



2018

Annual Activity Report

**DG TAXATION
AND
CUSTOMS UNION**





How does the EU's Custom Union help to protect and keep us safe?

The aim of the Customs Union is to protect society at large while making sure that legitimate trade can flow easily. The Customs Union defends against international trafficking and smuggling, protects consumers against illegal and dangerous goods, and preserves the environment and European cultural heritage as well as the financial interests of the EU and the Member States. In the EU, there are 90 state-of-the-art customs laboratories to carry out this job. Some labs specialise in certain types of analysis – for example, toy safety. When human senses are not enough to detect certain types of illegal goods, customs officers partner up with sniffer dogs which specialise in detecting illegal drugs, suspicious food, explosives or even large amounts of cash.

Table of Contents

THE DG IN BRIEF	4
EXECUTIVE SUMMARY	8
A) KEY RESULTS AND PROGRESS TOWARDS THE ACHIEVEMENT OF GENERAL AND SPECIFIC OBJECTIVES OF THE DG	8
B) KEY PERFORMANCE INDICATORS (KPIs)	10
C) KEY CONCLUSIONS ON FINANCIAL MANAGEMENT AND INTERNAL CONTROL	17
D) PROVISION OF INFORMATION TO THE COMMISSIONER	18
1. KEY RESULTS AND PROGRESS TOWARDS THE ACHIEVEMENT OF GENERAL AND SPECIFIC OBJECTIVES OF THE DG	19
2. ORGANISATIONAL MANAGEMENT AND INTERNAL CONTROL	43
2.1 FINANCIAL MANAGEMENT AND INTERNAL CONTROL	43
2.1.1 CONTROL RESULTS	44
2.1.2 AUDIT OBSERVATIONS AND RECOMMENDATIONS	62
2.1.3 ASSESSMENT OF THE EFFECTIVENESS OF THE INTERNAL CONTROL SYSTEMS	66
2.1.4 CONCLUSIONS ON THE IMPACT AS REGARDS ASSURANCE	68
2.1.5 DECLARATION OF ASSURANCE	70
DECLARATION OF ASSURANCE	71
2.2 OTHER ORGANISATIONAL MANAGEMENT DIMENSIONS	72
2.2.1 HUMAN RESOURCE MANAGEMENT	74
2.2.2 BETTER REGULATION	74
2.2.3 INFORMATION MANAGEMENT ASPECTS	76
2.2.4 EXTERNAL COMMUNICATION ACTIVITIES	79

THE DG IN BRIEF

The Directorate General Taxation and Customs Union's (DG TAXUD) mission is **twofold**: to develop and implement tax policy across the EU and to develop and manage the Customs Union. DG TAXUD reports to Pierre Moscovici, Commissioner for Economic and Financial Affairs, Taxation and Customs and to Valdis Dombrovskis, Vice President for the Euro and Social Dialogue.

EU Taxation Policy

Since the start of its mandate, this Commission has taken action to develop and implement tax policy across the EU for the benefit of citizens, businesses and the Member States with particular attention to the Internal Market, by making sure that it functions smoothly and efficiently. One of the key areas of action has been to fight against tax fraud, evasion and avoidance, including improving **tax transparency** and ensuring the principle that all businesses operating in the EU should **pay their fair share of taxes where profits and value are generated**.

As the **international tax rules** were originally designed for "brick and mortar" businesses, some of the current tax rules no longer fit the modern context where businesses rely heavily on hard-to-value intangible assets and online trading across borders without physical presence. As a result, some businesses take free rider positions tilting the playing field in their favour compared to established businesses. The challenge is to make the most of these **digital opportunities** to ensure Europe's competitiveness, while ensuring fair taxation.

Member States have the power to introduce or remove taxes, of increasing and reducing them, but also of making sure they are actually collected and paid to the governments' budget. The EU complements Member State action when it comes to taxation. Concerning both direct and indirect taxation, there is **added value** in having EU-wide intervention when it comes to further improve the **Internal Market, make taxes fairer** or helping Member States in **tackling cross-border tax fraud, tax evasion and avoidance**. Often an **EU-wide approach** is the **only way** to avoid a series of individual national approaches which rather than closing loopholes open up new ones because of their uncoordinated nature. In January 2019, the Commission launched the debate, within the current EU Treaty, on **reforming decision-making for areas of EU taxation policy**, which currently requires unanimity among Member States. This unanimity often cannot be achieved on crucial tax initiatives, and can lead to costly delays and sub-optimal policies. Instead, the aim is to allow Member States to exercise more efficiently their already pooled sovereignty so that shared challenges can be addressed more swiftly.

National governments are broadly free to design their tax laws according to their national preferences, provided they respect certain fundamental principles, such as non-discrimination and respect for free movement in the Internal Market. However, when there is EU harmonised legislation Member States have to comply with it. **EU tax policy** aims at establishing and respectively improving the **common legal framework** in the areas of **direct and indirect taxes**. This common framework should minimize the risk of



tax-induced relocation of economic activities while providing the **tools for administrative cooperation supporting revenue collection** for the EU and Member States' budgets and fighting tax fraud. EU regulatory intervention aiming at harmonising taxes occurs in the area of indirect taxation (Article 113 TFEU). EU tax policy is a key element to **strengthen the Internal Market** in which the co-existence of 28 national tax systems may result in double taxation, but also double non-taxation or distortion of competition. To help the implementation of EU tax legislation including the fight against tax fraud, the Commission brought the **Heads of the EU national tax administrations** together in a **strategic forum** where on a regular basis they can exchange views on the challenges their administrations are facing.

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



Concerning today's challenges to tax systems, with 360 million Europeans using the internet every day to work, study, shop or stay connected, the **digitalisation of the global economy** is happening fast and permeates almost all areas of society. The creation of the **Digital Single Market** needs a modern and stable tax framework for the digital economy to stimulate innovation, tackle market

fragmentation and allow all players to tap into the **new market dynamics under fair and balanced conditions**.

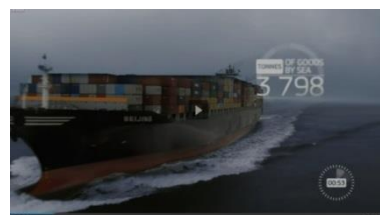
Similarly, the current **VAT system** is still based on 25-year old "transitional arrangements" with domestic and cross-border transactions being subject to completely different VAT regimes. As a result, businesses trading cross-border within the EU bear an extra compliance cost of 11% compared to businesses trading only domestically. Moreover, goods purchased cross-border by businesses are free of VAT and therefore particularly prone to fraud. In 2018 the Commission made several proposals to modernise the VAT system which are currently still discussed by Council.

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

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

EU Customs Policy

The Customs Union, which recently celebrated 50 years of operation, was an early example of successful integration in the EU. The Customs Union is a basic pillar of the European Union, supporting and protecting the Internal Market and securing the EU borders. The Internal market can only function properly when there is a common application of common rules at its external borders, achieved by the 28 national customs administrations acting as though they were one.



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

The added value of the Customs Union is clear: it is instrumental in facilitating legitimate trade and developing competitive businesses, while, at the same time, it protects the EU's revenue sources and protects its external borders from threats to the safety and security of the EU and its citizens.

The common legislative framework adopted at the EU level is implemented by the 28 national customs administrations. As a result, **close partnership between and with Member States** is crucial for the effective, efficient and uniform performance of the Customs Union. The Communication "EU Customs Union Governance" gave this partnership a new boost. The subsequent first Biennial Report on progress in developing the EU Customs Union outlined the priority issues to be addressed in the near future.



The **Union Customs Code (UCC)** is the main legal framework for rules applicable in the EU customs territory. The UCC is key to a well-functioning and performing Customs Union, aiming as it does at streamlining and simplifying customs rules and at the full digitalisation of all customs processes, procedures and formalities.

The Commission ensures through the **Customs 2020 funding programme** that the customs administrations are interconnected and that the Customs Union is equipped with modern automated **electronic systems**. In fact, major progress has been achieved over the last twenty years in making customs processes electronic. EU traders today submit 99% of customs declarations electronically and they are gradually being enabled to use customs electronic systems for other elements of their

business operations.

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

For the EU as a whole, external demand is a major source of growth; in the next decade 90% of demand is expected to come from outside Europe. In a period of economic recovery and rebuilding of government finances, there is increasing pressure to **manage international trade transactions efficiently**, including on customs authorities which are responsible for **securing international supply chains** in addition to their traditional task of collecting revenues. As such, customs authorities **help legitimate EU business** to be competitive on the world markets. The OECD has estimated that a comprehensive trade facilitation reform could cut trade costs by up to 10% for OECD countries.

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

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

The **enforcement strategy** in the area of customs focuses on the correct application of the Customs Code to ensure the functioning of the Internal Market and the collection of revenues and to facilitate trade.

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

Cooperation with external partners

DG TAXUD works closely with several institutional stakeholders, especially the anti-fraud office (OLAF) and the European External Action Service (EEAS), the ECOFIN Council and the European Parliament.

It engages regularly with international organisations like the World Customs Organisation (WCO), the Organisation for Economic Co-operation and Development (OECD), the World Trade Organisation (WTO), the United Nations Economic Commission for Europe (UNECE), the International Rail Transport Committee (CIT), the Organisation for Cooperation of Railways (OSJD), the Universal Postal Union (UPU), the Intra-European Organisation of Tax Administrations (IOTA) and the International Monetary Fund (IMF), and external partners such as Europol, Frontex, Eurojust and the European network of judicial authorities.

DG TAXUD also interacts on a regular basis with businesses and civil society representatives through various expert groups such as the VAT Expert Group, the EU VAT Forum, the Joint Transfer Pricing Forum, the Platform for Good Tax Governance and the Trade Contact Group.

EXECUTIVE SUMMARY

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

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

On 25 May 2018, the Council adopted **rules** aimed at boosting transparency **to prevent aggressive cross-border tax planning**. Once in force, tax intermediaries who provide their clients with complex cross-border financial schemes that could help avoid tax will be obliged to report these structures to their tax authorities.

As a follow up to the EU list of non-cooperative tax jurisdictions, continued to actively engage with the jurisdictions that made commitments to meet the EU tax good governance standards, and monitored progress in this regard, in close cooperation with the external relations DGs and services. The Commission also presented on 21 March 2018, the first EU **counter-measures on non-cooperative tax jurisdictions**.

Also on 21 March 2018, the Commission put forward new measures to ensure that digital businesses pay fair taxes in the EU. A first initiative proposes a **common reform of the EU's corporate tax** rules for digital activities. It would enable EU countries to tax profits generated in their territory, even if a company is not physically there. A second initiative is an **interim tax on certain revenue from digital services**, which currently are not effectively taxed; this measure would apply only as a provisional tax to stem the most urgent losses, until the comprehensive reform has been implemented.

Negotiations on the **Common Consolidated Corporate Tax Base (CCCTB)** continued in 2018, resulting in a Presidency compromise on core elements of the tax base towards the end of the year. Progress was facilitated by the Commission's work with Member States to determine a better overview of the impact of the common base proposal on national tax revenues.

On 25 May 2018, the Commission proposed a series of **new rules on excise duties**, covering both the **general arrangements**, and the excise duties on **alcohol**, updating these rules to the needs of the Internal Market players and the Member States.

The Commission presented a proposal for new **simplification rules** to help **reduce VAT compliance cost for small businesses** to help them take real advantage of the Internal Market in January 2018. It also presented a proposal to introduce more flexibility for Member States to change the **VAT rates** they apply to different products which will give more flexibility to Member States. The proposal on the **detailed technical measures** for the operation of the **definitive VAT system** was adopted on 25 May 2018 with the main goal to create a VAT tax system that fits with the Internal Market and that is not prone to fraud.

Throughout 2018, DG TAXUD contributed to the inter-institutional negotiations in the Council and the European Parliament which resulted in the adoption of several key pieces of **EU VAT legislation**, such as VAT on e-publications; quick fixes to improve the day-to-day functioning of the current VAT and new rules on cross-border administrative cooperation in the field of VAT. Also, on 11 December 2018, the Commission proposed

new detailed measures that will pave the way for a smooth transition to the **new VAT rules for e-commerce** which was adopted by the Council in 2017.

DG TAXUD continued to contribute to the preparatory work for the **withdrawal agreement** and the **future relationship** with the UK. This included intensive work with the corporate taskforce, talks with stakeholders in Member States and from trade as well as major work on the IT side to have the Customs and tax IT systems ready for the withdrawal. In parallel, DG TAXUD worked on the necessary measures in case the UK would leave the EU without withdrawal agreement.

Throughout 2018, DG TAXUD ensured follow up to the major elements of its 2016 **Customs Governance** Communication amongst others with its first Biennial report on the progress made in June 2018. Meanwhile, the Commission, Member States and trade stakeholders continued to ensure that the **Union Customs Code (UCC)** remained fit for purpose, including by debating Commission proposals for legislative amendments. In particular, the Commission made a legislative proposal in 2018 to provide **additional time**, until 2025 at the latest, for completion of some of the 17 electronic systems provided for under the UCC, because of the complexity of deploying and making interoperable all 17 systems by 2020.

Work continued in managing tariff classification issues and during the year 56 legislative implementing measures were adopted by the Commission to ensure uniform treatment across the EU. The 1 000 000th **Binding Tariff Information (BTI)** decision was issued on 26 September 2018, a procedure ensuring legal certainty for economic operators when calculating the price of import or export transactions and facilitating the work of the customs services.

On 31 May 2018, **financial risk criteria (FRC)** for risk-based customs controls were agreed with Member States, establishing a set of rules to flag transactions considered to pose financial risks and requiring further scrutiny.

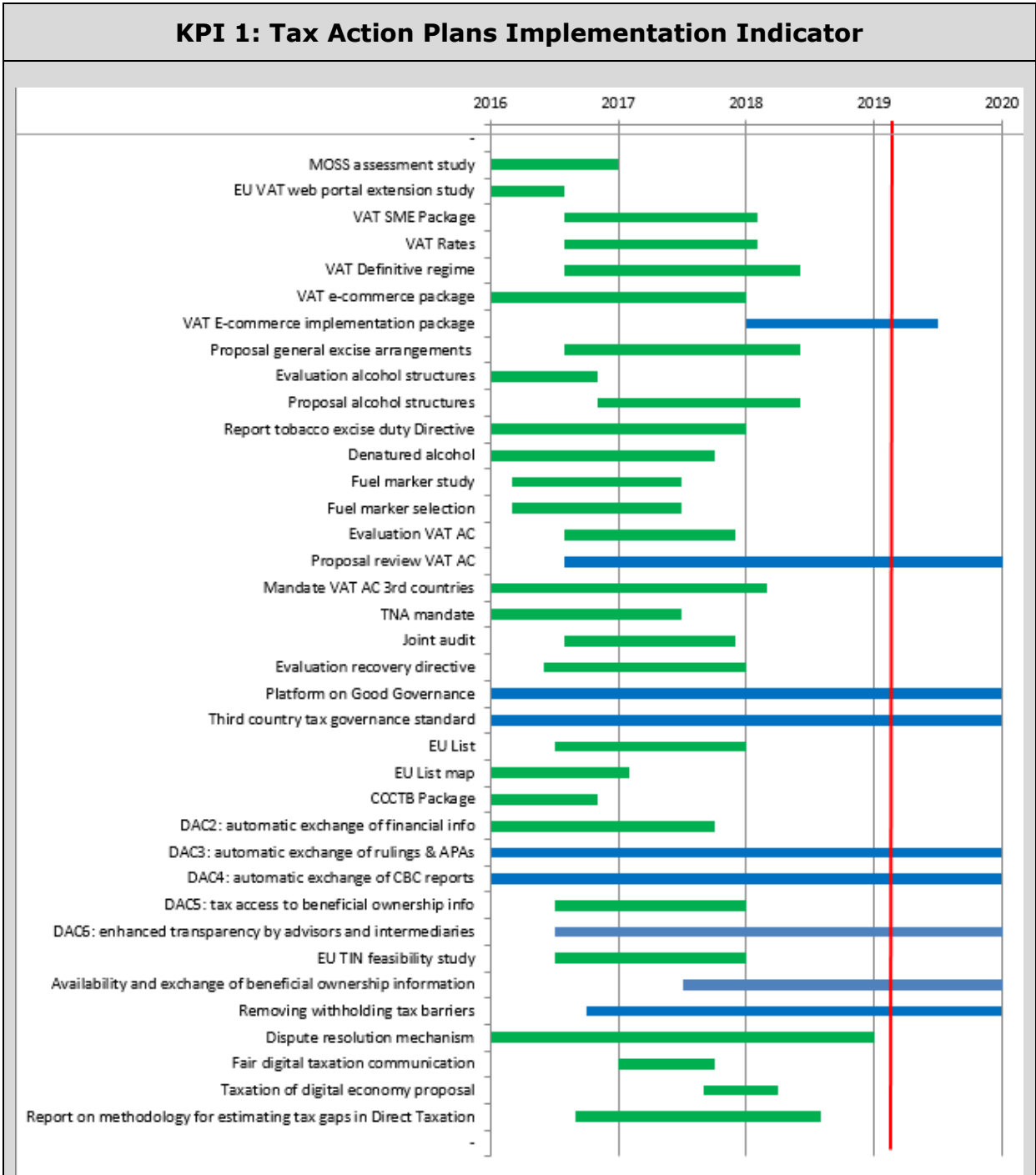
On 2 October 2018, EU finance ministers adopted reinforced rules to **control illicit cash flows** in and out of the EU, a key measure in the fight **against the financing of terrorism**.

The 2018 Annual Work Programmes of **the Fiscalis and Customs 2020 programmes**, adopted in February 2018, were the basis for all the activities (Joint actions, Training and European information Systems) undertaken during this year.

In 2018, on behalf of the EU and together with the customs administrations of the Member States, the Commission ensured the **implementation** of the customs-related provisions of **customs or free trade agreements**.

During the course of 2018, the Fiscalis and Customs 2020 programmes were evaluated by external evaluators. Both programmes were considered successful, firmly established and providing invaluable support to public administrations and economic operators. One of the lessons learned concerned a simplification of the performance measurement framework. A detailed overview of the evaluation exercises performed in 2018 can be found under chapter 2.2.2 on Better Regulation.

b) Key Performance Indicators (KPIs)



This indicator monitors the policy work carried out by the DG, measuring if and when DG TAXUD delivers on key actions laid down in the action plans. The indicator provides a percentage of the actions implemented over time. In 2018, 9 actions were closed (green bars), while 1 action was newly started (bars starting in 2018), 9 actions are ongoing.

