

In 2022, DG TAXUD worked intensively to ensure that the **IT implementation of the UCC** systems could be done in the legally defined timespan. DG TAXUD has delivered the common parts for important systems such as the Import Control System 2, automated export system, the transit system and the centralised clearance system and progressed on other systems according the planning. We also worked very closely with Member States in the national implementation of UCC IT systems. The **UCC annual progress report** noted the difficulties that many Member States were having with the implementation of the necessary UCC IT systems. The majority of the Member States were unable to meet the legal deadline of 31 December 2022 for the new entry and import systems. In 2022, DG TAXUD explored and addressed the delays, intensified our assistance to Member States and

[7] The EU Single Window Environment for Customs (europa.eu)

prepared proposals for Commission decisions to regularise their legal situation stemming from the delays.

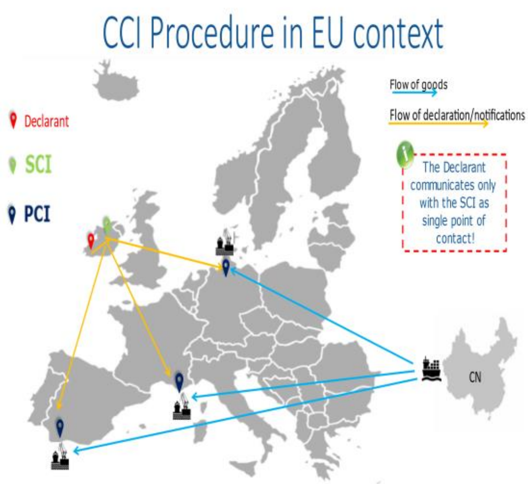
III. Securing revenues and supporting compliant trade

In 2022, DG TAXUD continued to support customs in the daily task of revenue collection and tariff application – which is essential in securing public funds, including for the EU budget.

The **Common Customs Tariff (CCT)** applies uniformly to goods imported into the EU, regardless of the Member State they are imported into. This uniform application of the CCT is essential to ensure a level playing field and to prevent fraud. DG TAXUD continued to work closely with customs administrations to ensure that the CCT was uniformly applied at every entry point to the Union. We also regularly updated the **Integrated Tariff database (TARIC)**, which ensures that businesses and traders have a reliable and comprehensive overview of all tariffs and other measures (e.g. prohibitions and restrictions) that apply to EU imports and exports. **TARIC**, also played a particularly important role in helping with the enforcement of EU sanctions against Russia and Belarus at customs.

The daily management of the **European Binding Tariff Information (EBTI)** system, which issues tens of thousands Binding Tariff Information (BTI) decisions every year, remained a core part of DG TAXUD's work in 2022. In parallel, we progressed in preparatory work on establishing the **legal framework** for **Binding Valuation Information (BVI) decisions** and for developing the **IT support systems** for **Binding Origin Information** (BOI) and **Binding Valuation Information** (BVI) decisions, within the context of the customs reform.

The customs clearance processes and systems are key for the protection of the financial interests. Over the past few years, DG TAXUD has supported Member States with the development of the new EU **centralised clearance at import (CCI)**. Thanks to this work, in 2022, the first authorised company could perform all of its interactions with a single customs office, which then ensures coordination with other Member States' customs offices to process the declaration, collect the revenues and release the goods. DG TAXUD also published eLearning material to promote the new concept.



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

Russia's aggression against Ukraine and global geo-political tensions in 2022 served as a stark reminder of the importance of strong EU cooperation with partner countries worldwide. DG TAXUD continued to ensure close collaboration with non-EU partners on customs matters last year, as well as with key international organisations. We put particular focus on working with third countries to prevent and detect the circumvention of EU sanctions against Russia and Belarus.

In 2022, the pre-accession support to **Ukraine, Moldova** and **Georgia** was intensified and accelerated, with a view to helping them align more quickly with the EU's customs and tax acquis. DG TAXUD provided considerable support and guidance to these three countries in implementing the necessary standards, legislation and exchange of information mechanisms. The Commission signed agreements with Ukraine and Georgia, which enabled them to participate in the **EU's Customs and Fiscalis programmes** and worked to prepare a similar agreement with Moldova for early 2023. These agreements allow them to take part in the activities of both programmes with EU Member States and other countries and are an important step forward in mutual cooperation. DG TAXUD also actively supported Ukraine's accession to the **Common Transit Convention** and the **Convention on the Simplification of Formalities in Trade in Goods** on 1 October 2022. The technical arrangements were put in place to ensure Ukraine was connected to the new computerised transit system (NCTS). Furthermore, the updating of Annex XV of the Association Agreement with Ukraine was successfully concluded to further align Ukraine customs legislation with the Union Customs Code. We also continued to assist **the Western Balkan countries** in their path towards EU accession in 2022 and supported Eastern Partnership countries in their work to align with EU customs legislation.

Agreements with third countries on the mutual recognition of **Authorised Economic Operators (AEOs)** benefits traders on both sides with simpler procedures, fewer customs controls and priority treatment at clearance. In 2022, the EU signed such agreements with **Canada** and **Moldova**, and worked on negotiations for the mutual recognition of AEO programmes with **Ukraine, Singapore** and **Türkiye**.

The EU and the **United States** resumed their customs dialogue by holding a meeting of their Joint Customs Cooperation Committee (JCCC) in September - the first such meeting since 2016. This dialogue with the US Customs and Border Protection (CBP) agency included exchanges on the customs implementation of sanctions, the future of customs, notably in relation to e-commerce and AEO programmes. In this regard, CBP revised their Customs Trade Partnership against Terrorism (CTPAT) programme and added new minimum security criteria (MSC). The USA sent a request to all their mutual recognition partner countries to compare and match these minimum security criteria (MSC) in their own security programmes and make adjustments, where necessary.

With regard to relations with the **United Kingdom**, the intense work to ensure the proper implementation of the EU-UK Trade and Cooperation Agreement (TCA) continued at full pace in 2022. This included providing guidance for EU and UK customs authorities and operators, as well as putting in place a consultation mechanism in case of denial of preferences related to origin of the goods. We also worked to ensure that businesses and other stakeholders remained well informed of any new developments, by proactively **communicating** on any changes or new procedures in tax and customs. With regard to the **Protocol on Ireland and Northern Ireland**, DG TAXUD maintained a core presence in the region with the Northern Ireland Liaison Team, which monitors the practical implementation of the Protocol and seeks to identify the compliance risks. The work in this area was particularly challenging and sensitive in 2022, as we worked to find solutions to the difficulties that businesses and citizens in Northern Ireland have been experiencing as a result of the UK's withdrawal of from the EU. DG TAXUD was also actively involved in the negotiations on the future **EU-UK agreement on Gibraltar** in relation to customs and taxation issues.

In December, the EU adopted a Strategic Framework for Customs Cooperation with **China**, setting forth the priorities and concrete actions in this area for the years to come. Notably, the Commission and China Customs adopted an Action Plan on Intellectual Property Rights at the same time.

