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European Commission

Annual Activity Report 2021

DG TAXATION AND CUSTOMS UNION

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THE DG IN BRIEF

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

We uphold the principle of fair taxation and strive for a simpler tax environment, in which businesses can innovate and grow. Modernising our tax policies and fighting tax abuse is a key way to boost public finances and stimulate investment, without burdening those hit by the crisis.

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

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

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

DG TAXUD is managed by Director General Gerassimos Thomas, under the political authority of Commissioner Paolo Gentiloni.

EXECUTIVE SUMMARY

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

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

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

The Covid-19 pandemic and Europe’s agenda for recovery remained centre stage in 2021, with implications for all policy areas, including taxation and customs. DG TAXUD continued to assist with the **crisis response**, including by extending the suspension of VAT and customs duties for vital goods such as medical equipment, masks and vaccines, and issuing a Recommendation to facilitate crisis-hit yet viable businesses.

DG TAXUD also continued to make an important contribution to the **recovery agenda** in 2021, both through growth-friendly tax and customs initiatives and through support to Member States on their national reforms. In December 2021, the Commission presented a package of new **Own Resources**, to help finance the recovery. Two of the three proposals in this package fell within DG TAXUD’s remit. These, together with the own resources from customs revenues and VAT, mean that DG TAXUD will remain a key service in the delivery of sustainable revenues for the EU budget.

Despite the ongoing crisis, DG TAXUD made considerable progress in advancing the EU’s tax and customs agendas in 2021, while also contributing to the Commission’s top strategic priorities.

In July 2021, the Commission presented its first major legislative package to deliver on the **Green Deal**, for a climate-neutral economy by 2050. DG TAXUD was responsible for two significant proposals to this ‘Fit for 55’ Package. The first was a proposal to revise the **Energy Taxation Directive**, to better align the taxation of energy products with the EU’s ambitious climate goals. This proposal removes subsidies for more polluting fuels and encourages the use of cleaner energy sources, while making provision for vulnerable and energy-poor households. DG TAXUD also prepared the proposal for a **Carbon Border Adjustment Mechanism (CBAM)**, which addresses the risk of carbon leakage by putting a carbon price on imports, equivalent to what they would have paid if produced in the EU. Both proposals have appropriate phase-in periods, to allow Member States, consumers and traders to adapt and to avoid any shocks to the market. At the same time, they should make an important contribution to delivering on Europe’s climate objectives over the medium- to long-term. DG TAXUD worked intensely with Member States and the European Parliament, following the adoption of these proposals, with a view to their swift adoption. We also engaged actively in **international discussions on green taxation** and carbon pricing, to promote collaboration on carbon reduction and carbon leakage. In 2021, DG TAXUD also contributed to the Commission’s toolkit of measures in response to high **energy prices**, which allows Member States to apply targeted reductions, for a limited period, in their energy taxation and VAT rates.

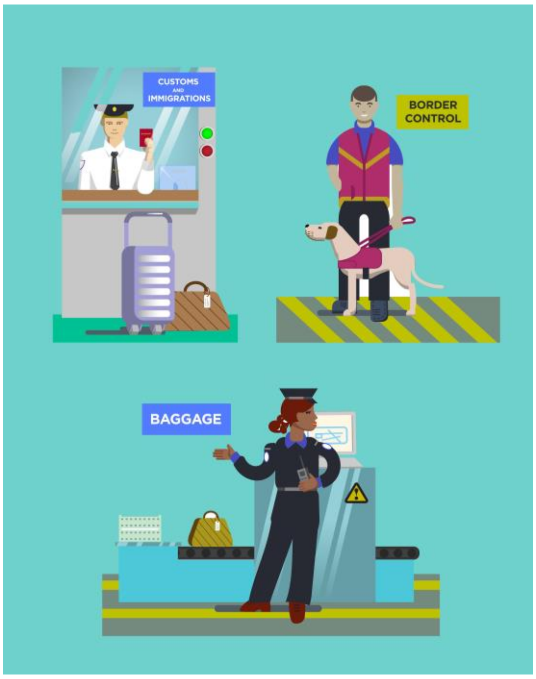
In the area of **corporate taxation**, 2021 was a particularly successful year, with important progress made at both EU and global level. The most significant **international tax reform** in over a century was agreed by 137 countries in October 2021. DG TAXUD had been an active participant in the G20/OECD-led negotiations, which resulted in a landmark agreement on a minimum effective tax rate and the fairer reallocation of taxing rights on multinational profits worldwide. As a signal of commitment and global leadership, just 2 months after the international accord, the Commission adopted a proposal to implement the agreed **minimum effective tax rate (Pillar 2)** in the EU. DG TAXUD also continued to technical work within the OECD on the **reallocation of taxing rights (Pillar 1),** while starting preparations for a proposal to implement this pillar at EU-level.