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

		Project Initiation (BPM, BC & VD)	Functional Analysis & Specifications	Technical elaboration, specifications & development	Roll-out & Deployment	Achieved Milestone TSS	Achieved Milestone Date of Deployment	MASP 2017 dates of deployment
1	REX					✓	✓	1/01/2017
2	BTI	phase 1 - step 1				✓	✓	1/03/2017
		phase 1 - step 2				✓	✓	1/10/2017
		phase 2				✓	✓	Q4 2019
3	Customs Decisions					✓	✓	2/10/2017
4	UUM&DS					✓	✓	2/10/2017
5	AEO	phase 1				✓	✓	5/03/2018
		phase 2				✓	✓	Q4 2019
6	EOR12					✓	✓	5/03/2018
7	SURV 3					✓	✓	1/10/2018
8	PoUS		on hold					Q2 2023
9	NCTS							Q1 2021
10	AES	component 1						Q1 2021
		component 2	national project					Q1 2021
	AES, NCTS, ICS2	transition strategy						
11	SP INF							Q2 2020
12	SP	component 1 SP_EXP	national project					Q1 2021
		component 2 SP_IMP	national project					national
13	NA, PN, TS		national project					national
14	National Import upgrade		national project					national
15	CC Import							Q1 2021
16	GUM	component 1						Q2 2023
		component 2	national project					national
17	ICS 2							Q4 2020
	Legend:	Different shades of grey used to indicate separate stages of projects. Where a stage is not fully completed this is indicated by partially filling the space. Cross hatched spaces indicate not applicable. Checkmark indicates milestone achieved						

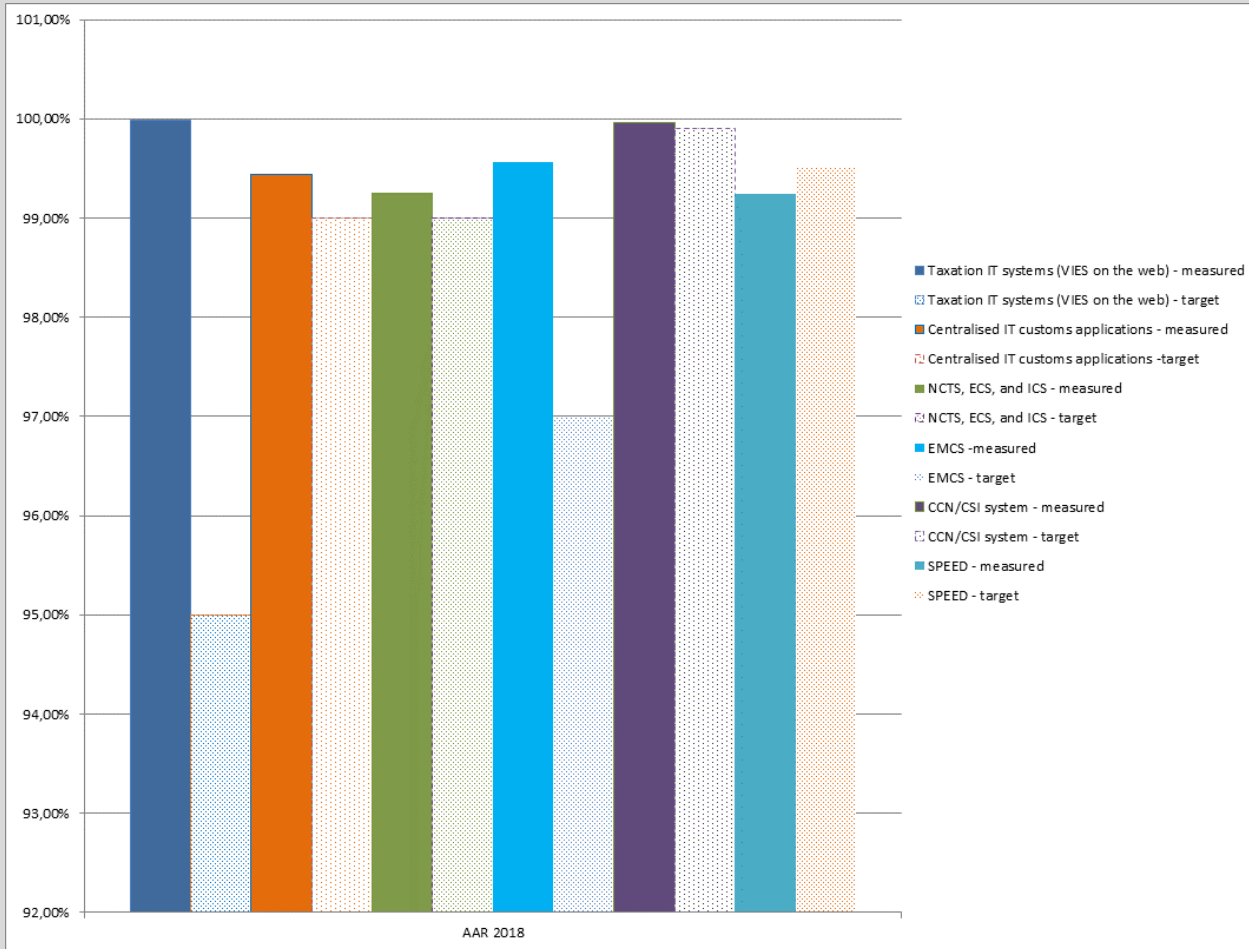
12

¹ The Proof of Union Status (PoUS) initiative was put on hold in 2018 due to re-allocation of resources (in particular to handle the BREXIT file).

² The reference deployment dates are in line with the Multi-Annual Strategic Plan for Customs MASP-C Revision 2017.

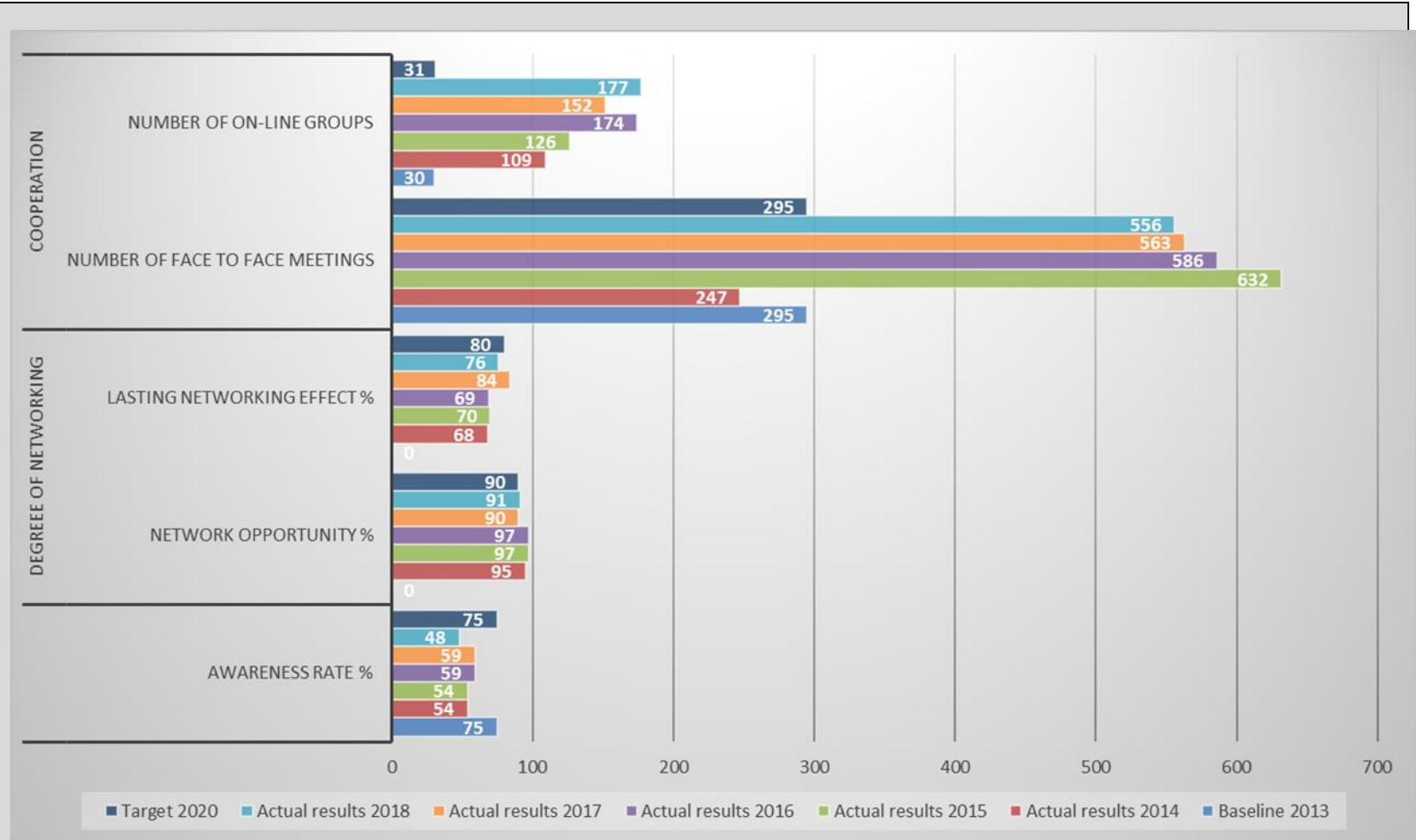
This indicator monitors the implementation of the IT related tasks assigned to the Commission and Member States by the UCC work programme aiming for modernisation and simplification of the Customs Union. The graph demonstrates in respect of the different IT systems which project phases have been completed by 1 January 2019 since the adoption of the first version of the UCC Work Programme in 2014 (revised in April 2016).

**KPI 3:
Availability
of Taxation
and
Customs IT
Systems
indicator**



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

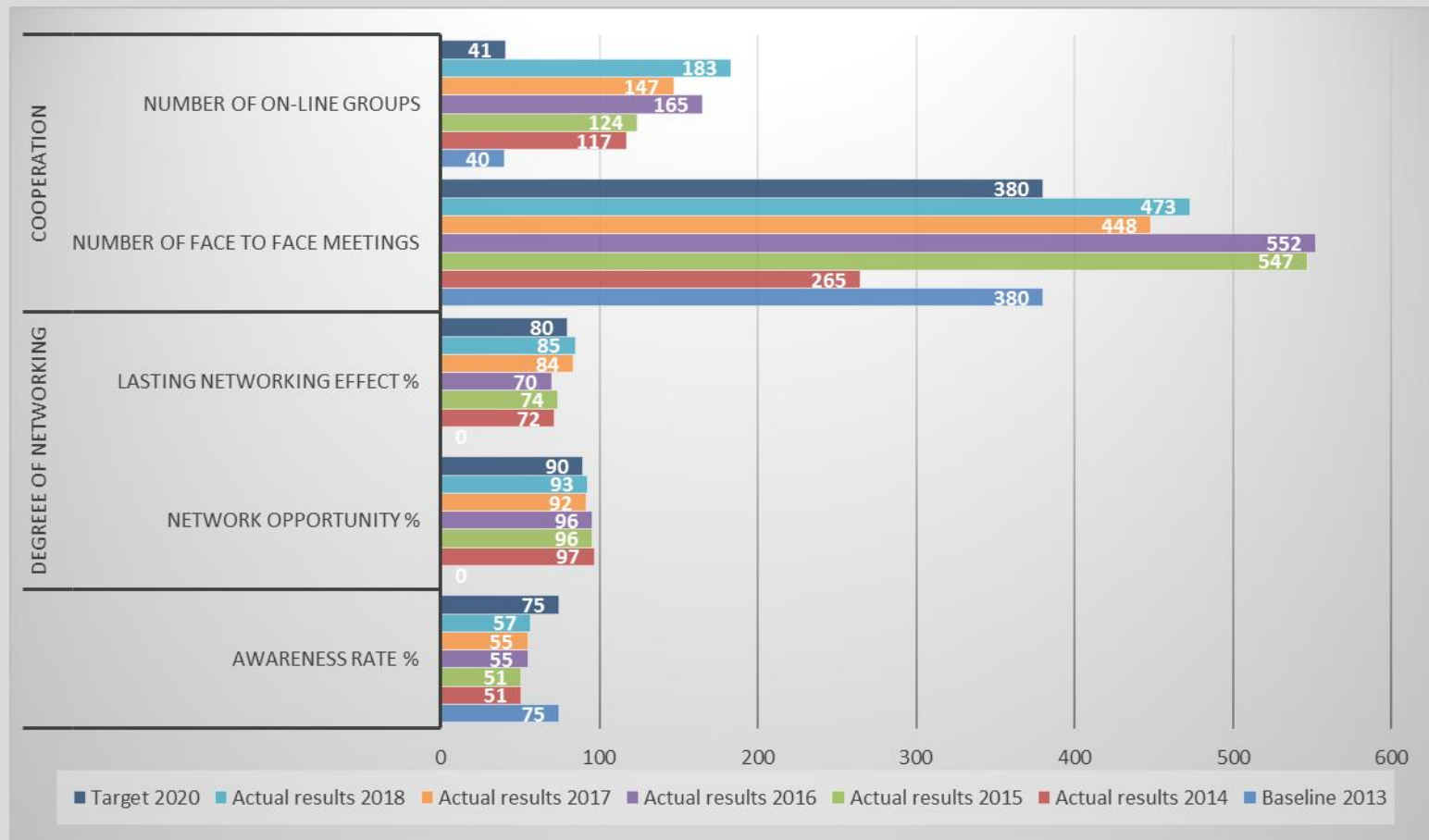
**KPI 4
Collaboration
Robustness
Indicator
Fiscalis 2020**



* No data are available for the awareness rate 2015, 2017 as measured bi-annually.

** Lasting networking effect and networking opportunity measured as from 2014, baseline 2013 being 0.

Customs 2020

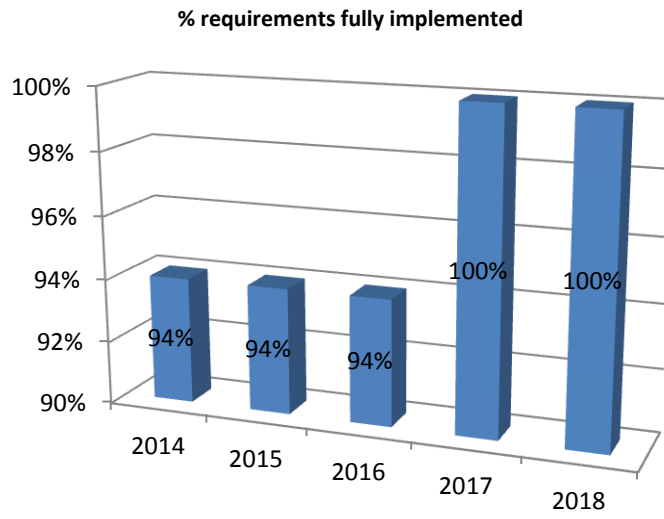


* No data are available for the awareness rate 2015, 2017 as measured bi-annually.

** Lasting networking effect and networking opportunity measured as from 2014, baseline 2013 being 0.

**KPI 5
Internal
control
criteria
implemented**

Target: >90% each year



c) Key conclusions on financial management and internal control

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

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

In addition, DG TAXUD has systematically examined the available control results and indicators, including those aimed to supervise entities to which it has entrusted budget implementation tasks, as well as the observations and recommendations issued by internal auditors and the European Court of Auditors. These elements have been assessed to determine their impact on the management's assurance as regards the achievement of control objectives. Please refer to Section 0 for further details.

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

d) Provision of information to the Commissioner

In the context of the regular meetings during the year between the DG and the Commissioner on management matters, also the main elements of this report and assurance declaration have been brought to the attention of Commissioner Moscovici, responsible for Economic and Financial Affairs, Taxation and Customs Union.

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

GENERAL OBJECTIVE 1

A fairer and deeper Internal Market



In general, the DG TAXUD initiatives that were taken to support a fairer and deeper Internal Market, worked towards tackling tax fraud, ensuring sustainable revenues and supporting a better business environment in the Internal Market. In 2018, DG TAXUD in particular worked on a fairer taxation for the digital economy and the design of a definitive VAT regime. Another priority was the smooth functioning of the Customs Union.

DG TAXUD continued to contribute to the preparatory work for the **withdrawal agreement** and the **future relationship with the UK**. This included intensive work with the corporate taskforce, talks with stakeholders in Member States and from trade as well as major work on the IT side to have the Customs and tax IT systems ready for the withdrawal.

SPECIFIC OBJECTIVE 1.1

Fight against tax fraud and aggressive tax planning

Tax fraud, tax evasion and aggressive tax planning mean less money for the public budgets limiting the capacity of EU countries to implement their economic and social policies. They are calling for solutions that must go beyond national borders, eliminate **unfair competition** and bring **tax burden-sharing**. TAXUD therefore continued in 2018 to reform the corporate tax framework as well as the EU VAT system, the latter being key to tackle VAT fraud.

Aggressive tax planning

[Factsheet](#)

On 25 May 2018, the Council adopted rules aimed at boosting [transparency to prevent aggressive cross-border tax planning](#). Recent media leaks such as the Panama and Paradise Papers have exposed how some intermediaries actively assist companies and individuals to escape taxation, usually through complex cross-border schemes.

Once in force, tax intermediaries who provide their clients with complex cross-border

financial schemes that could help avoid tax will be obliged to report these structures to their tax authorities. The information received will be automatically exchanged through a centralised database. Penalties will be imposed on intermediaries that do not comply. Member States will have until 31 December 2019 to transpose the rules into national laws and regulations.

As a follow up of the **EU list of non-cooperative tax jurisdictions**, compiled for the first time in 2017, the Commission continued with the monitoring of around 70 third countries that had committed to align their tax systems to EU good governance criteria. This entailed regular and intense dialogue with the jurisdictions concerned, in collaboration with the EEAS and DGs DEVCO and NEAR in particular. The Commission provided technical advice and clarifications to help the jurisdictions conform with the tax standards required by the EU. The EU listing process has helped to raise the bar of tax good governance globally, not only by ensuring that the EU's international partners comply with the required standards but also by increasing the level of ambition in this area in global fora. For example, the EU criterion for zero/no tax jurisdictions has now been taken up at global level by the OECD, to ensure that the absence of taxation does not facilitate corporate tax avoidance.

The Commission also presented on 21 March 2018, the first EU **counter-measures on non-cooperative tax jurisdictions** – or 'tax havens' - on the EU's common list. The adopted guidelines seek to ensure that EU external development and investment funds cannot be channelled or transited through entities in countries on the list. The goal is to ensure that EU funds don't inadvertently contribute to global tax avoidance.

The new requirements in the Financial Regulation and other legal instruments seek to align the EU's objective of tackling tax avoidance at the global level with the rules governing the use of EU funds by International Financial Institutions such as the European Investment Bank, development financial institutions – including the European Fund for Sustainable Development - and other eligible counterparties.

The Commission also hosted fair taxation events for stakeholders and the public in five Member States over the course of 2018. These events, which were part of a pilot project to boost civil society's awareness of the fair tax agenda, were followed by around 1200 people.

VAT Administrative Cooperation

In October 2018, the Council adopted the Commission's proposal to **reinforce administrative cooperation** to fight VAT fraud, causing an estimated annual loss of €50 billion for national budgets of EU Member States. The new measures expand the scope of the information that Member States will exchange, reduce the time for identifying fraudulent transactions and boost cooperation between national tax authorities and law enforcement authorities.