The **Pan-Euro-Mediterranean** (PEM) Convention on rules of origin aims at establishing common rules of origin among the EU and countries in the PEM zone (EFTA, Turkey, Western Balkans, Eastern Partnership countries and Mediterranean countries). In 2022, DG TAXUD worked closely with the PEM partners on technical elements related to a revision of the PEM Convention and laid the ground for a transformation to a digital environment in the PEM region with an electronic certification system on proofs-of-origin (e-PoC).

DG TAXUD also continued to ensure the smooth implementation of the EU's agreements with third countries from a customs perspective, including by proposing updates and amendments as needed. In June 2022, the EU and **Cameroon** concluded negotiations on a reciprocal protocol on rules of origin applicable under the EU-Central Africa Economic Partnership Agreement. Also in June 2022, the EU and **New Zealand** concluded the negotiations on the Rules of Origin chapter of their Free Trade Agreement. On 20 December, the EU and **Singapore** agreed to amend the Rules of Origin Protocol of their Free Trade Agreement, through a Decision of the EU-Singapore Committee on Customs.

The **World Customs Organisation (WCO)** is the primary international organisation in which DG TAXUD participates to promote worldwide cooperation and global standards in customs. In 2022, the EU's initiative for a holistic WCO Reform was successfully integrated in the WCO Strategic Plan 2022-2025 and endorsed by the WCO Council. The multi-annual WCO Strategic Plan follows in form of newly established and globally agreed work 'Focus areas' for the WCO till 2025, the EU's suggested core priorities 'Innovation and digitalisation of Customs' (incl. Single Window & Coordinated Border Management), 'Green Customs' and 'Governance Modernization'. By end 2022, concrete actions were already brought on the way in all 3 Focus areas, such as the establishment of a WCO Data Strategy, the launch of an international reflection and research process on 'Green Customs' and a first global consultation process for the development of a future-fit WCO Modernization Plan.

2. MODERN AND EFFICIENT ADMINISTRATION AND INTERNAL CONTROL

2.1. Financial management and internal control

Assurance is provided on the basis of an objective examination of evidence of the effectiveness of risk management, control and governance processes. This examination is carried out by management, who monitors the functioning of the internal control systems on a continuous basis, and by internal and external auditors. The results are explicitly documented and reported to the Director-General. The following reports / documentation have been considered:

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

The systematic analysis of the available evidence provides sufficient guarantees as to the completeness and reliability of the information reported and results in the full coverage of the budget delegated to the Director-General of DG TAXUD.

This section covers the control results and other relevant elements that support management's assurance. It is structured into 2.1.1 Control results, 2.1.2 Audit observations and recommendations, 2.1.3 Effectiveness of internal control systems, and resulting in 2.1.4 Conclusions on the assurance.

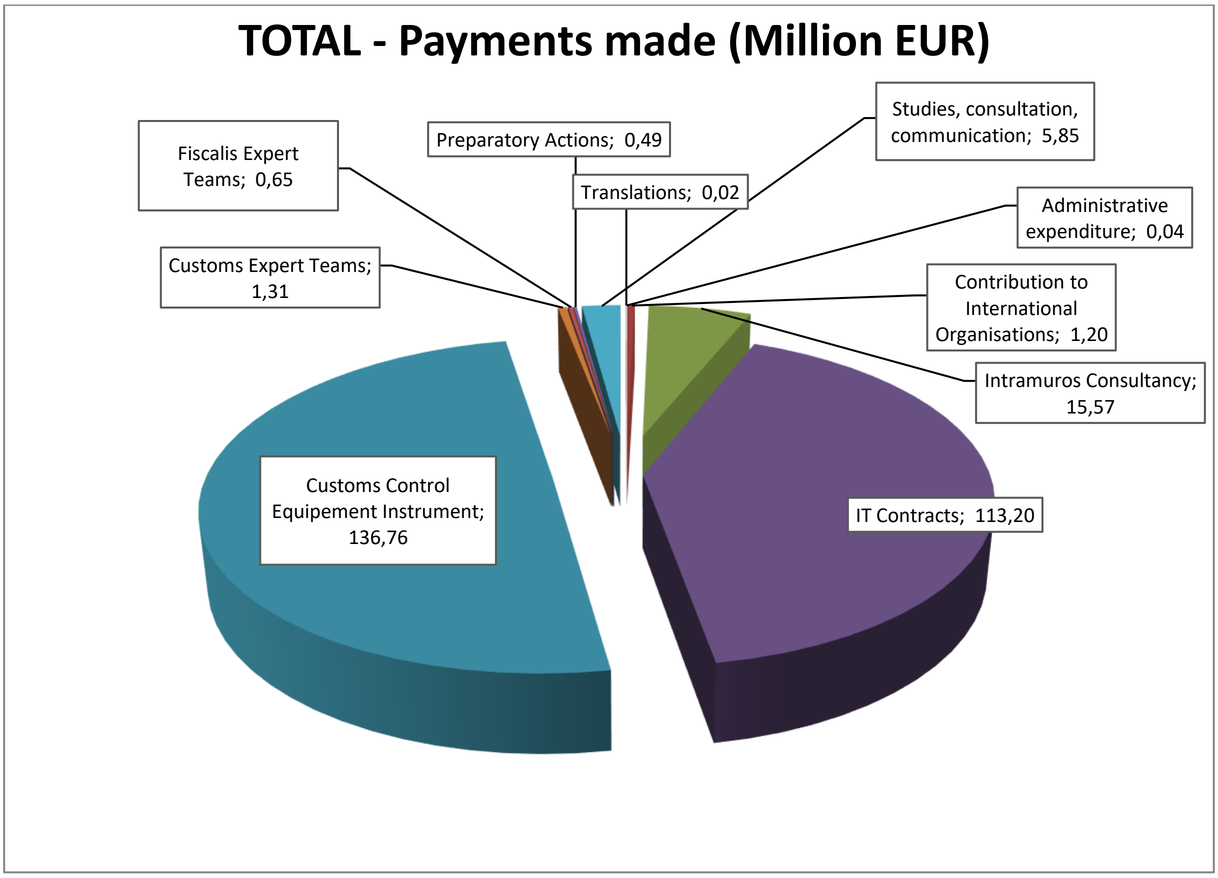
2.1.1. Control results

This section reports and assesses the elements identified by management which support the assurance on the achievement of the internal control objectives (ICO) ([8]). **The DG TAXUD's assurance building and materiality criteria are outlined**

([8]) 1) Effectiveness, efficiency and economy of operations; 2) reliability of reporting; 3) safeguarding of assets and information; 4) prevention, detection, correction and follow-up of fraud and irregularities; and 5) adequate management of the risks relating to the legality and regularity of the underlying transactions, taking into account the multiannual character of

in the annual activity report annex 5. The annual activity report annex 6 outlines the main risks together with the control processes to mitigate them and the indicators used to measure the performance of the relevant control systems.

DG TAXUD is a policy DG with a relatively small budget, exclusively implemented in direct management mode. DG TAXUD paid EUR 275,09 million in 2022[9].



DG TAXUD's expenditure is broken down as follows:

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

Overall, the value of signed contracts represents EUR 134,62 million (about 48,94% of payments made in 2022).