The international success had been preceded in May 2021 with the Commission's vision for corporate taxation in Europe, presented in a Communication on **Business Taxation in the 21st century (BT21).** Among the key initiatives announced in the BT21 Communication is a new framework for business taxation in Europe (**BEFIT**), which should cut red-tape, remove tax obstacles and simplify the tax environment for businesses in the Single Market. Other upcoming proposals include measures to address the current debt-bias in taxation (DEBRA), an EU Withholding Tax Procedure to prevent double taxation and rules for greater transparency on multinationals' effective tax rates. The Commission also committed to launching a high-level **Tax Symposium**, to generate ideas on the large-scale changes needed in taxation and to steer future policy-making in this area. The cumulative effect of the BT21 Package, once implemented, will be to create a tax environment that supports business, promotes employment, ensures fairness and is conducive to growth across Europe.

Using digitalisation and data to their full potential is a driving principle behind DG TAXUD's work for tax reform. July 2021 marked an important step in this direction, as new **VAT rules for e-Commerce** began to apply. The new rules introduce substantial simplifications for cross-border online sellers, cutting red tape by up to 95%. At the same time, the new system removes opportunities for undervaluation and fraud, thereby protecting much-needed public revenues. Continuing with this agenda to adapt VAT to modern realities, DG TAXUD began preparing a new package for **VAT in the Digital Age**, which it will present in 2022.

Given the importance of public revenues for a sustainable recovery, the work to combat tax fraud, evasion and avoidance remained a top priority for DG TAXUD in 2021. In December, the Commission adopted the **UNSHELL** proposal, to prevent the abuse of shell companies for tax evasion and avoidance purposes. Under the proposed new rules, Member States will automatically exchange information to detect such abuse, will deny tax advantages to empty shell companies and will be able to request audits in other EU countries if deemed necessary to enforce the new rules. The EU's tax transparency framework was also reinforced in 2021, when Member States officially adopted the Commission's proposal to extend the automatic exchange of information to digital platforms (**DAC 7**). DG TAXUD also started work on the next update of the Administrative Cooperation Directive (**DAC 8**), which will cover crypto-assets and e-currencies to reflect the modern economy. DG TAXUD also launched the **EU Tax Observatory** in March 2021 – an independent body tasked with deepening the research around tax abuse and providing input for evidence based policy-making. Meanwhile, to promote tax transparency and good governance globally, DG TAXUD continue to provide technical and diplomatic support to the work on the **EU list of non-cooperative jurisdictions**.

For **EU customs policy**, DG TAXUD accelerated the work to "bring the Customs Union to the next level". In September, a high-level **Wise Persons Group** was set up, to examine the key challenges that customs face today and to propose innovative solutions. In 2022, the recommendations of the Wise Persons' Group will guide the Commission's work to overhaul the legislation and governance of the Customs Union. DG TAXUD also conducted an in-depth **evaluation of the Union Customs Code** – the legislative framework underpinning all customs' processes and procedures – to identify weaknesses and highlight areas for improvement. The results of this evaluation, combined with external studies, public consultations and recommendations from the European Court of Auditors, will also feed in to the major reform of EU customs that DG TAXUD has planned.



In the work to reform customs, particular focus has been given to improving **risk management**, given its role in stopping illegal and illicit goods from crossing the EU's external borders. A major reinforcement of customs' risk management came with the launch of the new **Import Control System (ICS2)** in March 2021. This system will allow customs to better target controls, with new pre-arrival security and safety requirements for all consignments entering the EU. In the first phase, ICS2 applies to all postal and express consignments entering the EU by airbut will eventually cover every type of cargo transport. As an integrated, digitalised and data-driven system, ICS2 is a flagstone on the path to a stronger and more modern approach to risk management. In December 2021, DG TAXUD launched another important IT system - **Customs Risk Management System (CMRS2)**. This will further reinforce controls by facilitating the real-time exchange of risk-related information between customs administrations, through a modern, paperless system.

Despite these advances, there are still serious shortcomings in the area of risk management that need to be addressed. In 2021, DG TAXUD started drafting a **new Risk Management Strategy**, to improve current processes and ensure that risk management is done consistently, coherently and effectively at all entry points to the EU. The Strategy will be finalised in 2022, and will complement the wider customs reform. Given the importance of data analytics for effective risk management, DG TAXUD continued work on the **Joint Analytical Capabilites (JAC)** – a project to make better use of Customs data.

In addition to its role in identifying and targeting risks, EU customs has the crucial task of facilitating smooth and safe trade flows between the EU and its global partners. The **Authorised Economic Operator (AEO)** programme is an important part of this trade facilitation. It enables authorised operators to benefit from faster and more efficient procedures at the border, while freeing up customs resources to focus on higher-risk shipments. In 2021, DG TAXUD carried out fact-finding missions and launched a study to see how the AEO programme could be improved. The findings will feed into the overall reform of the Customs Union, due in 2022.