The annual **'VAT Gap' report**, published on 20 September 2018 elaborates on the difference between the expected VAT revenue and the amount actually collected. In nominal terms, the VAT Gap decreased by €10.5 billion to €147.1 billion in 2016, a drop to 12.3% of total VAT revenues compared to 13.2% the year before. The individual performance of the Member States still varies significantly. The VAT Gap decreased in 22 Member States with Bulgaria, Latvia, Cyprus, and the Netherlands displaying strong performances, with a decrease in each case of more than 5 percentage points in VAT losses. However, the VAT Gap did increase in six Member States: Romania, Finland, the UK, Ireland, Estonia, and France. The 2018 [report on Missing Trader Intra Community \(MTIC\)](#) focuses on MTIC fraud Gap estimation methodologies.

SPECIFIC OBJECTIVE 1.2

An EU tax framework that is fit for purpose

"Our pre-Internet rules do not allow our Member States to tax digital companies operating in Europe when they have little or no physical presence here. This represents an ever-bigger black hole for Member States, because the tax base is being eroded. That's why we're bringing forward a new legal standard as well as an interim tax for digital activities".

Pierre Moscovici

Commissioner for Economic and Financial Affairs, Taxation and Customs



The Internal Market allows business and citizens to move freely to work and to create wealth, innovation and jobs everywhere in Europe. Yet, uncoordinated tax rules, lack of cooperation between tax authorities and red tape hamper competitiveness and the willingness to invest. Throughout 2018, DG TAXUD proposed several measures to make this EU tax framework simpler and more predictable.

To help the implementation of EU tax legislation including the fight against tax fraud, the Commission brought, as from 2018, the Heads of the EU national tax administrations together in a strategic forum where they can reflect on a regular basis on the challenges their administrations are facing and share solutions.

Fair taxation for the Digital Economy

[Factsheet](#)

On 21 March 2018, the Commission put forward new measures to ensure that digital businesses pay fair taxes in the EU. It proposed to tax benefits where they are generated, even if the company has no physical presence, and to cover revenues currently escaping the corporate tax framework. The proposals aim at making corporate tax rules fit for the recent boom in digital businesses, as the current system was not designed to cater for companies that are global and have little or no physical presence in a country. The Commission is working closely with the OECD to support the development of an international solution to this problem. In the

A graphic titled "Fair Taxation for the Digital Economy" with a teal background. It features a 3D bar chart with three bars of increasing height, each topped with a blue icon representing a different benefit: a gear for sustainable tax revenues, a lightbulb for a competitive economy, and a scale for tax fairness. To the left of the chart, the text reads: "Why do we need to update the rules? Because our societies deserve:" followed by three bullet points with checkmarks: "Sustainable tax revenues (A future-proofed solution)", "A competitive economy (Supporting business growth and innovation)", and "Tax fairness (A level playing field for all businesses)".

Fair Taxation for the Digital Economy

Why do we need to update the rules?
Because our societies deserve:

- ✓ **Sustainable tax revenues**
A future-proofed solution
- ✓ **A competitive economy**
Supporting business growth and innovation
- ✓ **Tax fairness**
A level playing field for all businesses

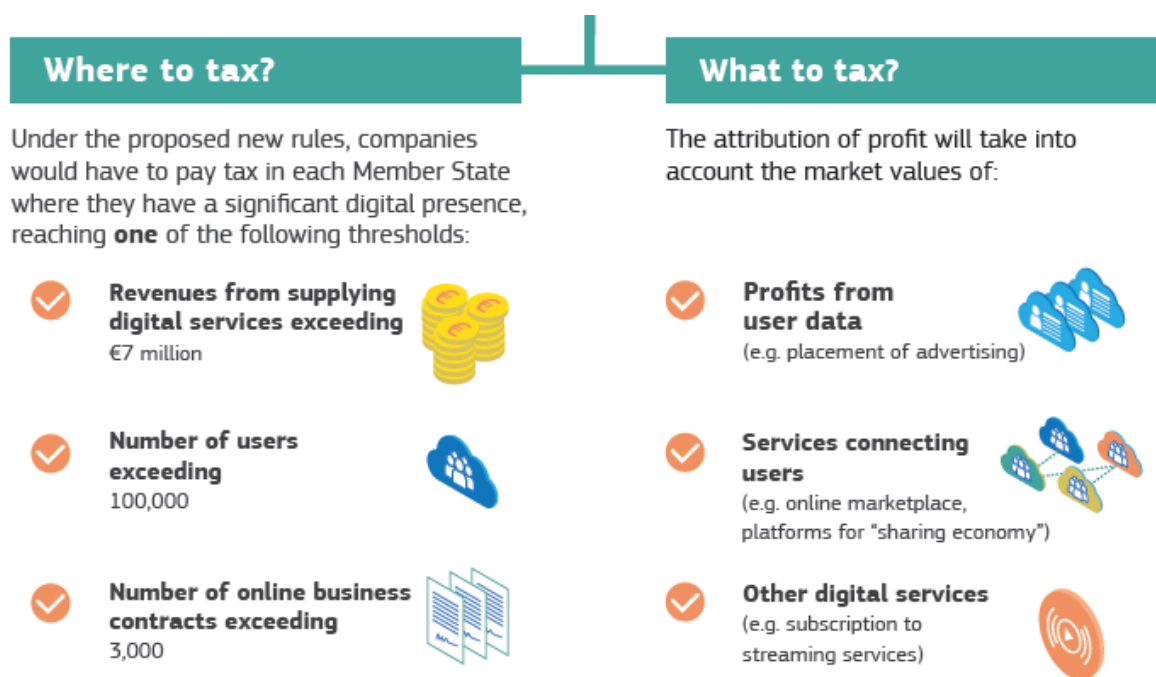
meanwhile, the Commission seeks a coherent EU approach since unilateral solutions by Member States risk creating a legal minefield and tax uncertainty for business.

A first initiative proposes a **common reform of the EU's corporate tax** rules for digital activities. It would enable EU countries to tax profits generated in their territory, even if a company is not physically there. A digital platform will be deemed to have a taxable 'digital presence' in a Member State if it has one of the following there:

- Over €7 million in annual revenues;
- More than 100,000 users in a taxable year;

- Over 3,000 business contracts for digital services in a taxable year.

The new rules will also change how profits are allocated to Member States, in a way that better reflects how companies can create value online: for instance, depending on where the user is based at the time of consumption.



A second initiative is an **interim tax on certain revenue from digital services**, which currently are not effectively taxed. It would apply only as a provisional measure to stem the most urgent losses, until the comprehensive reform has been implemented, and it has inbuilt mechanisms to alleviate the possibility of double taxation.

This proposal concerns revenues created from activities where users play a major role in creating value. The taxable revenues under the Commission's proposal are those obtained from the placement of online targeted advertising, from intermediation fees in digital marketplaces, and from selling data about users.

Tax revenues would be collected by the Member States where the users are located. This will only apply to companies whose annual worldwide revenue amounts to €750 million, and to €50 million in the EU. The goal is to help ensure that smaller start-ups and scale-up businesses remain unburdened. It is estimated that this tax, applied at a 3% rate, could generate €5 billion in annual revenues for Member States.

The 2018 Council discussions mainly focused on the interim tax.

The proposals come as Member States seek permanent, lasting solutions to ensure a fair share of tax revenues from online activities. Nowadays, nine of the world's top 20 companies by market capitalisation are digital, compared to only one just 10 years ago. However, companies in the digital economy currently have an average effective tax rate that is half that of the traditional economy in the EU.

The package complements recent work at EU level to ensure fair, effective and growth-friendly corporate taxation in the Single Market. It supports the Commission's key priority of completing the Digital Single Market.

Common Consolidated Corporate Tax Base (CCCTB)

Throughout 2018, negotiations continued on the common tax base, as a follow up to the Commission's 2016 proposal to re-launch the CCCTB. The aim of the CCCTB is to overhaul the way in which businesses are taxed in the Single Market and to improve the corporate tax environment across the EU. It aims to introduce greater simplicity, lower costs and legal certainty for companies operating cross-border and for foreign investors. The CCCTB will also increase fairness for all taxpayers, by cutting off key channels of tax avoidance and bringing multinationals under a single, unified tax system.

To facilitate progress in the negotiations in 2018, Member States conducted assessments of the impact of the CCCTB on their national tax bases, with technical guidance from the Commission. By the end of 2018, the Presidency tabled a compromise for the core elements of the common base (Chapters 1-5 of the proposal) and Member States agreed to continue work on remaining elements in 2019.

VAT system

The common Value Added Tax (VAT) system plays an important role in Europe's Internal Market. It replaced turnover taxes which distorted competition and hindered the free movement of goods and was subsequently amended to allow for the removal of checks and formalities on goods moving between Member States. It is a major and growing source of revenue for EU Member States, raising over €1 trillion in 2015, corresponding to 7% of EU GDP. One of the EU's own resources is also based on VAT. As a consumption tax, it is one of the most growth-friendly forms of taxation taking in consideration its neutrality.

The Commission has consistently pressed for the reform of the VAT system. The Commission's 2016 VAT Action Plan announced its intention to propose a number of legislative initiatives. Since then, progress has been made with new rules agreed on VAT for online sales, and the Commission has already put forward its proposals on the introduction of the definitive EU VAT system, the reform on how VAT rates are set in EU Member States and the simplifications for small businesses. However, despite the considerable progress made during the last few years, much remains to be done as demonstrated by the numerous VAT derogation requests regularly submitted by Member States.

On 25 May 2018, the Commission proposed the detailed **technical amendments to the EU VAT rules** that supplement the October 2017 package of proposals for the introduction of the definitive VAT system and the creation of a single EU VAT area. The proposal substantially modifies the current rules relating to cross-border business-to-business trade in goods within the EU and should make the EU VAT system more fraud-resilient and at the same time make life easier for companies across the EU, putting an end to 25 years of a 'transitional' VAT regime in the Single Market. The new definitive EU VAT system would help to shut down the estimated €50 billion in fraud currently affecting national budgets annually in EU Member States. Member States have already kick-started discussions on the detailed technical provisions for the implementation of the definitive VAT system.

Abolishing the VAT exemption on cross-border trade

Agreement that the VAT should always be paid in the Member State of the final consumer and at the rate of that Member State

A 'One Stop Shop' online portal for businesses to take care of their cross-border VAT obligations in their own language

Simplification of VAT invoicing allowing sellers to prepare invoices according to the rules of his own country.



Throughout 2018, DG TAXUD contributed also to the inter-institutional negotiations in the Council and the European Parliament which resulted in the adoption of several key pieces of EU VAT legislation, all of which should improve the day-to-day running of the EU VAT system. This included:

- A new measure to allow Member States to align the [VAT rates they set for e-publications](#), currently taxed at the standard rate in most Member States, with the more favourable regime currently in force for traditional printed publications. This measure was adopted on 6 November 2018.
- The extension of the application of the [minimum standard rate](#) adopted on 22 June 2018.
- The prolongation of the period of application of the [optional reverse charge mechanism](#) in relation to supplies of certain goods and services susceptible to fraud, and of the Quick Reaction Mechanism (QRM) against VAT fraud also adopted on 6 November 2018. Since these measures included in Article 199a and 199b of the VAT Directive appeared useful as temporary and targeted measures to fight fraud by Member States, they were prolonged until 30 June 2022, the date on which the definitive regime for intra-Union B2B supplies of goods should enter into force.
- The introduction of a restrictive **Generalised Reverse Charge Mechanism** for VAT was adopted in December 2018.
- The adoption of the so called [VAT "quick fixes"](#) on 4 December 2018, to improve the day-to-day functioning of the current VAT rules for taxation of trade in goods between Member States until the definitive VAT system has been implemented. These "quick fixes" should reduce compliance costs and increase legal certainty for businesses, in particular as regards call-off stock arrangements, chain transactions and the conditions and proof for the exemption of the Intra-Community supply of goods. These new rules will apply as of 1 January 2020.

VAT on eCommerce

On 11 December 2018, the Commission proposed new detailed measures that will pave the way for a smooth transition to **new VAT (Value-Added Tax) rules for e-commerce**. These will come into force in January 2021. These rules need to ensure that online marketplaces will play their part in the fight against tax fraud and will ease administrative burdens for businesses selling goods online. The electronic business portal for VAT (VAT 'One-Stop Shop') put in place by these measures will allow companies that

sell goods online to deal with their VAT obligations in the entire EU through one easy-to-use online portal in their own language. Without the portal, VAT registration would be required in each EU Member State into which they want to sell – a situation cited by companies as one of the biggest barriers for small businesses trading cross-border. The system is already in place for e-service providers since 2015 and is working well. Forming part of the EU's broader agenda to tackle VAT fraud and to improve VAT collection on internet sales, the new measures should help Member States to recover the €5 billion in tax revenues lost in the sector each year - a figure due to rise to €7 billion by 2020. Negotiations in Council on these proposals is progressing quickly and political agreement may be reached in Spring 2019.

To complement the above, the Commission proposed in December 2018 legislative measures to fight VAT fraud in e-commerce, that will allow tax administrations to collect and exchange payment data related to cross-border e-commerce transactions.

Excise Duties

The Commission proposed on 25 May 2018 to reshape the rules governing excise duty on alcohol within the EU, paving the way for a better business environment and reduced costs for small alcohol-producing businesses and better protection for consumer health.

That proposal means that small and artisan alcohol producers (including, for the first time, small independent cider makers) will have access to a new EU-wide certification system confirming their access to lower rates of duty across the Union. Consumer health will also benefit from a crack-down on the illegal use of tax-free denatured alcohol to make counterfeit drinks. There will also be an increase in the threshold for lower strength beer to which reduced rates may apply.

Concretely, the proposal will:

- Put in place a uniform certification system, recognisable in all EU countries confirming the status of independent small producers throughout the Union.
- Ensure a precise and consistent classification of cider across the EU.
- Clarify the correct manufacturing processes and conditions for denatured alcohol in the EU.
- The new rules will replace the outdated paper-based procedures used to track movement of certain denatured alcohol and will result in the mandatory use of the Excise Movement and Control System.
- Increase the threshold for lower strength beer that can benefit from reduced rates from 2.8% volume to 3.5% volume.

Also on 25 May 2018, the Commission proposed new rules on the general arrangements for excise duties to remove barriers for SMEs. This will allow SMEs to use modern IT systems and proposes to lift their existing obligation to employ tax representatives. Member States can currently insist that distance sellers of excise goods employ tax representatives, which can make legitimate trade financially unviable.

Negotiations on these proposals were launched in the Council in June 2018. The Austrian presidency made a lot of progress with all of them to lay the ground for an agreement in the first semester of 2019.

The Commission proposed on 13 December 2018 to extend the range of exemptions and reduced rates from the "*octroi de mer*" (or Dock Dues) for certain local products in the EU outermost regions of Guadeloupe, French Guiana, Martinique and La Réunion. The

measures aim to encourage economic activity and safeguard the competitiveness of local products on these French outermost regions.

Concerning Taxation of Energy Products, the Commission has gone on in 2018 with the evaluation of Directive 2003/96/EC. The evaluation, which has been selected for examination by the Regulatory Scrutiny Board is expected before the end of the first semester of 2019. It will be based on two external studies and cover the entire scope of the Energy Taxation Directive as well as all mandatory evaluation criteria

Taxation IT Systems

The Commission published a first report on the first experiences of mandatory automatic exchange of information (AEOI) in the framework of administrative cooperation within direct taxation in December 2018. This report confirmed that the automatic exchanges have started relatively well, from the perspective of the common IT framework. All Member States have actively built and accommodated their IT systems that are linked to the common EU solutions, and all Member States have started secured automatic exchanges of the planned exchanges of information on

- income from employment, pensions, directors fees, income and assets from immovable property and life insurance (commonly known as DAC1),
- income and assets on financial accounts (DAC2), as well as
- advance tax rulings and advance pricing arrangements (DAC3).
- country-by-country reporting of multinational enterprise groups (DAC4)

While the IT framework still continues to be expanded for the exchange of information of cross-border tax advantage arrangements (DAC6), the Commission will continue to monitor the quality and timeliness of the data exchanges, and if possible, will provide support for the Member States in their efforts to enhance the use of the AEOI data received from other Member States.

New technologies

Blockchain is one of the **potentially foundational technologies** identified by the Commission to enable the Digital Single Market. After having started the Blockchain@TAXUD initiative in 2017, in 2018, DG TAXUD, in collaboration with DG DIGIT and DG CONNECT, evaluated further if this technology is suited for taxation or customs.

- In the excise domain DG TAXUD tested, with the EMCS Proof of Concept (PoC), a complex scenario using a permissioned consortium blockchain. It was completed in 2018 and is illustrated in this [Blockchain in the excise domain video](#).
- In the customs domain, a separate PoC project on [temporary admission \(eATA\)](#) was carried out in collaboration with the International Chamber of Commerce. It was based on a permission-less blockchain on a private network.
- Drawing from the positive results of the above blockchain projects, DG TAXUD organised a workshop with the Member States in May 2018, raising awareness on the interest of this new technology. It was agreed to carry on in 2018 and 2019 with an extended Proof of Concept for the System of Exchange for Excise Data (**SEED-on-blockchain**). The work started end of 2018 with 8 Member States. DG TAXUD and the Member States will evaluate in 2019 the operational and governance aspects of using blockchain technology, notably the possibility of using it in the future for the

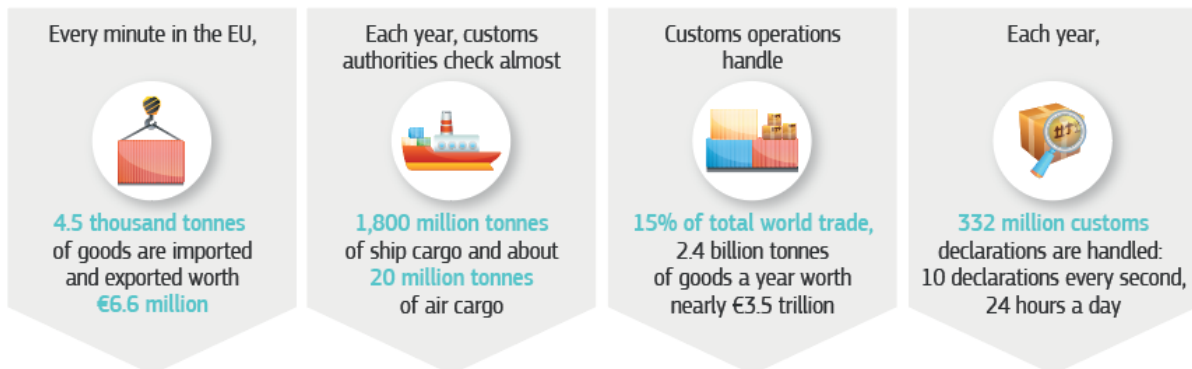
Import one-stop shop (IOSS system), which is required in the context of the e-Commerce implementation.

SPECIFIC OBJECTIVE 1.3

Well-functioning and modern Customs Union



In 2018, our **Customs Union turned 50** and this was rightly noted throughout the EU as a great milestone! The Customs Union is **unique in the world**, a foundation of the European Union essential for the proper functioning of the Internal Market. The Customs Union is a single trading area where all **goods circulate freely**, whether they are made in the EU or imported from beyond its borders. This means that there are no customs duties at the borders between EU countries. Duty on goods from outside the EU is generally paid when they first enter the EU. From then on, there is nothing more to pay and no more checks. **More than 114,000 customs officers in all EU countries work together as one** around the clock at airports, border crossings, ports, inland customs offices and customs laboratories to manage the day-to-day operations of the Customs Union.