One of the largest parts of DG TAXUD's operational budget is dedicated to IT expenses/Intramuros consultancy (EUR 128,77 million or 46,81% of payments made in

programmes as well as the nature of the payments (FR Art 36.2). The 2nd and/or 3rd Internal Control Objective(s) (ICO) only when applicable, given the DG's activities.

9 See Annex 3, table 2.Payments

2022), through several framework contracts concluded between the Commission and IT suppliers. These contracts provide for the development and operation of the trans-European systems, networks and related databases, as well as the IT training tools, in line with the work programmes of the Customs and Fiscalis programmes.

Other contracts related to procurement of different tools or services such as studies, databases, consultations and communication activities (EUR 5,85 million paid in 2022, i.e. 2,13%).

- **Customs Control Equipment Instrument (CCEI) programme**

The Customs Control Equipment Instrument aims to help Member States by providing financial support for the purchase of customs control equipment, with a view to the long-term aim of harmonised application of customs controls by the Member States. The Instrument has the general objective to support the customs union and customs authorities to protect the financial and economic interests of the Union and its Member States, to ensure security and safety within the Union and to protect it from illegal trade while facilitating legitimate business activity.

The expenditure in the framework of CCEI consists of grants awarded to the customs authorities of the Member States.

The payments made in 2022 are related to the first prefinancing and represent EUR 136,76 million (about 49,71% of payments made in 2022).

- **Collaborative activities and Expert Teams under Customs and Fiscalis programmes**

Overall, the expenditure related to Collaborative Activities and Expert Teams represents EUR 1,96 million (about 0,71% of payments made in 2022). In 2022, payments have only been made on Expert Teams.

The expenditure in the framework of the Collaborative Activities and Expert Teams consists of grants awarded to the participating National Administrations and reimbursement of costs incurred by experts[10]. The beneficiaries of these grants are the national customs and tax administrations of the 27 Member States, and some (potential) candidate countries.

- **Contributions to international organisations**

This expenditure relates to the membership of the Union to the World Customs Organisation, and represents about 0,44% of payments made (EUR 1,20 million).

[10] The reimbursement of the travel and subsistence expenses of external experts under the programmes are managed by the PMO.

- **Pilot Project and preparatory actions**

The pilot project "Monitoring the amount of wealth hidden by individuals in offshore financial centres and impact of recent internationally agreed standards on tax transparency on the fight against tax evasion" generated no payment in 2022.

In the scope of the Preparatory Action "EU Tax Observatory - Capacity building to support Union policymaking in the area of taxation", EUR 0,49 million was paid (0,18% of payments).

- **Administrative expenditure**

The administrative expenditure managed by DG TAXUD (training, conferences, representation expenses and other miscellaneous expenditure) represents 0,01 % of the total paid budget (EUR 0,04 million).

Throughout 2022, DG TAXUD paid EUR 0,02 million (0,01% of the total budget) for translations made by the Commission's Translation Service (DGT).

- **Cross sub-delegation**

A cross-sub-delegation was given to DG FISMA to ensure the maintenance and development of the "Event Management Tool (EMT)" information system. The agreed contribution of DG TAXUD was EUR 0,07 million in 2022. FISMA committed EUR 0,07 million. No amount was paid in 2022.

DG FISMA issued a report without reservation on the use of these appropriations on 30 January 2023[11]. The Delegated Authorising Officer did not communicate any events, control results or issues which could have a material impact on the declaration of assurance.

[11] Ref. Ares(2023)661719 – 30/01/2023

Overview table (amounts in EUR million)

Risk-type / Activities	Grants (e.g. actual costs based, or lump sums, or entitlements)	Procurement (e.g. minor or major values)	Shared mngt (MS's OPs, PAs, etc) + EAC (for NAs)	Cross-delegations to other DGs (other AOXDs)	Contributions and/or funds to EE (EU Agency, EA, JU)	Delegation / Contribution agreements with EE (EIB, Int-Org, etc)	Other (describe any other expediture not covered by the previous columns)	*Total Expediture*	NEI, e.g. Revenues, Assets, OBS ((in)tangible or financial assets & liabilities)
Joint Actions	0							0	
Expert Teams	1,96							1,96	
CCEI	136,76							136,76	
IT		128,77						128,77	
Studies, databases, communication, administration, translations		5,91						5,91	
Contributions to international organisations		1,20						1,20	
Preparoty actions	0,49							0,49	
Pilot Projects		0						0	
Totals (coverage)	**139,21**	**135,88**						***275,09***	

Legend for the abbreviations: OP=Operational Programme, PA=Paying Agency, NA=National Agency, AOXDs =Authorising Officer by Cross-Delegation, EA=Executive Agency, JU=Joint Undertaking, NEI =Non-Expenditure Item(s), *OBS= Off-Balance Sheet, ICO = Internal Control Objective, L&R=Legality and Regularity, SFM= Sound Financial Management, AFS= Anti-Fraud Strategy measures, SAI=Safeguarding Assets and Information, TFV=True and Fair View, RER=Residual Error Rate, CEC=Cost-effectiveness of controls, Mngt =Management*

In line with the 2018 Financial Regulation, DG TAXUD's assessment for the new reporting requirement is as follows:

- **Cases of "confirmation of instructions" (new FR art 92.3) : no such cases for the DG**
- **Cases of financing not linked to costs (new FR art 125.3) : no such cases for the DG**
- **Financial Framework Partnerships >4 years (new FR art 130.4) : no such cases for the DG**
- **Cases of flat-rates >7% for indirect costs (new FR art 181.6) : no such cases for the DG**
- **Cases of "Derogations from the principle of non-retroactivity of grants pursuant to Article 193 FR" (new Financial Regulation Article 193.2): 22 such cases for the DG; please refer to Annex 7 for further detail.**

1. Effectiveness of controls

a) Legality and regularity of the transactions

DG TAXUD uses internal control processes to ensure sound management of risks relating to the legality and regularity of the underlying transactions it is responsible for, taking into account the multiannual character of programmes and the nature of the payments concerned.

DG TAXUD's portfolio consists of segments with a relatively low error rate, ie <1% globally.

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

Procurement

For procurement, 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, 10 exceptions and 8 non-compliance instances were recorded as control failure. None of these had an impact on the legality and regularity of the underlying transactions. All concerned instances related to formal compliance issues which do not have a negative impact on the budget.

- The correction of the detected erroneous invoicing which involved an amount unduly invoiced, resulted in 64 credit notes for a total amount of EUR 7,1 million (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 2022. Considering that all corrections take place before the actual payment is made (ex-ante), there are no errors left at the moment of payment. Nonetheless, to calculate the error rate for procurement, DG TAXUD has taken a most conservative approach and estimates the error rate for procurement at **0,50%.**

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

Grants

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

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

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

The control process and strategy for grants takes into account the specificities of the DG TAXUD grants. A distinction is made between the Customs and Fiscalis grants under the 2014-2020 Multi-Annual Financial Framework (MFF), the Customs and Fiscalis grants under the 2021-2027 MFF and the Customs Control Equipment Instrument grants, also under the 2021-2027 MFF.

As far as the Customs and Fiscalis grants under the 2014-2020 MFF are concerned :

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

The control process and strategy have been optimised and streamlined throughout the years. All payments/recovery orders are verified by the usual ex-ante controls embedded in the financial circuits.

Since 2015, the above controls are underpinned by ex-post on-the-spot audits or ex-post desk reviews.

The total estimated error rate for grants is an average weighted error rate of the results of the audited countries since 2015 and results in **a best possible estimated error rate for grants under 2014-2020 MFF in 2022 of 1,45%**[12].

The benefits of controls have been quantified where possible: e.g. amounts recovered, irregularities prevented, detected and corrected by these controls (as per Annex 3, table 8). Most benefits however are non-quantifiable covering non-financial gains like: better value for money, deterrent effects, efficiency gains, system improvements, protection from reputational damage and, above all, compliance with regulatory provisions.

As far as the Customs and Fiscalis grants under the 2021-2027 MFF are concerned :

- the new Customs and Fiscalis programmes have the same characteristics and controls as for the 2014-2020 MFF grants described above;
- the preparation and implementation of the grants is done using the eGrants platform which embeds the necessary controls and checks;
- the new programmes however use unit cost for personnel cost, for travels, accommodation and subsistence cost and apply a 7% flat rate indirect costs which will reduce the complexity of controls and, at the same time, reduce the potential error rate.

Due to the late adoption of the 2021-2027 MFF and the Customs and Fiscalis regulations, the grant agreements could only be signed at the end of 2021 and in 2022. Only prefinancing payments were made, **the error rate for grants under the 2021-2027 MFF in 2022 is therefore not applicable for the time being**.

As far as the Customs Control Equipment Instrument (CCEI) is concerned :

- CCEI is considered to represent a higher risk of fraud than the Customs and Fiscalis programmes, although the beneficiaries are also public administrations.
- Its budget is higher compared to the other two programmes, and funding co-finances the purchase of equipment through public procurement carried out by the national authorities.
- the preparation and implementation of the CCEI grants is done using the eGrants platform which embeds the necessary controls and checks;
- Due to the higher risk level, requests for interim and final payments shall be accompanied by a certificate on the financial statements – produced by a certified external auditor or, in the case of public bodies (which is the case for CCEI), by a competent and independent public officer - when the cumulative amounts of payment requests is at least EUR 0,33 million.

[12] See also Annex 5 for the detailed calculation

Due to the late adoption of the 2021-2027 MFF and the CCEI regulation, grants related to the work programme 2021/2022 have been signed in 2022. Only prefinancing payments were made, **the error rate for grants under the CCEI in 2022 is therefore not applicable for the time being**.

In conclusion, we can conclude that the control objective as regards legality and regularity for grants has been achieved.

Through recoveries and financial corrections, DG TAXUD has in place an effective mechanism for correcting errors. During the reporting year the executed corrective capacity amounted in total to EUR 0,26 million representing 0,19 % of the relevant expenditure.

DG TAXUD's relevant expenditure, its estimated overall risk at payment, estimated future corrections and risk at closure are set out in Table X: Estimated risk at payment and at closure.

In addition, DG TAXUD has in place an effective mechanism for correcting errors, through ex-ante and ex-post controls, resulting in preventive and corrective measures, respectively. Please see table below for details:

		Preventive Measures (m EUR)	Corrective measures (m EUR)
Implemented by the Member States			
	of which from Member States controls	n/a	n/a
	of which from EU controls [13]	n/a	n/a
Implemented by the Commission			
	of which from Member States controls	n/a	n/a
	of which from EU controls	7,2	n/a
DG TAXUD total		**7,2**	**0**

Based on all the above, DG TAXUD presents in the following Table X an estimation of the risk at payment and risk at closure for the expenditure managed during the reporting year:

([14]) This is the AOD's best, conservative estimation of the expenditure authorised during the year that would remain not in conformity of applicable regulatory and contractual provisions by the end of implementation of the programme.

Table X: Estimated risk at payment and at closure (amounts in EUR million)
The full detailed version of the table is provided in annex 9.

[Department XXX]	Payments made	Relevant expenditure	Estimated risk (error rate %) *at payment*		Estimated future corrections and deductions		Estimated risk (error rate %) *at closure*	
	m EUR	*m EUR*	*m EUR*	*%*	*m EUR*	*%*	*m EUR*	*%*
Procurement	135,88	135,98	0,68	0,50%	0,26	0,19%	0,42	0,30%
Grants MFF 2014-2020	0,32	2,02	0,03	1,45%	0,00	0,19%	0,03	1,45%
Grants MFF 2021-2027	2,13	0,00	0,00	0,00%	0,00	0,00%	0,00	0,00%
CCEI	136,76	0,00	0,00	0,00%	0,00	0,00%	0,00	0,00%
DG total	**275,09 m EUR**	**138,00 m EUR**	**0,71 m EUR**	**0,51%**	**0,26 m EUR**	**0,19%**	**0,45 m EUR**	**0,32%**

The <u>estimated overall risk at payment</u> for 2022 expenditure amounts to EUR 0,71 million, representing 0,51 % of the DG's total relevant expenditure for 2022. This is the AOD's best conservative estimate of the amount of relevant expenditure during the year, not in conformity with the contractual and regulatory provisions applicable <u>at the time the payment was made.</u>

This expenditure will subsequently be subject to ex-post controls and a proportion of the underlying errors will be detected and corrected in subsequent years. This amount corresponds to the conservatively <u>estimated future corrections</u> for 2022 expenditure amount to EUR 0,26 million.

The difference between those two amounts results in the <u>estimated overall risk at closure</u> ([14])of EUR 0,45 million, representing 0,32 % of the DG's total relevant expenditure for 2022[15].

([14]) This is the AOD's best, conservative estimation of the expenditure authorised during the year that would remain not in conformity of applicable regulatory and contractual provisions <u>by the end of implementation of the programme.</u>

[15] Relatively stable (0,32% in 2020)

There is an increase of 0,07% compared to 2021 (EUR 0,45 million and 0,32% of relevant expenditure versus EUR 0,31 million and 0,25% of relevant expenditure in 2021) mainly due to a higher relevant expenditure.

For an overview at Commission level, the departments' estimated overall risk at payment, estimated future corrections and risk at closure are consolidated in the AMPR.

b) Fraud prevention, detection and correction

DG TAXUD has developed and implemented its own anti-fraud strategy since 2013 on the basis of the methodology provided by OLAF. It was last updated on 28 July 2022. Its implementation is being monitored and reported to the management on yearly basis. The implementation of the actions is in progress.

DG TAXUD also contributed to the Commission anti-fraud strategy. OLAF did not issue financial recommendations for DG TAXUD in 2021. **The results achieved during the year thanks to the anti-fraud measures in place can be summarised as follows:** of seven Commission anti-fraud actions, DG TAXUD implemented four; the remaining three recommendations will need to be re-assessed given the political landscape has changed over the time.

The roll out in TAXUD of the Event Management Tool (EMT) took place on 15 February 2022. Users were trained in advance and the correct use of EMT is monitored. The quarterly and yearly statistical report(s) on the use of EMT show a good registration in EMT of lobbyist meetings by all relevant TAXUD services

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

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

DG TAXUD manages a fair number of intangible assets (EUR 54,03 million in 2022 – see Annex 3, Table 4).