The working of our **Customs Union has been under pressure** over the past decade from rapidly changing technologies and business models, increased volumes of world trade and increased number of tasks to be performed by customs. The **2016 Union Customs Code** (UCC) adapted the EU customs rules therefore to:

- streamline and digitalise customs procedures,
- harmonise the implementation of customs legislation,
- better protect the Internal Market from safety, security and other threats linked with the flow of goods across the external borders and,
- better safeguard the financial interests of the EU and Member States.

In 2018, the Commission took further steps to address the key elements of the reform of the **Customs Union Governance**. Reporting on the progress made in the first [Biennial report](#) of June 2018, the Commission reviewed the operation of the Customs Union to date and identified priority issues ahead. This governance strategy is the basis for a dialogue and a closer cooperation with all stakeholders, including citizens, businesses, Member States, the European Parliament and other European Institutions, whose input to the continued success of the Customs Union is vital.

The Biennial report also emphasised the need to strengthen data-driven policy making. The **Customs Union Performance** (CUP) delivers a systematic assessment of Customs Union performance against its strategic objectives in terms of effectiveness, efficiency and uniformity based on analysis of key performance indicators (KPI). The heads of the Customs administrations of the Member States and the European Commission agreed in the Vienna declaration of October 2018 that:

- the use of CUP should be integrated with Customs Union strategic management, policy formulation and operational decision-making, ;
- the CUP analysis and KPIs should be developed to address better common customs priorities and challenges in the Customs Union;
- the CUP should support communication on the added value of Customs, and its strategic needs

In 2018, the process of **keeping the UCC up to date** continued:

- The Commission proposed to extend the period for completion of some of the 17 electronic systems (14 trans-European and 3 national systems) provided for under the UCC. The proposal, while maintaining the original deadline of 2020 for most electronic systems, would provide additional time, until 2025 at the latest, for the completion of some systems.
- The Commission proposed further technical changes and to bring Campione d'Italia and the Italian waters of Lake Lugano within the scope of the Union customs territory.
- The correction of some technical issues and elimination problems of interpretation of certain terms entered into force.
- Discussions with Member States and trade took place in 2018 on further amendments to the legal acts aimed at ensuring that customs administrations can collect and transmit to tax authorities the information required under two new VAT measures.
- Also, the Commission, Member States and trade worked together on guidance documents explaining practical aspects of the UCC customs rules.

The Commission constantly **monitors the implementation of the UCC**, publishing a first UCC implementation report in 2018 and planning an interim evaluation by end 2021 and a fitness check once all seventeen electronic systems have been deployed. The first implementation report confirmed that no major problems had been encountered and that the regular dialogue established with all stakeholders helps to resolve all interpretation and application problems quickly. The simplifications introduced by the UCC are already having a positive impact, with economic operators largely welcoming the new legislation.

Together with the Member States, TAXUD carried out in 2018 **a capacity building exercise** to promote best practices for the use of simplified customs declarations to ensure no abuse is made of this widely-used facilitation in the area of customs clearance.

In line with the [Action Plan on Military Mobility](#), TAXUD and Member States identified in 2018 the legal provisions that may need to be amended to simplify customs formalities for military operations.

Common Customs Tariff

Since the completion of the internal market, goods can circulate freely between Member States. The 'Common Customs Tariff' (CCT) therefore applies to the import of goods across the external borders of the EU. The tariff is common to all EU members, but the rates of duty differ from one kind of import to another depending on what they are and where they come from. Throughout 2018, DG TAXUD continued to ensure the uniform application of the CCT and the daily update of the Integrated Tariff of the European Union (TARIC), a multilingual database integrating all measures relating to EU customs tariff, commercial and agricultural legislation:

- providing up-to-date data for the customs clearance systems of the Member States,
- giving economic operators a comprehensive view of all tariff measures applicable when importing or exporting goods into/from the EU,
- adopting three implementing regulations on tariff quotas and ensuring the management and daily allocations for more than 1,100 tariff quotas in 2018, and
- publishing 39 legislative tariff classification measures, and solved 45 other cases of divergent classification by consensus with the Member States

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

Customs IT Systems

In 2018, DG TAXUD continued **operating an important portfolio of IT systems**, supporting the Member States and third countries in their exchanges of Customs related information, and supporting traders. The operational exchanges included 12 million transit movements, over 15 million indirect export movements, 48 million entry summary declarations and 392 million surveillance records. The publicly available information on the internet was accessed more than 150 million times, an increase of 30% compared to 2017.

In the context of **modernizing the Customs IT systems** and/or expanding the scope of Customs exchanges with other partners:

- the mutual recognition of authorized economic operators was extended to Norway;
- the UCC implementation of the surveillance system was put into production;
- the system of registered exporters (REX) was extended to Turkey;
- the Customs Decisions System supporting electronic applications for authorisations/decisions was enhanced;
- modernization was ongoing, covering notably electronic applications for Binding Tariff Information (BTI) and for authorized economic operators (AEO);
- a major overhaul of the common/community Transit system (NCTS) and the Automated Export System (AES) performed;

- provision of a search facility for classification information (CLASS) was under construction;
- a pilot activity for the exchange of information for Special Procedures (INF) was launched and put in production by early 2019;
- inception of the COPIS e-AFA system, supporting the protection of intellectual property rights, was pursued in collaboration with Member States and the European Union Intellectual Property Office.

DG TAXUD continued reflecting on the policy options for the EU Single Window environment for customs. In 2018, the **EU Customs Single Window pilot** (EU CSW-CERTEX) interfacing the Member States national customs systems with EU e-Licensing solutions was expanded to new certificates like for organic products import licences and timber import licences. By end of 2018, customs administrations of 9 Member States were using this interface in business operational conditions. Further expansion to Dual Use goods e-Licensing solution was also prepared in 2018.

The impact of a possible **withdrawal of the United Kingdom** on the Customs IT systems was analysed and measures were implemented to cover for such event, for a withdrawal scenario, both with or without agreement. Among others, preparations were made for a possible accession of the United Kingdom to the Common Transit Convention.

SPECIFIC OBJECTIVE 1.4

The EU programmes supporting EU tax and customs policy

The [Customs](#) and the [Fiscalis](#) 2020 programmes offer Member States a European framework for cooperation amongst national customs and tax administrations and their officials. Customs 2020 aims to support and improve the proper functioning and modernisation of the customs union, while Fiscalis 2020 focuses on improving the proper functioning of the taxations systems in the internal market. The 2018 Annual Work Programmes of Customs and Fiscalis were adopted in February 2018. Under this umbrella, national customs and tax authorities create together, and under DG TAXUD's steering, synergies and joint approaches for common and trans-national challenges.

The vast majority of the programmes funding (approx. 80%) is devoted to the implementation, improvement, operation and support to the European Information Systems (EIS), allowing customs and tax administrations to exchange information by secure electronic means by interconnecting approximately 5.000 connection points. The remaining programmes' budget is used for the organisation of joint actions for officials, the cooperation and collaboration side, and the training activities.

The collaboration between customs and taxation officials is supported by actions like workshops, seminars, project groups, and working visits where officials exchange knowledge and best practices, and it represents a key sustainable success factor for the understanding and implementation of customs and taxation policy in Europe and for increasing the performance, effectiveness and efficiency of the customs and taxation administrations.

In the area of customs, two Expert Teams³ continued their activities namely the customs laboratories Customs Laboratories Expert Team (CLET) and the other one on binding tariff information (BTI). In addition, two new Expert Teams were created in 2018:

- Customs East and South-Eastern Land Border Expert Team (CELBET 2) continuing the work of CELBET 1 on operational cooperation at the EU Eastern and South-Eastern land border and,
- Expert Team on Customs IT Collaboration (ETCIT), exploring new collaborative approaches for developing and operating customs IT systems).

In the area of taxation, work continued on IT collaboration among Member States, and three new Expert Teams were launched for developing

- a Transaction Network Analysis tool (TNA),
- a mobile application for excise movement controls (m-EMCS), and
- an excise duty calculator (EDC).

In the area of [training](#), Customs 2020 continued to support the implementation of the UCC, with new eLearning modules:

- further language versions of the UCC Registered Exporters (REX) System module,
- an update of the UCC Customs Decision Systems (CDS) module,
- developing eLearning support to the UCC European Binding Tariff System (EBTI),
- an EU eLearning on UCC Surveillance,

³ Structured form of enhanced cooperation pooling expertise to perform tasks in specific domains or carry out operational activities.

Under Fiscalis 2020, there was an update of the EU VAT eLearning programme fit for use by the national public and private sector.

Furthermore, the programmes continued to support national customs administrations with the introduction of competency-based staff development and training, based on the EU Customs Competency Framework. In addition, the development of an EU TAX [Competency Framework](#) was started in 2018.

The Mid-term Evaluations of Customs and Fiscalis were completed in 2018 by external evaluators, concluding positively on the programmes' progress towards their respective objectives. Criticism was minor and in many cases related to efforts for continuous improvement. For example, the Performance Measurement Framework that was put in place for the current funding period represents a big step forward to monitoring the programme, but it is currently too complicated and burdensome to function as an aid to decision-making.

The Commission adopted before the summer its legislative proposals for the continuation of the Customs and Fiscalis programmes post-2020, together with the proposal for the new Customs Control Equipment Instrument in the framework of the multi-annual financial programme. The negotiations with the co-legislators started during the second half of 2018 and will continue during 2019.

GENERAL OBJECTIVE 2

A new Boost for Jobs, Growth and Investment

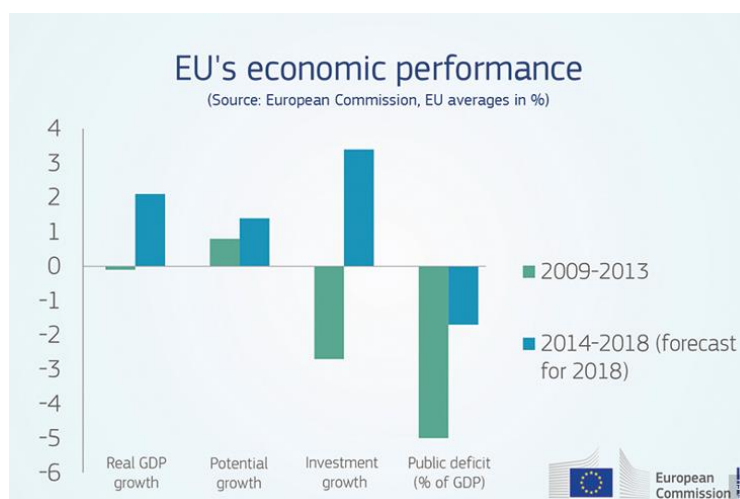


SPECIFIC OBJECTIVE 2.1

Taxation enhancing EU competitiveness

The activities launched on **taxation and digital economy** contributed to the Commission's objective for a fairer and deeper Internal Market as well as its objective for boosting jobs growth and investment. Work on the CCCTB in 2018 also remained focussed on creating a fairer, more competitive and more robust corporate tax system for the EU in the future. A detailed description of these activities is available under specific objective 1.2.

All Member States' economies are forecast to continue growing, though at a slower pace. Barring major shocks, Europe should be able to sustain economic growth, robust job creation and falling unemployment. The public finances of euro area Member States have improved considerably, and the aggregate euro area public deficit is now below 1%. However, debt remains high in several



countries. As the economy continues to grow, it is time to build up fiscal buffers to cope with the next downturn. Throughout 2018 DG TAXUD has therefore contributed in the context of the **European Semester** to the economic analysis of national tax policies and the preparation of the country-specific recommendations in the field of tax policy supporting reforms to improve the fairness and efficiency of national tax systems.

At the end of November 2018, the 2019 European Semester cycle, with the adoption of a package setting out Europe's economic and social priorities for 2019, and presenting opinions on euro area Member States' Draft Budgetary Plans. Though a lot has been achieved since 2014, economic growth is less dynamic and more must still be done to support inclusive and sustainable growth and job creation, while making Member States' economies more resilient.

The 2018 edition of the [Tax Policies in the EU survey](#) examines how Member States' tax systems help to promote investment and employment, how they are working to reduce tax fraud, evasion and avoidance, and how tax systems help to address income inequalities and ensure social fairness. It substantiates the priorities outlined in the Annual Growth Survey in the area of taxation and presents the most recent reforms in Member States and the main indicators used by the European Commission to analyse tax policies in the context of the European Semester. It also presents reform options to improve efficiency and fairness in tax systems.

The 2018 edition of the [Taxation Trends report](#), a yearly snapshot of tax systems in the EU, Iceland and Norway provides extensive and comparable data on the different tax structures and rates of Member States. Based on the latest available figures, the report demonstrates that tax revenues rose in 19 Member States in 2016 as a percentage of GDP in 2016. However, the level of taxation in EU Member States differs greatly. The report also shows that the share of labour taxes in total tax revenues shrank progressively from 2010 to 2016 when it accounted for 49.8% - similar to its pre-crisis level. Corporate income tax revenues, on the other hand rose to 2.7% of GDP in 2016 compared with 2.6% in 2015, continuing their gentle increase since the crisis though not yet at pre-crisis levels.

The report also provides an analysis on the medium- to long-term evolution of these trends. Taxation is a top priority for the Juncker Commission and providing quality data is a must if we want to develop robust and effective tax policies for the future. This report offers a breakdown of comparative tax levels in the EU and of tax revenues raised from consumption, labour and capital. It also contains data on energy, environmental and property taxation, plus rates for personal and corporate income taxes.

The VAT Committee examines questions concerning the application of EU VAT provisions raised by the Commission or a Member State and may, as a result agree guidelines on specific matters. The latest list of [VAT guidelines](#) was made available on 8 January 2019. This list includes the text of all the guidelines issued since the VAT Committee was set up in 1977. In Spring 2018, the Commission also launched an update of the [portal](#) that provides comprehensive information for businesses on VAT rules on eServices in all EU Member States.

SPECIFIC OBJECTIVE 2.2

Ensuring efficient customs fostering EU competitiveness



On 26 September 2018, the Dutch customs authority issued the **1.000.000th Binding Tariff Information (BTI) decision**. The European Binding Tariff Information (EBTI) system was introduced to ensure legal certainty for economic operators when calculating the price of import or export transactions and to facilitate the work of the customs services, as well as to secure a more uniform application of the Common Customs Tariff. There has been steady growth in the numbers of BTI decisions issued annually with at the end of 2018 more than 250.000 valid BTI decisions stored in the EBTI database.

Economic operators or any other interested parties may consult all currently valid BTI decisions containing non-confidential information [online](#). This is by far the most consulted information source on classification quickly heading to 50 million hits. In 2018 also the

Administrative Guidance for BTI was finalised offering customs authorities and economic operators an overview of the BTI processes and contributing to the harmonisation of national practices.

Also, to enhance the competitiveness of the EU manufacturing sector, 184 new autonomous tariff suspensive measures were introduced in 2018 on raw materials or components that are not available in the Union or available in insufficient quantities.

A vital element for the competitiveness of the EU customs Union is the Union and Common transit procedure which links the EU Member States to 7 further countries⁴ facilitating the movement of goods. Major work was undertaken in **2018** to keep the procedure operational and improve it further.

Throughout 2018, DG TAXUD substantially supported the initiative of the United Nations Economic Commission for Europe (UNECE) to prepare the introduction of **eTIR**. This is a new IT system that will further facilitate the road transport between the EU and third countries under the Convention on International Transport of Goods (TIR) by processing solely electronic documents.

In the framework of the **authorised economic operators** (AEO) policy, in 2018, DG TAXUD continued working on its harmonised implementation, improved data collection, and awareness raising with traders. DG TAXUD continued negotiations with Canada and Hong Kong. DG TAXUD also supported the implementation of existing agreements with US, China, Japan, Norway and Switzerland.

Regarding the **Smart and Secure Trade Lanes** (SSTL) Pilot Project with China/Hong Kong, DG TAXUD work in 2018 on the development of the future SSTL automated data exchange and elaborated a list of sensitive products that could be subject to a new risk rule test in 2019.

On 31 May 2018, **financial risk criteria** (FRC) for risk-based customs controls were agreed with Member States, establishing a set of rules to flag transactions considered to pose financial risks and requiring further scrutiny. These financial risk criteria address the customs control aspects of amongst others undervaluation, antidumping, misclassification, incorrect origin, abuse of quotas or suspensions, simplified procedures and customs procedure 42.



In May 2018, the **2018-2020 EU Customs Action Plan to combat Intellectual Property Rights (IPR) infringements** was established. The importance of fighting IPR infringements is confirmed by figures released by the European Commission on 27 September 2018 that showed that customs authorities detained over 31 million **fake and counterfeit products at the EU's external border** with a street value of over €580 million in 2017. Although the total figures have declined since 2016, fake potentially dangerous goods for day-to-day use like healthcare products, medicines, [toys](#) and electrical goods now make up a much higher proportion of all seizures – 43% of all detained goods came from this category. Overall, the top

⁴ The EFTA countries (Iceland, Norway, Liechtenstein and Switzerland), Turkey (since 1 December 2012), the former Yugoslav Republic of Macedonia (since 1 July 2015) and Serbia (since 1 February 2016)

category of fake goods was foodstuffs, accounting for 24% of the overall amount of detained articles. This was followed by toys (11%), cigarettes (9%) and clothes (7%).

In terms of **modes of transport**, 65% of all detained articles entered the EU via the maritime route, usually in large consignments. This was followed by air traffic which transported 14% of fake articles. Third was courier traffic and postal traffic which together accounted for 11% and were mainly made up of consumer goods ordered online such as shoes, clothing, bags and watches.

China remains the main **country of origin** for fake goods entering the EU. The highest amount of fake clothing originated from Turkey while the most counterfeit mobile phones and accessories, ink cartridges and toners, CDs/DVDs and labels, tags and stickers entered the EU from Hong Kong and China. India was the top country of origin for fake, and potentially harmful, medicines. In 90% of detentions, goods were either destroyed or a court case was initiated to determine an infringement or as part of criminal procedures.

Throughout 2018, DG TAXUD also continued its cooperation with other competent authorities and Member States on the **harmonised implementation of customs controls** to ensure that goods entering the EU comply with EU standards on environment, product safety, human health and food safety.

GENERAL OBJECTIVE 3

A secure European Union

"We are going further than ever before in the fight against money laundering and terrorism, with the aim of ensuring a safer society. We are responding to the expectations of our citizens, who are understandably outraged by the criminals and terrorist activity on our soil. I welcome the agreement to curb the circumvention of cash controls at the EU's external borders."

Pierre Moscovici

Commissioner for Economic and Financial Affairs, Taxation and Customs



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

SPECIFIC OBJECTIVE 3.1

Strengthening security and contributing to tackling terrorism and serious crime

On 20 July 2018, the Commission adopted the [2nd report](#) on the **EU Strategy and Action Plan for Customs Risk Management**. It shows the significant progress made by all Member States and the Commission, especially in strengthening collaboration between all parties involved in Customs Risk Management as well as in launching new initiatives. Although almost all actions identified in the 2014 Commission Strategy and Action Plan for better Customs Risk Management have now been launched, the report also stresses that EU Customs must continuously adapt to face new threats and challenges, such as terrorism, to contribute to the security of EU citizens.