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

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

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

Within the scope of the Statement of assurance (SoA), the ECA regularly audit the value of DG TAXUD's intangible assets and had no specific comments so far.

At the moment of writing, there are no known elements or weaknesses in the control system in place that would deserve making a reservation.

2. *Efficiency of controls*

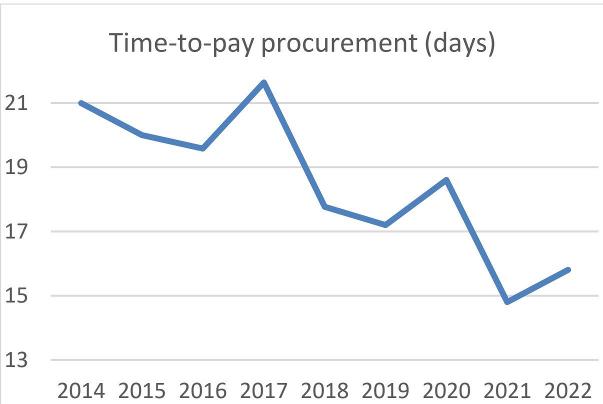
Throughout the reporting period, DG TAXUD made 1.160 payments (EUR 275,09 million), established 358 contracts (and/or amendments thereto) and 45 grant agreements, audited EUR 0,7 million via desk reviews, processed 64 commercial credit notes, issued 128 recovery orders, committed EUR 309,11 million appropriations and prepared 7 procurement procedures (1 open procedures, and 6 reopening of competitions).

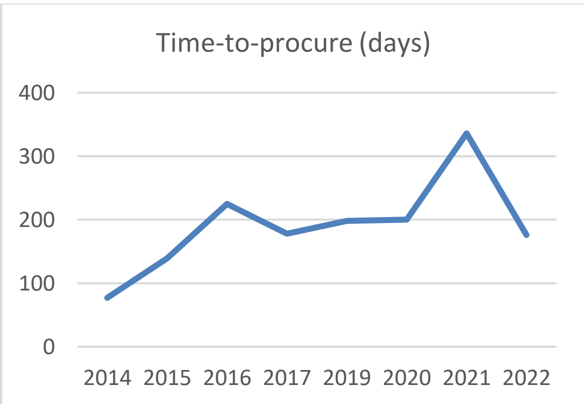
- **Procurement related indicators**

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

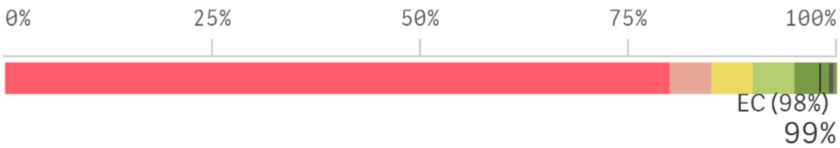
Procurement control efficiency indicators	**Result 2022** (days)
Time-to-pay (days)	15,8
Time-to-procure (days)	176,0

As it can be seen from the below historical overview, the "time-to-pay" indicator has only slightly increased in 2022 from 14,8 days to 15,8 days. The "time-to-procure" decreased from 336 to 176 days in 2022. The peaks in the 2016-2021 period were equally due to the awarding of complex and large-scale IT framework contracts.





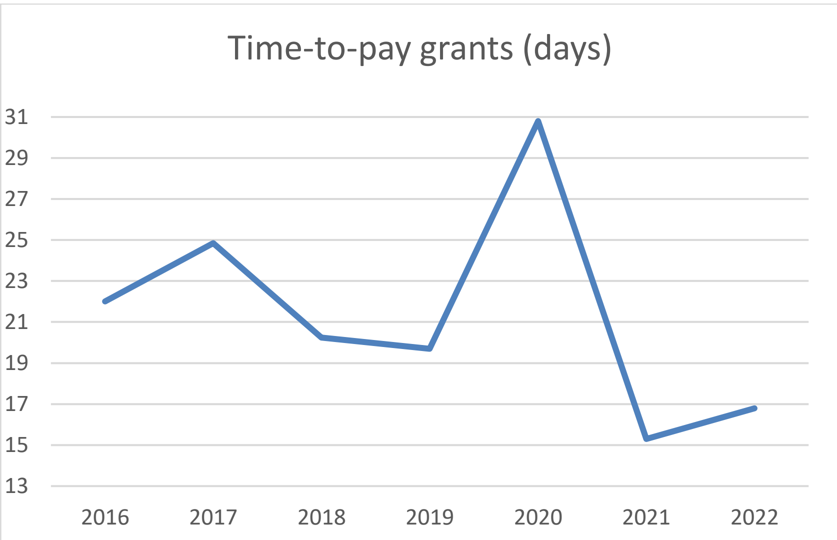
Throughout the reporting period, DG TAXUD made 99 % of all payments on time which is above Commission average:

Timely Payments	TAXUD Score	EC Score
	**99%**	**98%**

- **Grants related indicators**

Grants control efficiency indicators	**Result 2022** (days)
Time-to-pay (days)	16,8
Time-to-inform (days)	120,2
Time-to-grant (days)	246,1

The “time-to-pay” for grants increased from 15,3 to 16,8 days.



A historical overview of the "time-to-inform" and "time-to-grant" indicators will be provided in the annual report for 2023 as these indicators have only started to be calculated from 2021 onwards.

3. Economy of controls

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

Procurement

Procurement control efficiency indicators	Result 2022
Procurement - overall cost of control (% over payments made)	1,18%
Procurement - cost of controls of the evaluation and selection procedure / value contracted (	0,50%
Procurement - related cost of control of payments/ amount paid (%)	0,58%
Average cost of a payment	720,88
Average cost of establishing and managing a contract	1.755,28
Average cost of a procurement procedure	241.263,60 €

- For **procurement procedures**, an estimated EUR 0,19[16] million were invested in controlling 7 procurement procedures (1 open procedures and 6 reopening of competitions). A typical procurement procedure has an estimated total preparing and handling cost of EUR 0,24 million [17].

- For **payments**, an estimated EUR 0, 79 million[18] were invested in preparing and controlling 1.102 payments worth EUR 135,88million (0,58% of the total payment amount was dedicated to control). On average, a financial transaction costs an estimated EUR 720,88 for processing and controlling.

- For **contracts**, an estimated EUR 0,63[19] million were invested in preparing and controlling about 358 contracts (and/or the amendments of the contracts) worth about

[16] 1,45 FTE, representing the efforts of all actors involved in the control of the public procurement procedures (i.e. the actors in the financial unit, the Public Procurement Committee, the Authorising Officers by (sub-) Delegation, etc.).

[17] 1,66 FTE, representing the combined efforts of actors in the operational and financial units in preparing and running a public procurement procedure from the drafting of the specifications until the award decision.

[18] 5,44 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.

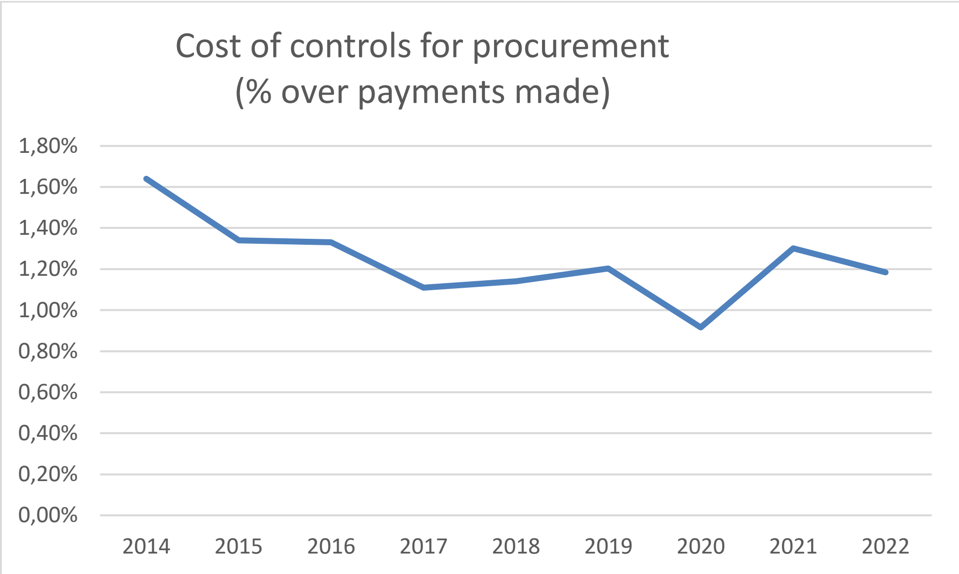
[19] 4,10 FTE, representing the combined efforts of actors in the financial and operational units involved in contracts preparation, verification and validation

EUR 173,04 million (0,36% of the total amount contracted was dedicated to control). On average, preparation and controlling of each contract costs an estimated EUR 1.755,28. This has increased compared to 2021 (EUR 1.511,27) due to 1) the significant increase in budget managed[20], and 2) the intensified use of more complex contracts that continue to be managed outside the electronic platforms currently available.

- There were no specific ex-post supervisory measures on procurement in 2022.

Overall, during the reporting year the controls carried out by DG TAXUD for the management of the budget appropriations cost EUR 1,61[21] million, which represents only 1,18% of the total payments made for procurement.

The declining trend, observed since 2014, is temporarily interrupted due to the significant increase of budget under the present MFF. The upcoming implementation of the new eProcurement platform and tools will help to reduce and stabilise the cost of controls over time.



Grants

Grants control efficiency indicators	Result 2022
Grants - overall cost of control (%) [cost of control from contracting and monitoring the execution up to payment included/ amount paid]	0,61%
Grants - cost of control ex post audits/ value of grants audited	1,58%
Grants - overall cost of control (%) [cost of control from contracting and monitoring the execution up to payment included/ amount paid]	0,61%

20 EUR 309,11 million in 2022, EUR 291 million in 2021

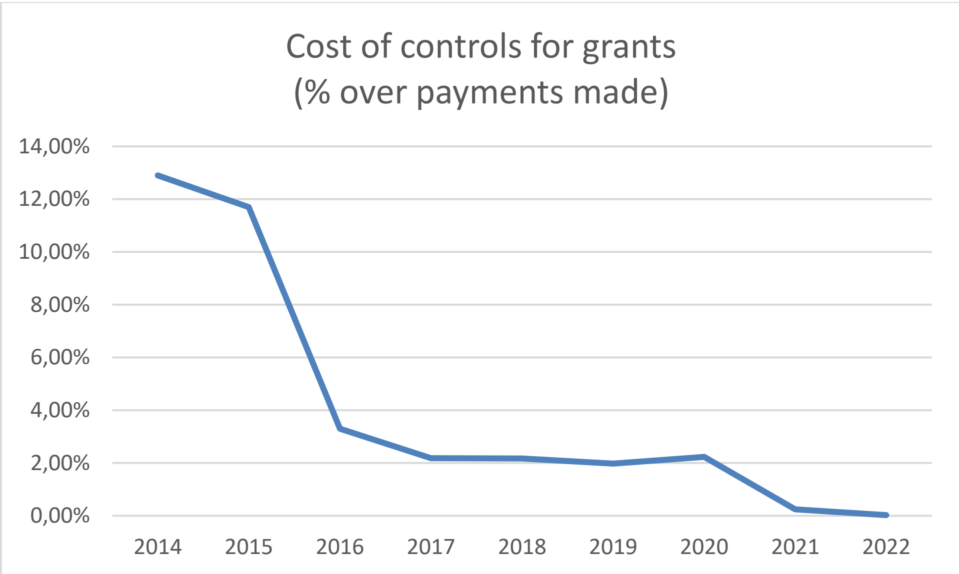
21 A total of 9,54 FTE, representing the total cost of preparing, verifying and validating procurement procedures, payments and contract and representing the combined efforts of actors in the financial and operational units involved in contracts preparation, verification and validation of procurement procedures, payment, contracts, etc.

During the reporting year the controls carried out by DG TAXUD for the management and control of the grant agreements cost about EUR 35.162,34[22], representing 0,03% of the total grant payments.

The cost of the ex-post audits in 2022 was EUR 11.053,62[23], which represents 1,58% of the total value of grants audited.

The total cost of control for grants, i.e. the overall ex-ante controls and the cost of the ex-post audits was EUR 46.215,96[24] representing 0,03% of payments made.

Whilst the trend since 2014 shows a decreasing curve, it must be noted that the method of calculating the cost of controls for grants changed in 2016. The cost of control is relatively stable since. The continued decrease compared to 2021 is due to 1) the positive effects of using the eGrants platform to prepare and sign the grant agreements, 2) only one ex-post audit could be completed in 2022.



Conclusion

Throughout 2022, the overall cost of control (procurement and grants) was EUR 1,65[25] million representing 0,60% of all payments made and are therefore considered efficient and cost-effective.

22 0,21 FTE, representing the combined efforts of actors in the financial and operational units involved in grants preparation, verification and validation

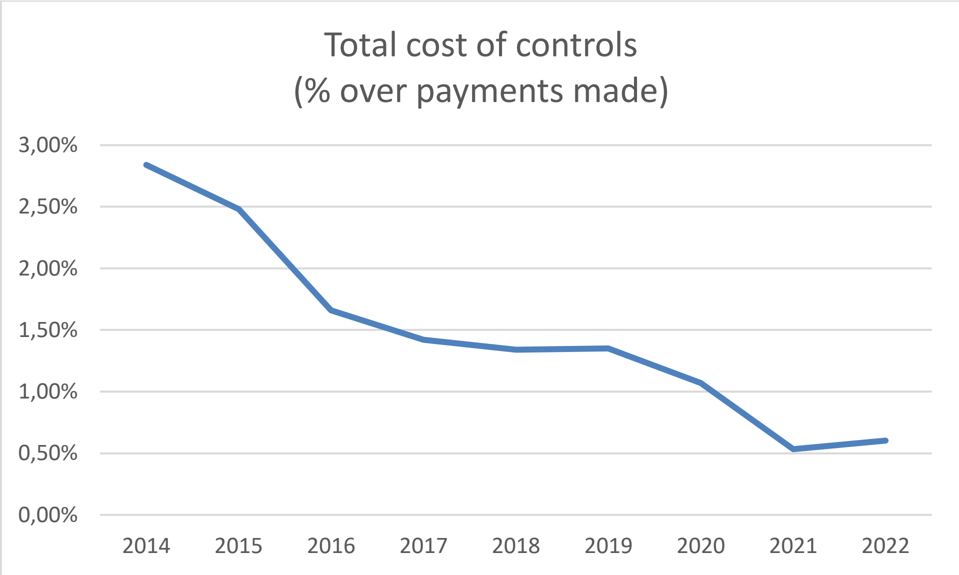
23 0,08 FTE, representing the combined efforts of actors in the financial and operational units involved in grants preparation, verification and validation

24 0,29 FTE representing the combined efforts of actors in the financial and operational units involved in grants preparation, verification and validation

25 11,28 FTE

These controls are essential to ensure compliance with regulatory requirements.