On 2 October 2018, EU finance ministers adopted reinforced rules to **control illicit cash flows** in and out of the EU, a key measure in the fight **against the financing of terrorism**. This measure will tighten cash controls on people entering or leaving the EU with €10,000 or more in cash, enable authorities to act on amounts lower than the declaration threshold of €10,000 where there are suspicions of criminal activity and extend customs controls to cash sent in postal parcels or freight shipments, to prepaid cards and to precious commodities such as gold.

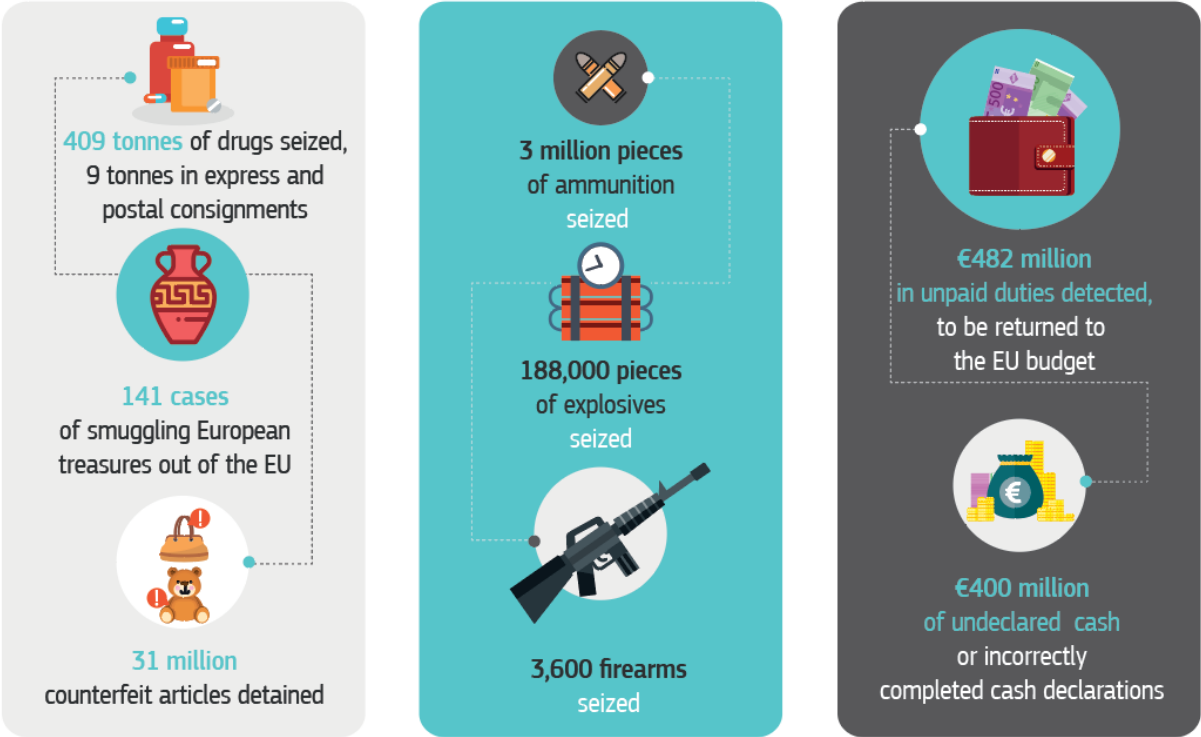
Illegal synthetic drug production is a serious problem in the EU. Many of the key chemicals which are needed for this illegal production are illegally imported. Customs face increasing amounts of these chemical products entering the European Union (EU) market with false declarations. The EU is also confronted with increasing imports of different types of new drugs which are known as New Psychoactive Substances (NPS). The **Customs' Laboratories European Network (CLEN)** and the European Commission's Joint Research Centre (JRC) support customs with scientific expertise for the identification and the handling of these key chemicals and NPS during controls.

The negotiations with the co-legislators on the proposal on the **import of cultural goods** progressed well in 2018. This initiative key to prevent illicit trade in cultural goods and the import of illegally exported cultural goods into the EU. Its adoption is expected early 2019.

The people and dogs behind the free circulation of goods



CUSTOMS IN FIGURES (2017)



GENERAL OBJECTIVE 4

EU as a strong global actor

"A wider use of the euro in the global economy yields important potential for better protecting European citizens and companies against external shocks and making the international finance and monetary system more resilient. Progress on the completion of the Economic and Monetary Union is therefore not only needed to promote growth and stability at home, it is also an important project to underpin our European autonomy in a globalised world."

Pierre Moscovici

Commissioner for Economic and Financial Affairs, Taxation and Customs



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

SPECIFIC OBJECTIVE 4.1

Developing international customs and tax cooperation

The EU continued to have an important impact on the global tax agenda in 2018 and contributed to international progress on several significant issues. The agreement on **new transparency rules for intermediaries** in May 2018 showed that, once again, EU Member States were ready to lead the way in implementing international standards against tax avoidance through binding EU law. On the **taxation of the digitalised economy**, the Commission's proposals in March 2018 accelerated the debate amongst Member States on this issue and fuelled the international work to develop concrete and appropriate solutions.

The **EU listing process for non-cooperative tax jurisdictions**, which continued in 2018, also had an important impact on the global tax environment. Around 70 jurisdictions committed to improve their tax good governance standards in line with EU and international criteria and the Commission actively supported them in delivering on these higher standards, under the listing process. The Commission also collaborated closely with the OECD and other international organisations, to ensure close alignment of the EU and global work in this area. In some cases, EU initiatives prompted a higher level of international ambition too. For example, the EU's criterion to assess zero/no tax jurisdictions has now been taken up by the OECD as a new global standard.

In 2018 the **EU-Norway** Agreement on **mutual assistance in the area of VAT** entered into force. The Norwegian tax officers now participate to the meetings of the Eurofisc antifraud network and should be able to exchange VAT-related information with Member State officials as of 2019.

In 2018, in the context of the Convention on **pan-Euro-Mediterranean preferential rules of origin (PEM Convention)**, the EU and **Georgia and Ukraine** succeeded to adopt the decisions to replace their respective Protocols on rules of origin with references to the PEM Convention, In this manner the pan-Euro-Mediterranean area of cumulation was further extended, creating new possibilities for operators and reinforcing the integration of the region.

DG TAXUD continued to support throughout 2018 the **EU Eastern Partnership countries**. The Republic of Moldova and Georgia prepared new customs regulations in line with the Union Customs Code. The Republic of Moldova implemented an authorised economic operator programme and is ready now to start mutual recognition negotiations with the EU. Ukraine, Georgia and the Republic of Moldova also advanced the harmonisation with the EU-EFTA common transit convention.

The monitoring of the alignment of the **Western Balkans and Turkey** with the EU's Tax and Customs Acquis also continued in 2018, assisting in the modernization of these customs administrations, focusing primarily on the IT developments required by the UCC.

The procedure for conclusion of the agreement amending the **EU-Morocco Association Agreement** is expected to be finalised in the beginning of 2019. That agreement will allow to grant products from the Western Sahara the same tariff preferences as those granted to Moroccan products.

A new **customs agreement** between the EU and **New Zealand** entered officially **into force** on 1 May 2018. The agreement enables both partners to work together to prevent, investigate and combat breaches of customs rules. It paves the way for more cooperation on customs security and a safer, trade-friendly environment for businesses and consumers alike. Total trade between the EU and New Zealand in goods amounted to €8.4 billion in 2017 and trade in commercial services amounted to a further €4.4 billion in 2016. The entry into force of the agreement followed its signature in July 2017.

Negotiations on the modernisation of the **free trade agreement** between the EU and **Mexico** were **completed** in 2018, including the chapters on Rules of Origin and on Customs and Trade Facilitation.

The EU **concluded** the **negotiation** of a Protocol on **rules of origin** to the stepping stone Economic Partnership Agreement between the EU and **Ivory Coast**. In addition, technical amendments to Protocol 1 on rules of origin to the interim Economic Partnership Agreement between the EU and the **Eastern and Southern African (ESA)** States were concluded. Both protocols provide for more flexible and simpler rules, up to date with the most recent developments in rules origin. These allow economic operators to meet the origin requirements and benefit from the preferential arrangements.

DG TAXUD continued **monitoring** the **implementation of preferential trade arrangements** which protect the EU's financial interests and ensure fair trade between the EU and the third countries that are benefitting from preferential trade arrangements. This monitoring of compliance with the rules on preferential origin also strengthens the Union's credibility when negotiating free trade agreements. In this context, DG TAXUD performed in 2018 monitoring visits to Sri Lanka, Armenia and Laos providing their customs authorities with tailor-made explanations and advice. Monitoring activities were also launched by means of written questionnaires with a number of other beneficiaries of the Generalised System of Preferences (GSP) (Bolivia, Nigeria, Nepal, Zambia, Angola, Ethiopia, Malawi and Tanzania). Also within the EU monitoring visits were carried out (Spain and Portugal) to identify best practices regarding the implementation of preferential trade arrangements.

The EU launched in 2018 the project "Harmonizing the classification of goods based on World Customs Organisation (WCO) standards to enhance Africa trade". This project contributes to trade facilitation through the coordinated and harmonized use of the WCO's Harmonized Commodity Description and Coding System by Africa's Regional Economic

Communities, Customs and other governmental administrations and trade.

DG TAXUD continued work to deepen the **international administrative cooperation in the area of customs** with the aim to establish in the future a legal framework allowing exchange of customs related information with third countries. Member States concluded in June 2018 at a high level seminar "... that a strategic and consistent approach is needed in choosing with whom information should be exchanged, what should be the concrete types of information and what should be the concrete purposes for exchanges.". As a follow-up, DG TAXUD is now working with Member States on a strategy on the exchange of customs-related information with third countries.

2. ORGANISATIONAL MANAGEMENT AND INTERNAL CONTROL

This section explains how the DG delivered the achievements described in the previous section. It is divided into two subsections.

The first subsection reports the control results and all other relevant information that support management's assurance on the achievement of the financial management and internal control objectives⁵. It includes any additional information necessary to establish that the available evidence is reliable, complete and comprehensive; appropriately covering all activities, programmes and management modes relevant to the DG.

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

2.1 Financial management and internal control

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

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

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

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

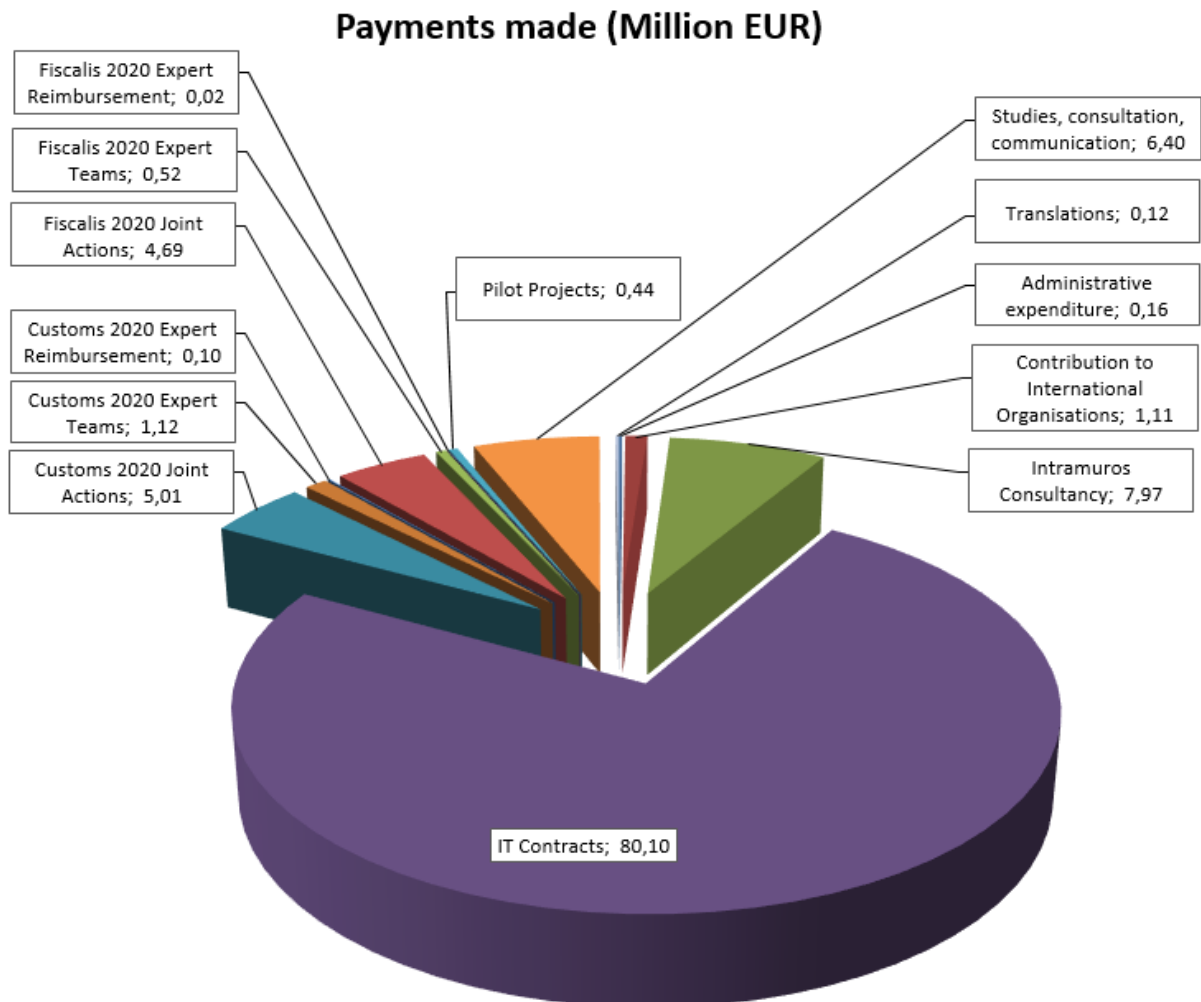
This section reports the control results and other relevant elements that support management's assurance. It is structured into (a) Control results, (b) Audit observations and recommendations, (c) Effectiveness of the internal control system, and resulting in (d) Conclusions on the impact as regards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

⁵ Art 36.2 FR: a) effectiveness, efficiency and economy of operations; b) reliability of reporting; c) safeguarding of assets and information; d) prevention, detection, correction and follow-up of fraud and irregularities; and e) adequate management of risks relating to the legality and regularity of underlying transactions

2.1.1 Control results

This section reports and assesses the elements identified by management that support the assurance on the achievement of the internal control objectives⁶. The DG's assurance building and materiality criteria are outlined in the AAR Annex 4. Annex 5 outlines the main risks together with the control processes aimed to mitigate them and the indicators used to measure the performance of the relevant control systems.

DG TAXUD is a policy DG with a relatively small budget. An amount of EUR 107.756.002,71⁷ was paid in 2018. The budget implementation is centralised.



⁶ 1) Effectiveness, efficiency and economy of operations; 2) reliability of reporting; 3) safeguarding of assets and information; 4) prevention, detection, correction and follow-up of fraud and irregularities; and 5) adequate management of the risks relating to the legality and regularity of the underlying transactions, taking into account the multiannual character of programmes as well as the nature of the payments (FR Art 36.2).

⁷ See Annex 3, table 2

A. Expenditure

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

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

Overall, the value of signed contracts represents about 87,66% of the total paid budget in 2018.

The largest part of DG TAXUD's operational budget is dedicated to IT expenses (EUR 80.096.351,55 or 74,33% paid in 2018), through several framework contracts concluded between the Commission and IT suppliers. These contracts ensure the on-going work on the trans-European systems, networks and related databases, as well as the IT training tools, in line with the work programmes of the Fiscalis 2020 and Customs 2020 programmes.

Other contracts related to procurement of different tools or services such as studies, databases, consultations, and communication activities (EUR 6.396.453,29 paid in 2018, i.e. 5,94%), technical and administrative assistance (EUR 7.970.701,89 paid in 2018, i.e. 7,40%).

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

Overall, the expenditure related to the grants represents about 10,63% of the total paid budget in 2018.

These grants (EUR 11.458.174,80 paid in total in 2018) represent the second major category of the expenditure in DG TAXUD. They are managed through 6 multi-beneficiary grant agreements (6 under the Customs 2020 programme and 7 under the Fiscalis 2020 programme).

The 2 most important grants relate to Joint Actions (EUR 9.696.600,21 in total, 9,00% of payments made i.e. EUR 5.011.455,47 for Customs 2020 and EUR 4.685.144,74 for Fiscalis 2020) and aim at developing better coordination between the national administrations in the tax and customs areas. The expenditure in the framework of the Joint Actions consists of grants awarded to the participating National Administrations and reimbursement of costs incurred by experts. The beneficiaries of these grants are the public administrations of the 28 Member States and of 6 applicant countries (Albania, Bosnia and Herzegovina, FYROM, Montenegro, Serbia and Turkey).

The 11 other grants (EUR 1.639.233,00 paid in total in 2018, 1,52% of payments made) related to expert teams under Customs 2020 for CELBET 1 and 2 (11 Member States), BTI (10 Member States), LABO (10 Member States) and ETCIT (10 Member States) projects; and under Fiscalis 2020 for AEOI-DAC2 (6 Member States), IT Collaboration MANITC1 (7 Member States), MANITC2 (10 Member States) and MANITC3 (7 Member States), m-EMCS (4 Member States) and EDC (4 Member States).

Finally a small part (EUR 122.341,59 of the paid amount, 0,11%) is devoted to reimbursement of the travel and subsistence expenses of external experts under both programmes Customs 2020 (EUR 97.403,70) and Fiscalis 2020 (EUR 24.937,89).

- **Contributions to international organisations**

This expenditure relates to the membership of the Union to the World Customs Organisation, and represents about 1,03% of the total paid budget (EUR 1.113.136,98).

- **Pilot Projects**

DG TAXUD paid EUR 439.890,78 (0,41% of the total paid budget) for 2 pilot projects: one in the field of digital fiscal education system and tax payments (EUR 235.681,91), and one in the field of capacity building, programmatic development and communication in the context of the fight against tax avoidance, tax evasion and tax fraud (EUR 204.208,87).

- **Administrative expenditure**

The administrative expenditure managed by DG TAXUD (training, conferences, representation expenses and other miscellanea expenditure) represents about 0,15 % of the total paid budget (EUR 159.599,85).

Throughout 2018, DG TAXUD paid EUR 121.693,57 (0,11% of the total budget) for translations made by the Commission's Translation Service (DGT).