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



4. Conclusion on the cost-effectiveness of controls

Based on the most relevant key indicators and control results, DG TAXUD has assessed the effectiveness, efficiency and economy of its control system and reached a positive conclusion on the cost-effectiveness of the controls for which it is responsible.

DG TAXUD manages a relatively small budget (EUR 275,09 million payments made throughout the reporting period). The majority of financial transactions relate either to procurement contracts (IT contractors) or to multi-beneficiary grants where the beneficiaries are Customs and/or Tax Administrations.

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

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

The ex-ante and ex-post controls are to a large extent necessary to ensure legality and regulatory compliance and allow eliminating the risks outlined in annex 6.

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

The results of controls further confirm that the current control system is fit for purpose as can be witnessed by the very limited error rate of 0,50% for procurement and 1,45 % for grants and a low overall amount at risk at closure of EUR 0,45 million.

The efficiency of controls has been demonstrated by 99 % timely payments in 2022.

In 2022, the overall cost of controls was EUR 1,65 [26] million representing only 0,6 % of all payments made; these controls are thus considered efficient and cost-effective.

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

2.1.2. Audit observations and recommendations

This section sets out the observations, opinions and conclusions reported by auditors – including the limited conclusion of the Internal Auditor on the state of internal control. Summaries of the management measures taken in response to the audit recommendations are also included, together with an assessment of the likely material impact of the findings on the achievement of the internal control objectives, and therefore on management's assurance.

In 2022, the following audits and implementation of action plans took place in DG TAXUD:

EUROPEAN COURT OF AUDITORS (ECA)

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

DG TAXUD was subject to two performance audits, two annual financial and compliance audits, and one follow-up audit on a past special report. The section below summarises these ECA audits with recommendations addressed to DG TAXUD. For more details, please refer to Annex 7.

Financial year 2022

European Court of Auditors' Special Report no 6/2022: *EU intellectual property rights - protection not fully waterproof*. The performance audit assessed whether intellectual property rights in EU trademarks, EU designs and geographical indications are well protected within the Single Market.

DG TAXUD is responsible for implementing two of five audit recommendations, together with DG GROW. Recommendations aim at enhancing protection of all EU intellectual property rights (IPR), establishing a control strategy based on IPR risk management, better

[26] 11,28 FTE

monitoring customs enforcement in the Member States, and standardising reporting activities of the IPR enforcement framework. Overall timeframe: Q4 2025.

The other ECA performance audit on authorised economic operators is on-going at the time of writing. At the end of 2022, DG TAXUD received a draft special report.

The ECA published the 2021 Annual Report with results on the 2021 budget execution. The ECA also started an annual finance and compliance audit on 2022 budget execution – statement of assurance. The audit was on-going at the time of writing. DG TAXUD provided replies to three sampled transactions under Heading 1 - Single market, innovation and digital for the Statement of Assurance 2022. The ECA's had no remarks on the sampled files.

Finally, the ECA reviewed the implementation of all five recommendations stemming from Special Report 26/2018 – "A series of delays in Customs IT systems: what went wrong?" The conclusion of the ECA's follow-up task was that the recommendations were implemented fully or in most respects, all within the timeframe set by the ECA.

DISCHARGE for budgetary year 2021 and before

DG TAXUD closely follows up recommendations formulated in 2021 or before; this effort allowed reducing the number of open recommendations. By the end of 2022, DG TAXUD reported 11 recommendations as implemented and to be closed. There were 15 open recommendations with good implementation progress. For five recommendations, DG TAXUD requested an extension of the original deadlines providing valid arguments and reporting on what actions had been implemented so far: one open recommendation in relation to 2018 discharge (by the Council), one open recommendations in relation to 2019 discharge (by the European Parliament), and five open recommendations in relation to years 2020 and 2021 formulated by the ECA.

The discharge on 2021 budget is on-going; DG TAXUD reviewed the Parliament's and the Council's draft resolutions.

INTERNAL AUDIT SERVICE (IAS) AUDITS

In 2022, IAS performed two audits: on effectiveness of DG TAXUD's cooperation with external stakeholders' and on performance management. The audit on external stakeholders resulted in four important recommendations, there were neither critical nor very important recommendations.

The audit on performance management resulted in two important recommendations.

The IAS also started an audit on Information technology application project management in DG TAXUD. The auditors closed the task at the end of the preliminary survey phase as they confirmed that overall, DG TAXUD has well established IT processes and the auditors identified neither critical nor very important observations (entailing very high or high risks) from a design perspective.

The IAS conducted a limited review of DG TAXUD's implementation of the new Internal Control Framework (ICF) and gave an overall positive conclusion on the presence and the functioning of its Internal Control System (ICS).

In addition, DG TAXUD contributed to two multi-DG audits: (1) on the Commission's control system in relation to the reliability of performance information in EU financial programmes, (2) on coordination in DG HOME and the EU decentralised agencies CEPOL, EUAA, EMCDDA, EUROPOL, and eu-LISA.

DG TAXUD continued implementing two remaining open very important recommendations stemming from the IAS audit on management of human resources (2020): on *mapping tasks and skills* and on *workload assessment and staff allocation*. Both recommendations were fully implemented by the end of 2022. For more details, please refer to annex 7 of AAR 2022.

The conclusion of the Internal Auditor on the state of internal control in DG TAXUD is that the internal control systems in place for the audited processes are effective.

DG TAXUD implements recommendations of the ECA, IAS and Discharge Authority according to the agreed planning, requesting extension of the expected completion date only when factors external to DG TAXUD require a change of date or of action. From the assessment of audit observations and recommendations, there is neither indication of a significant weakness in the control system nor impact on the declaration of assurance.

2.1.3. Assessment of the effectiveness of internal control systems

The Commission has adopted an Internal Control Framework based on international good practice, to ensure the achievement of its policy and management objectives. Compliance with the internal control framework is a compulsory requirement.

Directorate-General Taxation and Customs Union uses the organisational structure and the internal control systems suited to achieving its policy and internal control objectives in accordance with the internal control principles and has due regard to the risks associated with the environment in which it operates.

Directorate-General Taxation and Customs Union annually assesses the effectiveness of its key internal control systems and relies on a number of monitoring measures and sources of information including internal control, AOSD management reports, reported instances of exceptions and non-compliance events; relevant audit findings; and the risk assessment process.