B. Sub-Delegations

Besides the above described expenditure, DG TAXUD received a cross-sub-delegation from DG NEAR for the implementation of the "travel, accommodation and conference facility (TAC 2017) for the Western Balkan Countries and Turkey" under the Instrument for Pre-accession Assistance (IPA) Transition and Institution Building component. This cross-sub-delegation is a carry-over from 2016 and 2017. DG TAXUD committed EUR 20.000 in 2017 and paid EUR 5.369,22 for the reimbursement of costs claims for travel and subsistence of experts coming from candidate countries or potentially candidate countries. For the 2018 reporting year, DG TAXUD's AOD issued a report without reservation on the status of the files on 19 February 2019⁸. DG TAXUD did not communicate any events, control results or issues which could have a material impact on assurance for the committed and/or paid amounts. This cross-subdelegations was stopped early 2019.

Throughout the reporting period, DG TAXUD **delegated appropriations to** DG GROW for an amount of EUR 75.000 for an evaluation on the implementation of the EU drug precursor legislation. The DG GROW AOD issued a report without reservation on 31 January 2019⁹ and without control issues. The report has been submitted to a desk review, which did not result in any observations.

Throughout the reporting period, DG TAXUD **delegated appropriations to** DG EMPL for an amount of EUR 150.000 for the financing of a new Grant Agreement EC/OECD concerning the action "Tax burdens, benefit adequacy and work incentives ". The DG EMPL AOD issued a report without reservation on 07 February 2019¹⁰ and without control issues. The report has been submitted to a desk review, which did not result in any observations.

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

⁸ Ref. Ares(2019)1024872

⁹ Ref. Ares(2019)564540

¹⁰ Ref. Ares(2019)688668

To be noted that these two cross-subdelegations were changed into co-delegation from 2019 onwards.

Risk-type / Activities	Grants (e.g. <u>actual costs based</u> , or lump sums, or entitlements)	Procurement (e.g. <u>minor</u> or major values)	Cross-delegations to other DGs (other AOxDs) ¹¹	NEI, e.g. Revenues, Assets, ((in)tangible <u>financial assets & liabilities</u>)	OBS or <u>Revenues</u>	ICO indicators available at this level ? (cf. L&R, SFM, AFS, SAI, TFV)	Independent info from auditors (IAS, ECA) on assurance or on new/overdue critical recommendations available?	Any reservation?
Procurement		96.147.827,91	150.000	35.635.529,97		N	N	
Grants	11.458.174,8			12.765.109,41		N	N	
Other						N	N	
Totals (coverage)	11.458.174,8	96.147.827,91	150.000	48.400.639,38		'overall' RER not meaningful; see overall <u>AER & ARC</u>	Y	N
ICO-related indicators available at this level ? (cf. L&R, SFM, AFS, SAI, TFV)	Y RER : 0,57% CEC : yes L&R, SFM, AFS, TFV : OK	Y RER : 0,5% CEC : yes L&R, SFM, AFS, TFV, SAI : OK	Y RER : 0%	Clean Mngt Decl. SAI = OK TFV = yes L&R, SFM, TFV : OK		['overall' RER not meaningful; see overall <u>AER & ARC</u>]	n/a	N
Links to Annex 3	Overall total = EUR 107.756.002,71; see Table 2 – payments made			Table 4 – assets	n/a	n/a	n/a	n/a

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

¹¹ To Directorate-General Employment, Social Affairs and Inclusion and to Directorate-General Internal Market, Industry, Entrepreneurship and SMEs

1. Effectiveness = the control results and benefits

- **Legality and regularity of the transactions**

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

Procurement

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

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

- During the reporting year, 17 exceptions and 1 non-compliance instances were recorded as control failure. None of these had an impact on the legality and regularity of the transactions. All concerned instances relate to formal compliance issues which do not have a negative impact on the budget.
- The correction of the detected erroneous invoicing which involved an amount unduly invoiced, resulted in 55 credit notes for a total amount of EUR 1.959.192,6 (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 2018. Considering that all corrections take place before the actual payment is made (ex-ante), there are no errors left at the moment of payment. Nonetheless, to calculate the error rate for procurement, DG TAXUD has taken a most conservative approach and estimates the error rate for procurement at 0,50%.

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

Grants

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

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

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

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

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

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

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

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

At the time of writing, ex-post on-the-spot audits were organised as follows:

Year	Number of Member States	Number of MS Administrations
2015	3	6
2016	1	2
2017	2	4
2018	2	4
Total	8	16
Total audited amount		6.399.000,06
Total recovered amount		85.266,93

To calculate the weighted average error rate for grants, not only the results of the 2018 audits were taken into account but also the results of the 2017 audits, in particular since the final outcome of the 2017 audit missions¹² only became available in 2018.

The result can be summarised as follows:

	Value	Error rate	Estimate of error
Country 1	525.229,30	0,36%	1.895,09
Country 2	956.227,26	0,55%	5.241,27
Country 3	881.287,93	0,44%	3.853,89
Country 4	1.184.898,59	0,87%	10.345,98
Total audited MS	3.547.643,08	0,55%	21.336,23
Rest of the community	7.910.531,72	0,55%	43.891,33
Total payments	11.458.174,80		
Weighted error		0,57%	

The above calculation, results in **a best possible estimation for grants in 2018 of 0,57%.**

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.

¹² Accepted by the auditee after the adversarial procedure

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

For DG TAXUD, the estimated overall amount at risk at payment¹³ for the 2018 expenditure is 0,53 M€. This is the AOD's best, conservative estimation of the amount of relevant expenditure¹⁴ during the year (105,61 M€) not in conformity with the applicable contractual and regulatory provisions at the time the payment is made¹⁵.

This expenditure will be subsequently subject to ex-post controls and a sizeable proportion of the underlying error will be detected and corrected in successive years. The conservatively estimated future corrections¹⁶ for the 2018 expenditure are 0,10 M€. This is the amount of errors that the DG conservatively estimates to identify and correct from controls that it will implement in successive years.

The difference between those two amounts leads to the estimated overall amount at risk at closure¹⁷ for the 2018 expenditure of 0,43 M€.

¹³ In order to calculate the weighted average error rate (AER), the *detected or equivalent* error rates have been used; see note 6 to the table.

¹⁴ "relevant expenditure" during the year; see note 5 to the table.

¹⁵ "payments made" or equivalent; see note 2 to the table.

¹⁶ Even though to some extent based on the 7 years historic Average of Recoveries and financial Corrections (ARC), which is the best available indication of the corrective capacity of the ex-post control systems implemented by the DG over the past years, the AOD has adjusted this historic average 1,1% to 0,1%. Any ex-ante elements, one-off events, (partially) cancelled or waived Recovery Orders, and other factors from the past years that would no longer be relevant for current programmes (e.g. higher ex-post corrections of previously higher errors in earlier generations of grant programmes, current programmes with entirely ex-ante control systems) have been adjusted in order to come to the best but conservative estimate of the ex-post future corrections to be applied to the reporting year's relevant expenditure for the current programmes. In particular the commercial credit notes have been neutralised from the calculation of ARC.

¹⁷ For some programmes with no set *closure* point (e.g. EAGF) and for some multiannual programmes for which corrections are still possible afterwards (e.g. EAFRD and ESIF), all corrections that remain possible are considered for this estimate.

Table X - Estimated overall amount at risk at closure

DG TAXUD	"payments made" (FY; m€)	<i>minus</i> new prefinancing [<i>plus</i> retentions made*] (in FY; m€)	<i>plus</i> cleared prefinancing [<i>minus</i> retentions released* and deductions of expenditure made by MS] (in FY; m€)	= "relevant expenditure" (for the FY; m€)	Average Error Rate (<i>weighted</i> AER; %)	estimated overall amount at risk at payment (FY; m€)	Average Recoveries and Corrections (<i>adjusted</i> ARC; %)	estimated future corrections [and deductions] (for FY; m€)	estimated overall amount at risk at closure (m€)
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
Programme, Budget Line(s), or other relevant level	as per AAR annex 3, table 2	as per ABAC DWH BO report on prefinancing	as per ABAC DWH BO report on prefinancing	= (2) -/+ (3) +/- (4)	Detected error rates, or equivalent estimates	= (5) x (6)	<i>H-ARC</i> (as per ABAC DWH BO report on corrective capacity), <u>but adjusted</u>	= (5) x (8)	= (7) - (9)
Procurement	96,30	0	0	96,30	0,50%	0,48			
Grants (joint actions)	11,46	11,18	9,03	9,31	0,57%	0,05			
Overall, total	107,76 mEUR	11,18 mEUR	9,03 mEUR	105,61 mEUR	0,51%	= 0,53 mEUR; and 0,51% of (5)	0,1%	= 0,10 mEUR; and 0,1% of (5)	= 0,43 mEUR; and 0,41% of (5)

Notes to the table

(1) Differentiated for the relevant portfolio segments at a level which is lower than the DG total

(2) Payments made or equivalent, such as after the expenditure is registered in the Commission's accounting system, after the expenditure is accepted or after the pre-financing is cleared. In any case, this means after the preventive (ex-ante) control measures have already been implemented earlier in the cycle. In all cases of Co-Delegations (Internal Rules Article 3), the "payments made" are covered by the Delegated DGs. In the case of Cross-SubDelegations (Internal Rules Article 12), they remain with the Delegating DGs.

(3) New pre-financing actually paid by out the department itself during the financial year (i.e. excluding any pre-financing received as transfer from another department). The "Pre-financing" is covered as in the context of note 2.5.1 to the Commission (provisional) annual accounts (i.e. excluding the "Other advances

to Member States" (note 2.5.2) which is covered on a pure payment-made basis).

"Pre-financings paid/cleared" are always covered by the Delegated DGs, even in the case of Cross-SubDelegations.

* In Cohesion, the (10%) retention made.

(4) Pre-financing actually having been cleared during the financial year (i.e. their 'delta' in FY 'actuals', not their 'cut-off' based estimated 'consumption').

* In Cohesion, the retention which is now released or (partially) withheld by the Commission.

(5) For the purpose of equivalence with the ECA's scope of the EC funds with potential exposure to L&R errors (*see the ECA's 2017 AR methodological Annex 1.1 point 15*), also our concept of "relevant expenditure" includes the payments made, subtracts the new pre-financing paid out and adds the previous pre-financing actually cleared during the FY. This is a separate and 'hybrid' concept, intentionally combining elements from the budgetary accounting and from the general ledger accounting.

(6) In order to calculate the weighted Average Error Rate (AER) for the total relevant expenditure in the reporting year, the detected error rates have been used – or equivalent.

(8) Even though to some extent based on the 7 years historic Average of Recoveries and financial Corrections (ARC), which is the best available indication of the corrective capacity of the ex-post control systems implemented by the DG over the past years, the AOD has adjusted this historic average 1,2% to 0,1%. Any ex-ante elements, one-off events, (partially) cancelled or waived Recovery Orders, and other factors from the past years that would no longer be relevant for current programmes (e.g. higher ex-post corrections of previously higher errors in earlier generations of grant programmes, current programmes with entirely ex-ante control systems) have been adjusted in order to come to the best but conservative estimate of the ex-post future corrections to be applied to the reporting year's relevant expenditure for the current programmes.

In particular the commercial credit notes have been neutralised from the calculation of ARC.

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

- **Fraud prevention, detection and correction**

DG Taxation and Customs Union has developed and implemented its own anti-fraud strategy since December 2013, elaborated on the basis of the methodology provided by OLAF. It has been updated in February 2018.

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

The current anti-fraud strategy document entailed major changes when compared to its previous version. These changes notably aimed at:

- ensuring its full compliance with the recommendations stemming from the IAS audit on TOR. In particular, the AFS identifies fraud risks in the Traditional Own Resources (TOR) area and outlines the actions planned to address these risks;
- reinforcing the activities related to fraud proofing of legislation through compulsory consultation of OLAF during the related Interservice Consultations for new legislative proposals in order for OLAF to proof read the concerned text;
- complying with the numerous requirements recently enforced by OLAF as a result of IAS recommendation in the framework of the IAS audit on TOR. In particular, these requirements concern anti-fraud awareness activities in the context of the FPDNet, subsequent revision of the Commission Anti-Fraud Strategy (CAFS), the reporting at several levels on fraud risk assessment, etc.;
- highlighting, as discussed by the Senior Management, the importance of awareness raising on ethics and integrity, through trainings and presentations by OLAF and IDOC.

During 2018, specific anti-fraud related actions were carried out in DG TAXUD:

- introduced a new action plan for the 2018-2020 period;
- monitoring of the AFS action plan at the end of the year 2018;
- dedicated intranet website to the implementation of the strategy;
- keeping record of lobbyists' contacts at unit level;
- communication to staff through updated information on the intranet and via dedicated Newsletters;
- information campaign with posters separately for staff and for the management;
- presentation on ethics and integrity organised together with OLAF and IDOC during the DG TAXUD Extended Management Meeting.

All the actions listed in the 2018-2020 action plan are being implemented according to their respective deadlines. As an example, among others, the objective 6, aimed at ensuring effective collaboration with OLAF and DG BUDG has been attained, firstly, through the regular organisation and attendance by DG TAXUD of the Steering Function TAXUD-OLAF-BUDG meetings. Furthermore, said objective has been achieved also thanks to the activities related to fraud proofing of legislation through the regular consultation of OLAF for new legislative

proposals during the related ISC. The below table reflects some of the accomplished outputs announced in the Management Plan 2018.

Output	Indicator	Target
Updated anti-fraud strategy (AFS) of DG TAXUD elaborated on the basis of the updated OLAF methodology	Updated AFS	Updated AFS with the Traditional Own Resources and fraud proofing of legislation aspects, adopted by the Management.
Increase level of anti-fraud awareness	Number of anti-fraud related training sessions for TAXUD staff	2 sessions per year
Reporting on progress of the AFS implementation	Report to the Management Meeting	Reporting to the Management by end 2018

The AFS is usually updated every two years; it is regularly monitored and proved to be a reliable tool to follow up anti-fraud controls in an effective and efficient manner. The state of implementation of the anti-fraud strategy is monitored and reported to the senior management at least once per year (last report was done on 06/02/2019¹⁸).

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

DG TAXUD manages a fair number of intangible assets (EUR 31.804.782,23 in 2018 – see Annex 3, Table 4).

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

Ever since the 2013 audit on intangible assets¹⁹, 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. 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 Brussels²⁰.

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.

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

¹⁸ Ares(2019)682424

¹⁹ Ex-IAC audit

²⁰ Ares(2019)533724 dated 30/01/2019

2. Efficiency = the Time-to-... indicators and other efficiency indicators

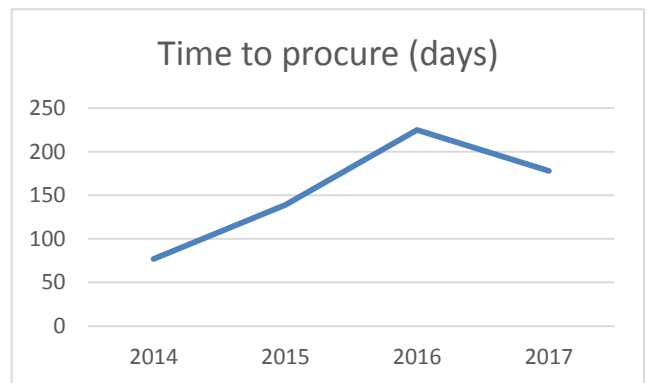
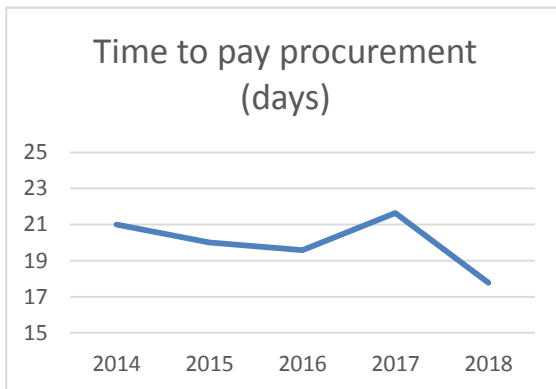
Throughout the reporting period, DG TAXUD made 1.021 payments (EUR 107.756.002,7), established 210 contracts (and/or amendments thereto) and 13 grant agreements, audited EUR 2.066.186,52 via ex-post on-the-spot audits and recovered EUR 14.199,87 not eligible cost, processed 55 commercial credit notes, issued 88 recovery orders, committed EUR 107.756.002,71 appropriations and prepared 3 calls for tender.

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

Procurement control efficiency indicators	Result 2018
Time to pay (days)	17,77 days
Time to procure (days)	N/A (see below)

As can be seen from the below historical overview, the time to pay indicator has been reduced in 2018 to 17,77 days, mainly due to the generalised use of the new AGM²¹ system for reimbursements of meetings participants.

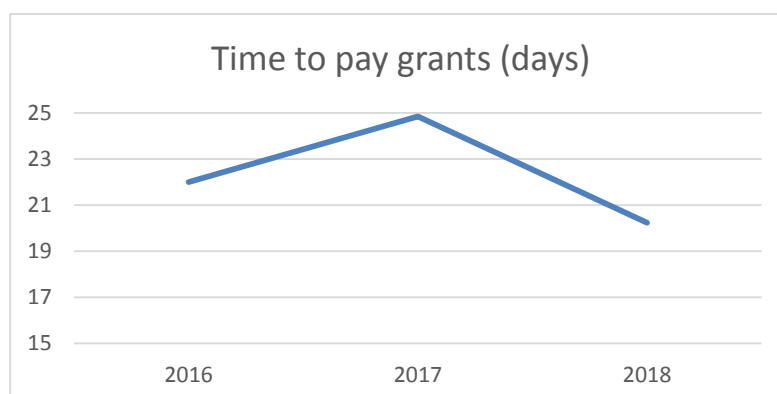
The "time to procure" indicator cannot be calculated for 2018 considering that no procurement procedures have been awarded in 2018. The past "time to procure" indicators are depicted below. The peaks in 2016 and 2017 are due to the awarding of complex and large-scale IT framework contracts.



Grants control efficiency indicators	Result 2018
Grants – time to pay	20,24 days

²¹ AGM : Advanced Gateway to Meetings (the new system for organising expert groups and committee meetings)

The "time to pay" for grants is only calculated since 2016 and is relatively stable (albeit with a downwards trend).



3. Economy = the cost of controls

The corporate methodology for the estimation, assessment and reporting on the cost-effectiveness of controls was revisited in September 2018 and applied first time in the 2018 annual reporting. The difference of the estimated cost of controls as compared to previous years derives from this new methodology and does not reflect any substantial change in the DG's control strategy.

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

Procurement control cost effectiveness indicators	Result 2018
Procurement - overall cost of control (% over payments made)	1,14%
Procurement - cost of controls of the evaluation and selection procedure/ value contracted (%)	N/A ²²
Procurement - related cost of control of payments/ amount paid (%)	0,52%
Procurement - related cost of control of the supervisory measures/ value of transactions checked (%)	N/A ²³
Average cost of a payment	EUR 550
Average cost of establishing and managing a contract	EUR 2.199,17
Average cost of a procurement procedure	EUR 235.950

Grants control cost effectiveness indicators	Result 2018
Grants - overall cost of control (%) [cost of control from contracting and monitoring the execution up to payment included/ amount paid]	2,17%
Grants - cost of control ex post audits/ value of grants audited	2,75%

²² Cannot be calculated for 2018 as no procurement procedures were awarded.

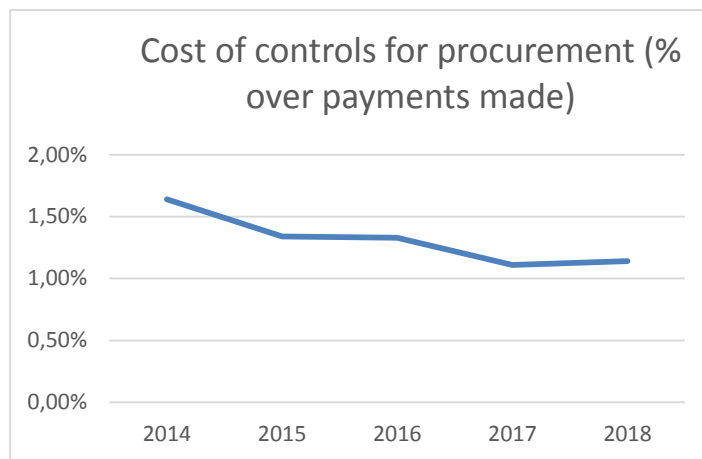
²³ There were no specific supervisory measures throughout 2018.

Procurement

- For **procurements**, an estimated EUR 78.000²⁴ were invested in preparing and controlling 3 procurement procedures (all on-going at the time of writing, no procurement procedures were awarded during the reporting period). Each procurement procedure typically has an estimated total handling cost of EUR 235.950²⁵.
- For **payments**, an estimated EUR 561.210²⁶ were invested in preparing and controlling 1.021 payments worth EUR 107.756.002,71 (0,52% of the total payment amount was dedicated to control). On average, a financial transaction costs an estimated EUR 550 for processing and controlling.
- For **contracts**, an estimated EUR 461.825²⁷ were invested in preparing and controlling about 210 contracts (and/or the amendments of the contracts) worth about EUR 120.760.427,84 (0,38% of the total amount contracted was dedicated to control). On average, preparation and controlling of each contract costs an estimated EUR 2.199,17.
- There were no specific ex-post supervisory measures on procurement in 2018.

Overall, during the reporting year the controls carried out by DG TAXUD for the management of the budget appropriations cost EUR 1.101.035²⁸ which represents only 1,14% of the total payments made.

The trend, since 2014, demonstrates a slightly decreasing cost of control for procurement (in % over payments made) which is due to an accumulation of efficiency gains and further automation.



²⁴ 0,55 FTE, representing the efforts of all actors involved in the control of the public procurement procedures (i.e. the actors in the financial unit, the committee on public procurement, the Authorising Officers by (sub-) Delegation, etc.).

²⁵ 1,65 FTE, representing the combined efforts of actors in the operational and financial units in preparing and running a public procurement procedure

²⁶ 3,9 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.

²⁷ 3,2 FTE, representing the combined efforts of actors in the financial and operational units involved in contracts preparation, verification and validation

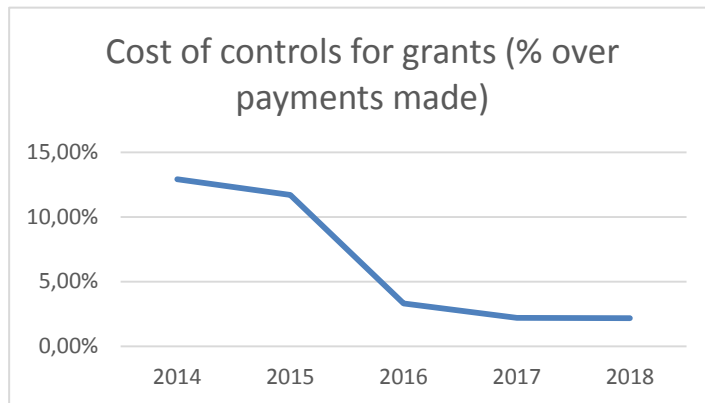
²⁸ A total of 7,70 FTE, representing the combined efforts of actors in the financial and operational units involved in contracts preparation, verification and validation

Grants

During the reporting year the controls carried out by DG TAXUD for the management and control of the grant agreements cost about EUR 248.950²⁹, representing 2,17% of the total grant payments. The cost of the ex-post on-the-spot audits in 2018 was EUR 97.643,53³⁰ which represents 2,75% 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 on-the-spot audits was EUR 346.593,53³¹ representing 3,02% of payments made.

Whilst the trend since 2014 shows a decreasing curve, it must be noted that method of calculating the cost of controls for grants changed in 2016. The cost of control is relatively stable since.



Throughout 2018, the overall cost of control (procurement and grants) was EUR 1.447.628,53 representing 1,34% of all payments made and are therefore considered efficient and cost-effective.

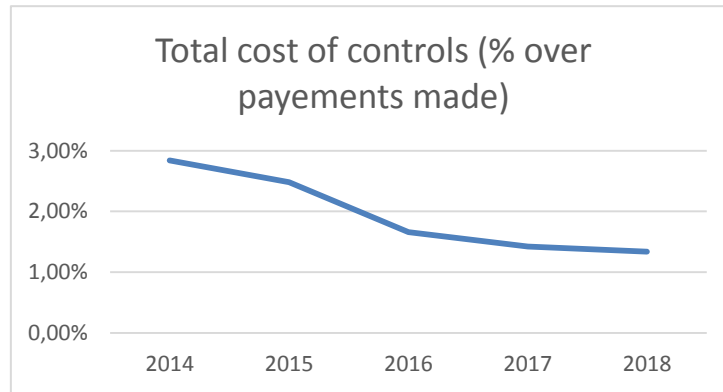
These controls are essential to ensure compliance with regulatory requirements.

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

²⁹ 1,7 FTE, representing the combined efforts of actors in the financial and operational units involved in grants preparation, verification and validation

³⁰ 0,68 FTE, representing the combined efforts of actors in the financial and operational units involved in grants preparation, verification and validation

³¹ 2,42 FTE representing the combined efforts of actors in the financial and operational units involved in grants preparation, verification and validation



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 the control system and reached a positive conclusion on the cost-effectiveness of controls.

DG TAXUD manages a relatively small budget (EUR 107.756.002,71 payments made throughout the reporting period). The majority of financial transactions relate to either procurement contracts (IT contractors) or to multi-beneficiary grants where the beneficiaries are the Member States' Customs and/or Taxation Administrations.

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

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

The ex-ante and ex-post controls are to a large extent necessary to ensure legality and regulatory compliance and allow eliminating the risks outlined in annex 5.

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

The results of controls further confirm that the current control system is fit for purpose as can be witnessed by the very limited error rate of 0,50% for procurement and 0,57% for grants and a low overall amount at risk at closure of 0,43 M€.

The efficiency of controls has been demonstrated by a significantly improved "time to pay" indicator.

In 2018, the overall cost of controls was EUR 1.447.628,53 representing only 1,34% 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

AUDIT ENGAGEMENTS IN 2018

In 2018, the following audits, follow-up audits and implementation of action plans took place in DG TAXUD:

IAS AUDITS

1) IAS Audit on Monitoring of EU law implementation in DG TAXUD

The IAS announced this audit in June 2018.

The overall objective of the audit is to assess whether EU law on customs, direct taxation and indirect taxation is effectively and efficiently monitored and enforced by DG TAXUD, and to evaluate whether REFIT/Better Regulation principles are applied.

The audit work is in progress.

2) IAS Audit on DG TAXUD's preparation of legislative initiatives

(formerly known as "IAS audit on the management of legislative initiatives under the better regulation package").

The overall objective of the audit was to assess the adequacy of the design and the effectiveness of DG TAXUD's internal control system for the preparation of its legislative initiatives.

The audit work resulted in a single important recommendation related to the DG TAXUD's evaluation and impact assessment charter update in line with the current practices in place within the DG.

This recommendation will be implemented in 2019.

3) IAS Audit on supervision of outsourced IT operations in DG TAXUD

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

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

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

The related action plan has been issued and is being implemented.

FOLLOW-UP AUDITS

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

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

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

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

Based on the results of the follow-up audit, the IAS concluded that all the recommendations have been adequately and effectively implemented and will therefore be closed.

Additionally, in line with the above audit and the OLAF's investigation on the undervaluation of textiles and footwear imported in the UK, the 'TAXUD-OLAF-BUDG Strategic Steering Function' was set up to regularly discuss strategic issues concerning fraud prevention and detection of TOR.

SUMMARY OF THE STATE OF RECOMMENDATIONS' IMPLEMENTATION

DG TAXUD accepted all IAS' recommendations, submitted action plans which have been accepted by the IAS and are being implemented.

The only delays relate to the above mentioned audit on IT operations and user access management in DG TAXUD, but do not affect at this stage the overall effectiveness of the internal control system. In this respect, the conclusion of the Internal Auditor on the state of internal control in DG TAXUD³², dated 15/02/2019, stated that the internal control systems in place for the audited processes are effective.

³² Ares(2019)933359

AUDIT/FOLLOW-UP AUDIT (FU)	RECCOMENDATIONS		
	ISSUED	IMPLEMENTED	PENDING
Performance of Anti-Fraud Activities in the Own Resources, Customs and Taxation	3	3	0
IT operations and user access management in DG TAXUD	4	0	4
Audit on DG TAXUD's preparation of legislative initiatives	1	0	1
TOTAL	8	3	5

EUROPEAN COURT OF AUDITORS (ECA)

CURRENT FINANCIAL YEAR: New reports and recommendations

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

European Court of Auditors (ECA) Special Report no 26/2018 – A series of delays in Customs IT systems: what went wrong?

On 10 October 2018, the ECA published Special Report no 26/2018 "A series of delays in Customs IT systems: what went wrong?". The auditors assessed whether the Customs 2020 programme is likely to deliver the IT systems necessary for improving customs operations in the EU, and whether it ensures that these systems are implemented in a timely manner. They also reviewed its design, monitoring and reporting arrangements. The ECA found that the implementation of these systems suffered a series of delays so that some of them will not be available at the 2020 deadline set in the Union Customs Code. The delays were due to several factors, in particular: changing project scope, insufficient resources allocated by the EU and Member States, and a lengthy decision-making process due to the multi-layered governance structure.

This report, for which DG TAXUD was the lead DG, contains two very important and several important recommendations, especially with regard to the next programme which should take on board the lessons learnt.

More specifically, the Commission is requested to gear the next Customs programme explicitly towards IT implementation with precise and measurable objectives, as well as improve time, resource and scope estimates for every IT project. Furthermore, it should facilitate cooperative IT development with, and between, Member States, and streamline governance by ensuring more efficient

and swifter communication. The auditors also stressed the need to report in a timely and transparent manner on implementation and spending.

In total, the ECA made five recommendations, which corresponds to *nine* actions in the RAD application (including sub-points). All of the recommendations have been attributed to DG TAXUD as a lead DG, and two of them have been considered as already implemented. Consequently, the follow-up needs to be assured on the *seven* remaining actions.

European Court of Auditors Upcoming Special Report – E-commerce vulnerability to tax fraud

In 2018, the ECA initiated an audit on e-commerce for which DG TAXUD is the lead DG (with DG BUDG and OLAF as associated DGs). The audit objective is to assess whether the regulatory and control framework set up by the Commission and Member States in respect of collection of VAT and customs duties, related to e-commerce, are efficient and ensure the protection of the EU budget. The audit works are ongoing and the report with the resulting recommendations is expected to be published in Q3 of 2019.

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

1) 2016 European Parliament Discharge

One open recommendation: The EP has requested the Commission to examine different customs check practices in the EU and their impact on the deviation of trade and to develop reference analyses and information on customs operations and the procedures used in the Member States. The Commission adopted the Commission Implementing Decision on financial risk criteria, which provides for a common way to select consignment subject to customs controls. This decision will be operational one year after its adoption. In the meantime, the Commission and the Member States will have to agree on guidance to ensure a common understanding of the provisions including guidance on controls.

The recommendation is expected to be implemented by mid-2019.

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

Three open recommendations: Firstly, the ECA recommended the Commission to consider all available options to strengthen support for national customs services in their important EU role in the new Multiannual Financial Framework (MFF). The Commission is currently assessing options to improve the financing of national customs services in the next MFF and it is executing a Customs Union Impact Assessment study to investigate, *inter alia*, customs investment funding possibilities from the EU funding instruments.

Secondly, the ECA requested a careful follow-up the Member States checks on the Binding Tariff Information (BTI) decisions' compliance by 2020. In response, the Commission has upgraded its European Binding Tariff Information (EBTI) and

Surveillance systems in order to assist the Member States in their BTI usage control. It will follow up the implementation of the new Union Customs Code (UCC) provisions once there is sufficient data available.

Thirdly, the auditors requested the Commission to improve the Surveillance database to identify the recipient of the goods when customs procedure 42 is used. The Commission responds that a new version of the Customs Audit Guide (2014) sets out risk indicators for the post-clearance audit. The envisaged changes to the existing database of imports became operational in 2018. The full deployment of Surveillance3 took place in October 2018. As a next step, Member States need to adjust their national systems as well and need to send the new data elements.

All three recommendations should be implemented by the end of 2020.

3) ECA 2017 Annual Report

One open recommendation: The ECA requested the Commission to improve by the end of 2020 its monitoring of import flows and act promptly to ensure that due amounts of TOR are made available. Under the Union Customs Code (UCC), the Commission expects to obtain by the end of 2020 more detailed data on imports. This will also allow a wider use of data mining techniques in order to support Member States to enhance their control activities.

2.1.3 Assessment of the effectiveness of the internal control systems

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

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

Starting in 2018, DG TAXUD assesses the effectiveness of its internal control system on the basis of the new framework. This new framework foresees 35 indicators and it is the outcome of a dual approach. A top-down approach, through the discussion with, and validation by, the Senior Management of the main principles to be covered; complemented with a bottom-up approach, entailing an active role of the operational colleagues to identify the indicators, their baselines and targets. It finally received the endorsement by the Director General and it was approved by the Cabinet.

Assessment of the internal control systems

The first 2018 assessment of the internal control system 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.

Said assessment was carried out at the level of the principles, of the components and of the internal control system as a whole, by identifying and assessing the severity of the identified deficiencies, if any.

In conclusion, after careful evaluation of the assessment findings, no major internal control deficiency has been detected and the internal control system, as well as its components, are present and functioning in DG TAXUD.

Closely linked to the assessment of the internal control system, each year a risk assessment exercise is carried out in DG TAXUD, together with a mid-term monitoring, as part of the Management Plan process and in accordance with DG BUDG's guidance. The risk identification and assessment exercise also included the analysis of possible fraud risks. The objectives and actions set in the DG's Anti-fraud strategy were based also on the results of these fraud risks analysis.

As reported in Section 2.1.2, the audit recommendations are regularly monitored. None of the outstanding audit issues relates to controls concerning the implementation of the Commission's budget.

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

DG TAXUD has assessed its internal control system during the reporting year and has concluded that it is effective and that the components and principles are present and functioning as intended.

2.1.4 Conclusions on the impact as regards assurance

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

The information reported in Section 0 stems from the results of management and auditor monitoring contained in the reports listed. These reports result from a systematic analysis of the evidence available. This approach provides sufficient guarantees as to the completeness and reliability of the information reported and results in a comprehensive coverage of the budget delegated to the Director-General of DG TAXUD.

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

It was demonstrated that the combination of substantial ex-ante controls (both technical and financial) performed during the tendering procedures together with the extensive ex-ante controls of financial transactions and ex-post on-the-spot audits ensures that the assigned resources have been used for their intended purpose and in accordance with the principles of sound financial management. The total control cost of EUR 1.023.035 for procurement and EUR 346.593 for grants, is considered cost-effective as this represents only 1,3% of payments made). The control strategy for grants is fit for purpose and in line with the specificities of the grant agreements (beneficiaries directly identified in the legal base (no calls for proposal), mostly reimbursement of pre-agreed projects and actions, relatively small amounts). The overall procurement and grant control procedures put in place give the necessary guarantees concerning the legality and regularity of the underlying transactions and also aim to prevent and detect fraud.

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

Concerning the overall state of the DG's internal control system, the internal control framework is fully adhered to. No major internal control deficiency have been detected; the internal control system is present and considered effective.

It was furthermore demonstrated that the results from the audits performed in the past years, their recommendations and follow-ups support the above mentioned reasonable assurance about the correct use of the resources. Any on-going issues do not relate to controls concerning the implementation of the

Commission's budget. The Internal Auditor's overall opinion on the year 2018 concluded that the internal control systems audited are effective.

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

In summary, the information reported in part 2 covers the entire budget delegated to DG TAXUD in 2018. It represents a true and reliable view of the resources used for the intended purposes and in accordance with the principle of the sound financial management. The information reported in sections 2.1.1, 2.1.2 and 2.1.3 does not result in any major issues deserving a reservation:

- the amount at risk for the total expenditure managed by DG TAXUD is well below the materiality level;
- the cost-effectiveness of controls has been established;
- no critical issues were highlighted by internal or external auditors;
- the ECA error rate (i.e. the most likely rate of error) was 0 for DG TAXUD;
- the ECA's scrutiny of sampled DG TAXUD financial transactions were closed without any observations;
- no issues were pointed out by the Authorizing Officers by Sub - delegations;
- results of the 2018 staff survey rank DG TAXUD with the top 3 Directorates-General;
- full compliance with the new Internal Control Framework.

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

Overall Conclusion

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

2.1.5 Declaration of Assurance

DECLARATION OF ASSURANCE

I, the undersigned,

Director-General of Directorate-General Taxation and Customs Union

In my capacity as authorising officer by delegation

Declare that the information contained in this report gives a true and fair view³³.

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

This reasonable assurance is based on my own judgement and on the information at my disposal, such as the results of the self-assessment, ex-post controls, the work of the Internal Audit Service and the lessons learnt from the reports of the Court of Auditors for years prior to the year of this declaration.

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

Brussels, 28 March 2019

(signed)

Stephen QUEST

³³ True and fair in this context means a reliable, complete and correct view on the state of affairs in the DG/Executive Agency.

2.2 Other organisational management dimensions

The examples of efficiency and economy mentioned in the 2018 Management Plan have been established.

Crosscutting TAXUD project team on digital economy

DG TAXUD created a project team to work on the new measures to ensure that digital businesses pay fair taxes in the EU (*see specific objective 1.2*). The project team consisted of colleagues from six different units belonging to two Directorates and were occasionally supported by colleagues from units in the remaining Directorates, notably for communication and IT aspects. The team worked under the direction of the Directors of C and D. Although the team worked under very high time pressure to deliver a full-fledged proposal within a few months, it managed to produce results thanks to the dedication and collaborative spirit of all team members and the well-managed steer and coordination.

On 21 March 2018, the Commission adopted the package on the fair taxation of the digital economy, consisting of proposals for two directives, a recommendation, a chapeau communication and an impact assessment. Throughout the rest of the year, the team continued follow-up work in Council, in close contact with the Bulgarian and Austrian presidencies, and the European Parliament. Much work was also devoted to the 'after-sales' aspects, including participation in numerous public events on digital taxation and meetings with stakeholders.