Directorate-General Taxation and Customs Union monitors 44 indicators which are validated by the Senior Management and which cover all principles. It is then complemented with a bottom-up approach, entailing an active role of the operational colleagues to identify the indicators, their baselines and targets. It finally receives the endorsement by the Director-General. The internal control system assessment in 2022 was based on desk review, followed by a screening exercise of the internal control principles and components involving the relevant horizontal units responsible for their implementation.

Directorate-General Taxation and Customs Union has assessed its internal control system during the reporting year and has concluded that it is effective and the components and principles are present and functioning as intended.

2.1.4. Conclusions on the assurance

In conclusion, based on the elements reported above, 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 (27)***.***

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

This reasonable assurance is based on my own judgement and on the information at my disposal, such as the results of the self-assessment, ex-post controls, the work of the Internal Audit Service 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".

Place Brussels, date 31 March 2023

(e-signed)

Gerassimos THOMAS

(27) True and fair in this context means a reliable, complete and correct view on the state of affairs in the DG.

2.2. Modern and efficient administration – other aspects

2.2.1. Human resource management

In 2022, in the spirit of two-way communication and staff inclusion, DG TAXUD followed up on the feedback received from staff in 2021 by adopting its **Staff survey action plan**. Most importantly, among the envisaged actions, it launched a participative, cross-DG process led by the Senior Management to establish a new mission and working culture of DG TAXUD.

As 2022 was marked by the return to the office and the hybrid working environment, DG TAXUD responded to the related Commission decision by adopting its **internal guidelines on flexible working**, published on the intranet, to ensure a clear and consistent approach for its staff.

In terms of **strategic human resources management**, DG TAXUD reviewed its local HR strategy against the new HR strategy adopted in 2022 at the Commission level. It also analysed its HR reporting system, to ensure solid data for its human resources decisions, and replaced quarterly HR reporting with monthly reports.

In the same vein, DG TAXUD followed up on its **analysis of skills and workload across the DG**. It established and presented to DG HR an overview of available and missing skills needed to deliver on DG TAXUD objectives and for succession planning. Furthermore, it assessed the workload across the organisation, with an overview of links between resources and priorities, presented to the Director-General. These elements represent an important step towards **better informed HR decision-making**.

In order to ensure the right mix of skills and cross-directorate competences, DG TAXUD thoroughly updated its training map, an in-house learning & development tool for all staff including mandatory and recommended training for different staff profiles. Moreover, it set up recurrent, accessible learning events on 'hot topics' in customs and taxation: Tax Talks and Coffee & Learn.

As strong managerial competences lie at the root of DG TAXUD HR policy, it actively developed **managerial talent** by organising a subsequent edition of an in-house coaching programme for Deputy Heads of Units, Heads of Sector and Team Leaders. In addition, a local female talent initiative, TAXUD Women's network, was launched during the year.

Finally, towards the end of the year, DG TAXUD adopted its **Equality mainstreaming workplan**, an important milestone in promoting and implementing diversity and inclusion in the DG.

2.2.2. Digital transformation and information management

Digital Transformation

DG TAXUD continued in 2022 to implement its IT vision in line with the corporate digital strategy. Work started on extending DG TAXUD's Competence Centre to support Agile, collaboration and tools maintenance. The Competence Centre now involves all interested parties in IT delivery. The existing IT processes are being finetuned to this approach starting with 5 main processes.

Automated installation of infrastructure and software is now available for: the creation of developers' workstations, the test environment and deployment of applications, security checks. The information system supporting the Directive (EU) 2021/514 on administrative cooperation in taxation (DAC7) was the first to be delivered into production using automated installation.

In terms of architecture and infrastructure evolutions, shared services have been implemented in 2022 (archiving and performance monitoring, among others), databases and middleware have been upgraded, while evolutions to the network have been carried out and DG TAXUD's primary datacentre has been migrated. The development and maintenance of most information systems have been migrated to the Application Lifecycle Management platform and the TAXUD Cloud has been put into production.

In terms of IT Service Continuity, in 2022, DG TAXUD continued to build on the existing IT Business Continuity Management System (BCMS). Reporting of data to the Member States has been enhanced. Work has started to align Service Level Agreements and Gold category configuration items in DG DIGIT and DG TAXUD Data Centres.

DG TAXUD aligned its project management methodology to the corporate standard.

The ITSRM security integration plan was finalised for DG TAXUD's platforms in 2022 and work is progressing on DG TAXUD's information systems.

Data Protection

DG TAXUD continues to ensure compliance with relevant legal framework on personal data protection. In 2022, DG TAXUD DPC provided general awareness-rising activities in DG TAXUD, reaching 12,2% of DG TAXUD staff which mirrors the average participation of DG TAXUD staff in awareness-rising activities. Following topics were covered:

- the fundamental concepts, rules and principles of personal data protection;

- the handling of data subjects' requests and

- the handling of personal data breaches.

DG TAXUD colleagues also participated in general awareness-rising sessions organised, by the Data Protection Officer and the SG Policymaking HUB. These courses covered topics like assessment of roles and responsibilities in personal data processing and challenges and best practices in case of joint controllership. Finally, the data protection coordinator of DG TAXUD provided targeted awareness-rising sessions for DG TAXUD Units.

The Data Protection expert group, which brings together Member States and the Commission finalised the discussion on the joint controllership arrangement for the systems were Member States and the Commission are joint controller on 19th January 2023. Initially, it was planned to have one agreement covering all systems, but in the end Member States asked to modify the approach and split the agreement into six different arrangements, each covering one specific system. This was due to organisational challenges related to the signature at national level. Therefore the signing has been postponed to Q2 2023.

Document Management

DG TAXUD continued to ensure that appropriate processes and procedures are in place for secure and efficient document management, compliant with the e-Domec principles. In line with the corporate policy, DG TAXUD makes, by default, all its documents available to all colleagues in the corporate management system Hermes-Ares-NomCom. As such, in 2022, 53 % of the TAXUD files were visible in the Institution. The other documents remained internal to TAXUD for work-specific reasons.

In 2022 DG TAXUD realised the integration in Ares of the Event Management Tool (EMT).

The DG TAXUD document management team regularly reminded colleagues in 2022 on their open tasks and non-filed documents. The team also provided on-demand trainings on the registration and filing of documents.

In 2022 DG TAXUD replied to 238 requests for access of documents, releasing 402 documents

Information Management

In the context of **knowledge and information management**, DG TAXUD's M365 project team continued the roll out of the M365 collaborative platform within DG TAXUD and aligned this process with the migration to Sharepoint online. The information nuggets for colleagues have been prepared for instance on navigating through teams and setting notifications. The development of the use case depends on the roll out of SPO and will therefore be completed in 2023. The DG TAXUD M365 project team cooperated closely with the corporate M365 project team sharing best practices and new insights. The M365 team also designed a Dashboard using M365 technology to improve the information sharing within TAXUD on the progress made with its legislative initiatives.

2.2.3. Sound environmental management

DG TAXUD applied the sound environmental management strategy wherever relevant. For a more detailed reporting on the outputs, see the annexes.