The value added of the ECICS information tool

The European Customs Inventory of Chemical Substances (ECICS) is an information tool managed by DG TAXUD. It lists chemical names in a number of EU languages along with their tariff classification in the European Community's Combined Nomenclature and was first published in 1974

It allows users to:

- clearly and easily identify chemicals;
- classify them correctly and easily in the Combined Nomenclature;
- name them in all EU languages for regulation purposes.

The ECICS evaluation concluded that the tool provides definitely an added value for the EU operators by providing the correct classification of more than 50.000 chemical substances. This information is needed in all customs declarations and procedures. ECICS facilitates the work and saves the time its core users, economic operators and customs authorities.

The evaluation highlighted that the database is unique in the world both by its coverage and the reliability of the classifications. As the classifications are based on the international Harmonized System (HS) codes, ECICS is used throughout the world even for transactions between third countries. Nevertheless the

evaluation emphasized it is necessary to continuously enrich the database with new products and advised to better promote it.

Crosscutting team on tax-customs cooperation

A cross-cutting project team continued to work on a range of areas where customs and tax services within the DG and within national administrations could cooperate better with each other. In 2018, the team in particular worked on eCommerce organising several reflections on crosscutting issues for Customs and VAT contributing as such to the VAT eCommerce implementing package adopted by the College in December 2018.

2.2.1 Human resource management

In 2018 DG TAXUD preserved the gender balance at senior management level and improved the gender balance at middle management level, appointing one new female Head of Unit. Also, a **functional reorganisation** has been executed early 2018 strengthening the **digital dimension** of DG TAXUD by creating a dedicated Directorate. This reorganisation in addition grouped all Customs activities in one single Directorate. Finally the horizontal customs and taxation international activities were integrated in the horizontal "International and General Affairs" Directorate reinforcing the strategic dimension of DG TAXUD's policies. This reorganisation has been prepared as an inclusive process involving all staff with interactive communication like open discussions.

DG TAXUD also fully supported the **Female Talent Development Programme** during the past year and sent 4 candidates to this pilot programme which seeks to further develop the management skills of female team leaders across the Commission.

In 2018 14 deputy Heads of Unit have been appointed, reinforcing **middle management** in DG TAXUD and allowing colleagues to gain management experience and providing **career development perspectives**. The DG TAXUD Talent Management Strategy, which was launched in the beginning of 2018, focusses on breaking silos and connecting staff across the DG, finding innovative ways of working together with e.g. self-organised teams and developing knowledge sharing. In the same context, TAXUD participated for the 2nd time in the "Junior Professionals Programme" (JPP). This two year programme allows junior staff to follow a development and mobility programme with assignments in two different DGs.



In the context of the corporate fit@work action, DG TAXUD has worked on further awareness raising on ergonomics and exercise at the workplace, as well as the setting up of a second small wellbeing room.

Finally, DG TAXUD actively promoted training activities with staff having on average 3.4 training days in 2018.

2.2.2 Better regulation

In 2018, DG TAXUD continued to prepare impact assessments and evaluations following the revised horizontal guidelines for better regulation. Where standard procedures outlined in the Better Regulation Guidelines could not be met, requests for exemptions were submitted and agreed by the respective authorizing officers. These requests were limited. DG TAXUD further improved compliance with the principles of better regulation notably by increasing the number of languages in which the stakeholders were consulted during open public consultations, as well as regarding the length of these consultations. The majority of DG TAXUD's public consultations were conducted in all EU official languages in 2018.

In 2018, DG TAXUD also contributed to the IAS Audit on the preparation of legislative initiatives which considered the application of better regulation in this respect.

DG TAXUD submitted five **impact assessment reports** for independent quality control in 2018. The Regulatory Scrutiny Board issued for three positive opinions on the first submission, and for the other two positive opinions with reservations (*see also the standard performance indicator relating to impact assessment reports in Annex 2B*).

DG TAXUD finalized in 2018 three **retrospective evaluations** (*see Annex 2.B*):

- the mid-term evaluation of the Customs 2020 programme,
- the mid-term evaluation of the Fiscalis 2020 programme and
- the evaluation of the European Customs Inventory of Chemical Substances (ECICS).

Additionally, DG TAXUD conducted one back-to-back evaluation covering the evaluation and impact assessment simultaneously for the cross-border business to consumer online supplies.

Both programme evaluations concluded positively on their progress towards their respective objectives in the area of cooperation of customs and taxation matters and ultimately improving the various aspects of the good functioning of, respectively, the Customs Union and the single market. The evaluators concluded both programmes are relevant, working well and providing added value only suggestion limited improvements like a simplifications of the Performance Measurement Framework or increase of the interoperability of some IT systems.

Both programmes were considered to be efficient. The resources spent brought significant results in the form of specific European IT systems underpinning many customs and taxation laws, increased level of cooperation and exchange of information and good practice, better understanding and application of the rules and their increased uniformity. The evaluations confirmed unequivocally the great added value of having the two programmes at the EU level, allowing the participating countries to comply easier and better with the EU laws and cooperate way beyond what could have been possible without such support. The lessons learned from the evaluations concerned operational aspects targeting incremental improvements to the programmes' operations and functioning, such as moving towards multi-annual planning, better delivery of e-learning modules or streamlining and simplifying the monitoring system.

As far as the European Customs Inventory of Chemical Substances (ECICS) evaluation is concerned, based on the evidence collected and analysed with this evaluation, it was concluded that the ECICS database is an added value for the EU users because it meets the specific needs of stakeholders. For the vast majority of economic operators and customs authorities, these needs were encapsulated in the core function of the public version of ECICS, namely the identification of Combined Nomenclature (CN) and Harmonized System (HS) codes for customs classification purposes. Most importantly for economic operators and customs authorities, ECICS saves time in terms of chemical and

tariff classification tasks. As an EU initiative, ECICS also generates economies of scale by allowing all Member States to benefit from the same database. However, the evaluation also pointed out to items which can be improved, such as the insufficient coverage of chemicals and timeliness of updates.

DG TAXUD undertook a targeted evaluation of Regulation (EU) 904/2010 on administrative cooperation and combating fraud in the field of value added tax. Whereas the Regulation was evaluated in its entirety in 2017 – and found to be still very relevant and effective – , this targeted evaluation occurred in the context of the revision of the regulation to take account of the cross-border business to consumer online supplies. This evaluation examined to what extent the existing provisions were sufficient to support new means of cooperation in the field of e-commerce and concluded that the administrative cooperation tools provided for in the Regulation were hindered by the fact that the specific information needed to prevent fraud in the field of e-commerce and ensure compliance with the tax rules, was often held by third countries where the EU had no power of enforcement. Tax authorities also stressed the need to increase the commitment of Member States to invest more resources into administrative cooperation, as this is a key factor in increasing the effectiveness of this Regulation in the fight against e-commerce VAT fraud. Finally, some Member States also mentioned that the effectiveness of the Regulation could be increased with new tools, such as access to and exchange of relevant payment information. This ultimately warranted initiative at the EU level on the exchange of payment data.

An overview of the evaluations carried out is available in annex 9.

2.2.3 Information management aspects

DG TAXUD continued to ensure that appropriate processes and procedures are in place for a secure and efficient **document management** compliant with the e-Domec principles. In line with the corporate policy, DG TAXUD makes since end 2017 by default all its documents in the corporate management system ARES available to all colleagues. Early 2018, DG TAXUD raised an awareness campaign amongst TAXUD staff in this respect. As the 2018 accessibility figures make clear, this resulted in a more conservative attitude of colleagues, who actually limited access to a higher share of their documents both for TAXUD and other colleagues, TAXUD will repeat the awareness campaign early 2019, in particular reminding colleagues about the purpose and advantages.

DG TAXUD established an action plan to ensure compliance with the **Internal Data Protection** Regulation. One of the key action points concerned the awareness raising of staff on the new and existing data protection requirements. At the same time, DG TAXUD strengthened its internal Data Protection network, appointing contact points in each Directorate. Also, DG TAXUD completed its inventory of the transeuropean IT systems processing personal data and started to prepare the personal data processing records. The drafting of these records will be finalised in the first half of 2019. With the above activities, DG TAXUD contributes to the implementation of the Commission's Data Protection Action Plan of 7 November 2018.

In 2018, DG TAXUD replied to 299 requests for **access of documents** releasing around 628 documents.

DG TAXUD appointed a **data manager** in September 2018 who will present the first deliverables in the first half of 2019.



Collaborative working remained an important pillar of the DG TAXUD working culture with the "Digital Economy project team" as key example (see 2.2 *examples of efficiency and economy*). Also this year, the Director-General continued to involve DG TAXUD staff in reflection processes on different topics. One of the main reflections concerned the "Future thinking" cycle, reflecting on TAXUD's functioning beyond 2020. The cycle started with a reflection at Senior Management level, was followed by an in depth brainstorming by Middle Management and finally culminated in a TAXUD all staff Away Day taking stock of where we are, how we work together and how to prepare

for the challenges lying ahead.

2.2.4 External communication activities

In 2018, DG TAXUD has considerably extended the portfolio and scope of Communication actions towards both internal and external stakeholders and the general public.

The main communication actions in 2018 concerned the following policy files:

- **50 Years of the Customs Union** (see below)
- **Fair Taxation of Digital Taxation** –launch and legislative stage support;
- **[Prepare for BREXIT](#)**, launched early 2019;
- **Legislative Proposals on VAT** – launch and legislative stage support (videos, website, press-material, fact-sheets, social media.



Communication actions and channels included, amongst others:

The DG TAXUD Website

Considerable improvements were made to the DG TAXUD website, in order for it to comply with the Digital Transformation requirements from DG Communication.

First, a full content review was made of the whole website – checking if pages were still relevant, up-to-date and useful. Then, together with DG TAXUD’s Policy Units, a large part of the pages was updated, archived or re-written to make them more user-friendly.



In addition, a large number of technical and visual improvements were also made. For example, the creation of a new homepage lay-out, as well as the alignment of DG TAXUD’s website with the corporate Europa website in terms of menus, fonts, color codes, buttons, page-width, in page navigation.

Press and Media material

In 2018, outreach activities in the Member States were organised during visits of senior management in Latvia, Austria, Italy and Ireland.

New media materials were created such as factsheets and leaflets (VAT, Digital Taxation, 50th Customs Union anniversary) in addition to the publishing of press releases and memos: VAT definitive regime, rates, SMEs, administrative cooperation, VAT e-commerce, tax transparency, EU list of tax havens, Digital taxation, excise duty, Fiscalis, IPR, dock dues



and cultural goods.

Social Media presence

A very actively managed Twitter account, including creative communication campaigns on different topics (VAT, Digital Tax, 50 years of the EU Customs Union, etc.) as well as joint campaigns with the Corporate social media team of DG Communication, resulted in a considerable increase (40%) in Twitter followers and in particular high engagement of 28 450 retweets, replies and likes.

Campaign on the 50th anniversary of the EU Customs Union.

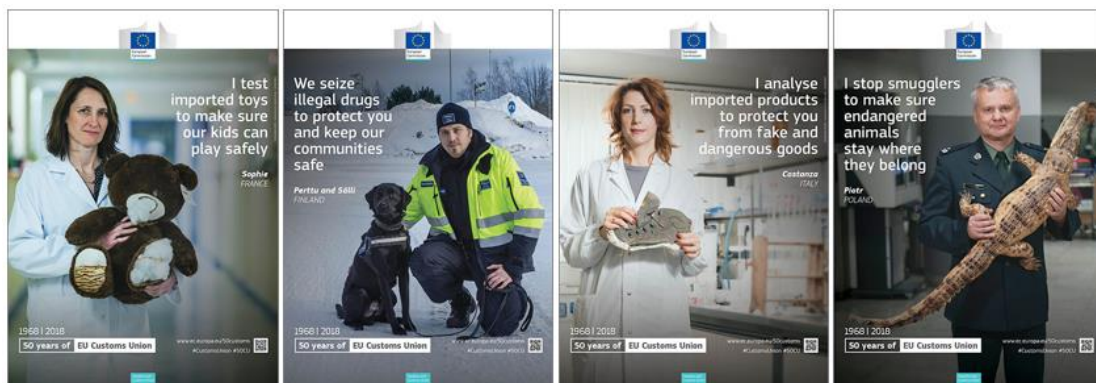
The campaign focused on the people who every day make this Union work so well as it does. The main objective of the campaign was to inform the EU public about the successes of the customs union, highlighting its benefits.

To achieve this objective, TAXUD Communication Team planned a variety of digital activities online and other actions on the ground, including a stand during the EU Open Day in May. Campaign messages focused on the human (and canine) element, but also highlighted the main benefits of the Customs Union for citizens and for businesses.

For this campaign, DG TAXUD developed several communication products:

- 7 short videos for dissemination online;
- 4 posters focusing on 4 customs officers from 4 EU countries;
- Social media visuals which could be easily translated;
- Landing page on DG TAXUD web-site with key information;
- Luggage tags and other gadgets to use for on-the-ground actions by Member States.

Most of the Communication material was provided in all EU languages.



Corporate communication and the corporate campaigns







DG TAXUD has worked closely together with central services, in particular DG COMM's Social Media and Audio-visual teams, to provide information on a number of Taxation and Customs related topics to be communicated through corporate channels.

DG TAXUD was consulted for communication on several actions in relation to the 10 political priorities.

Examples are the communication actions on a proposal for new VAT rules for e-commerce (Digital Single Market) and communication on "Fair Taxation" initiatives, such as the Common (Consolidated) Corporate Tax Base (Internal Market).

DG TAXUD also worked closely together with DG COMM on the corporate EU Protects campaign, and included customs officials as ordinary heroes in several stories on the web-site.

Internal Communication

intranet	news	newsletters	events	lunchtalks	campaigns
					
170,000 unique pageviews	93 internal news items	101 internal newsletters	9 Open Forums	12 lunchtime talks	6 local
415 avg visits/ work day	53 'focus on' news items	48 special 41 weekly 12 DG messages	88% satisfaction (team events SM, MM, staff)	90% satisfaction	+continuous promotion of corporate campaigns

Building on the efforts made in 2017, a number of additional initiatives have been developed to increase transparency, two-way communication and knowledge sharing in TAXUD.

Examples are:

- the monthly Open Forums with the Director-General (9 in 2018)
- the monthly lunchtime talks focused on taxation and customs policies as well as organisational matters
- the 'future thinking' bottom-up exercise that brought together staff from across the DG to co-create the future policy agenda for taxation and customs
- the newsletters (101 in 2018)
- the on-boarding events for newcomers

During 2018 a special focus was put on organisational development events at Senior Management, Middle Management and staff level.

THE FUTURE DOESN'T JUST HAPPEN

join the discussion now!

WE CREATE IT

BRING YOUR IDEAS. TAXUD OPEN FORUM & COLLABORATIVE SPACE

FRAUD PREVENTION

Know the risks. Act accordingly.

- Working on sensitive files? Don't forget to use secure e-mail (SECURE)
- Preparing a legislative proposal? Make sure to consult OLAF along the way. (Article 174 of the Regulation on OLAF)
- Dealing with procurement procedures? Consider external communication as the communication platform is the Functional Hub for OLAF (FHOLAF) only.
- Meeting lobbyists? Have records of meetings and send them to the OLAF. (Article 174 of the Regulation on OLAF)
- Suspecting fraud? Report it to your line manager or directly to OLAF.
- Your work entails risks of fraud? Discuss with colleagues to identify and assess any possible mitigation. Report and take mitigating actions.
- Contacted by OLAF or DG BUDG on fraud issues? Provide full collaboration.
- Need to know more? Follow training courses by OLAF, DG BUDG or OLAF's network. A lot of data security, lobbyist management and ethics.

EU OLAF and our partner services (OLAF, DG BUDG) and other digital activities that can help us prevent fraud are the responsibility of the European Union. We are committed to taking strong measures to prevent fraud in the EU budget. (EU 2016 - OLAF - Internal Security - Internal Finance)

TAXUD is listening!

Five wonderful ways you can offer advice to your colleagues and what happens to it!

You said	What happened
Let's reach the goal! I need more resources to complete this project.	OLAF's internal team is always listening to you. If you need more resources, you can contact your line manager or the OLAF's internal team. They will help you find the right resources.
I need a more pleasant working environment and more opportunities to take part in the training and mobility of staff.	OLAF's internal team is always listening to you. If you need a more pleasant working environment, you can contact your line manager or the OLAF's internal team. They will help you find the right resources.
I need transparency and I want to know more about the OLAF's big actions.	OLAF's internal team is always listening to you. If you need more transparency, you can contact your line manager or the OLAF's internal team. They will help you find the right resources.
I'd like to be consulted when important decisions that might affect my work are to be made.	OLAF's internal team is always listening to you. If you need to be consulted, you can contact your line manager or the OLAF's internal team. They will help you find the right resources.

15h+ of training
70+ projects
90+ internal activities
300 external activities
35+ languages

Your voice matters. SPEAK UP!

HELP MAREK!

EU Customs Union also means solidarity

On 22 March 2018, Marek Bombasz was injured in the heaviest attack in European history. He was in Brussels to attend a meeting organized by TAXUD representing the Public Customs authorities.

Marek was very close to where the bomb exploded and was severely affected during the attack. He spent more than two months in a pharmaceutical centre and also went through months of therapy for his life-threatening mental condition.

After the accident, Marek had to rethink everything from scratch, such as working, studying and social activities. This is why he is seeking emotional and psychological support in the field of public services. He seeks communication, interaction with a mentorship and technical support.

Costs of such treatment are around 5000 EUR a month.

MAREK AND HIS FAMILY NEED OUR SUPPORT AND SOLIDARITY!

With Unified Communication & Collaboration you will be able to:

- Share documents
- Make decisions
- Share information
- Collaborate on projects
- Communicate with colleagues
- Work with your team

More info: OLAF's internal team is always listening to you. If you need more information, you can contact your line manager or the OLAF's internal team. They will help you find the right resources.

Training available in EU languages

Lync Skype for Business

Anti-fraud tips for TAXUD managers

Establish a risk analysis process. Use the OLAF's risk analysis process to identify and assess the risks of fraud in your work. This will help you to identify and assess the risks of fraud in your work and to take appropriate measures to prevent fraud.

Be an ethics advocate. OLAF's internal team is always listening to you. If you need to be an ethics advocate, you can contact your line manager or the OLAF's internal team. They will help you find the right resources.

Train your team in fraud prevention. OLAF's internal team is always listening to you. If you need to train your team, you can contact your line manager or the OLAF's internal team. They will help you find the right resources.

Blow the whistle: put accountability into practice. OLAF's internal team is always listening to you. If you need to blow the whistle, you can contact your line manager or the OLAF's internal team. They will help you find the right resources.

Be clear about the consequences. OLAF's internal team is always listening to you. If you need to be clear about the consequences, you can contact your line manager or the OLAF's internal team. They will help you find the right resources.

EU OLAF and our partner services (OLAF, DG BUDG) and other digital activities that can help us prevent fraud are the responsibility of the European Union. We are committed to taking strong measures to prevent fraud in the EU budget. (EU 2016 - OLAF - Internal Security - Internal Finance)