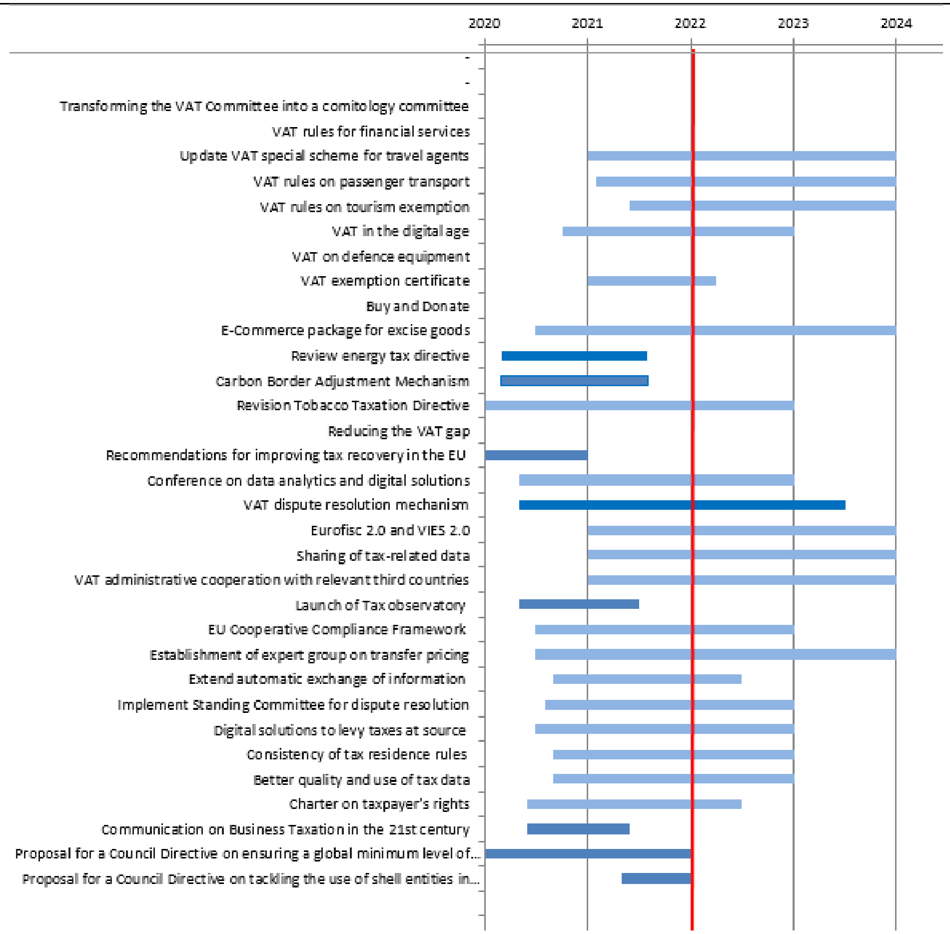
Following the end of the transition period on 1 January 2021, DG TAXUD dedicated considerable resources to ensuring the proper implementation of the **EU-UK Trade and Association Agreement** (TCA), as well as to monitoring the application of the **Ireland/Northern Ireland Protocol**. DG TAXUD officials were amongst the first members control and the compliance with EU law.

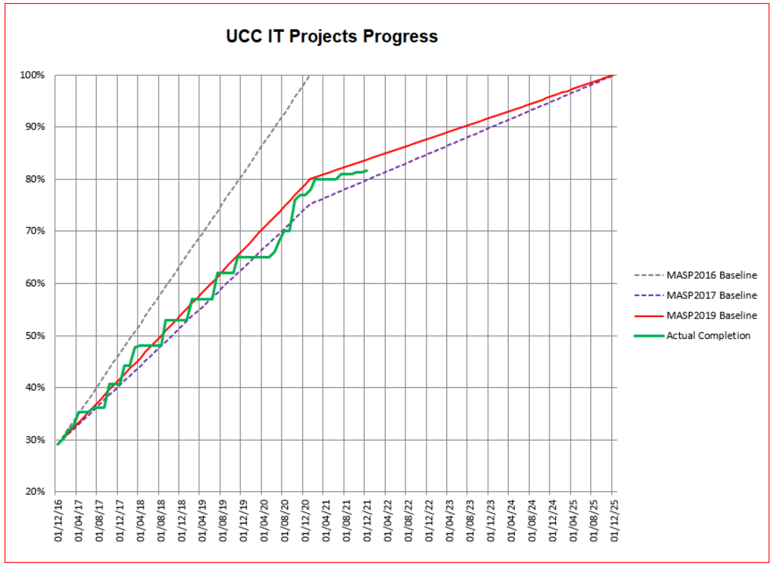
DG TAXUD started a holistic review of the EU's **cooperation with all international partners** on customs matters in 2021, to see where improvements could be made. DG TAXUD also continued to pursue further cooperation with main trading partners in the area of customs. In addition, we continued to actively invest in the **reform of the World Customs Organisation (WCO)**, and the EU initiative for WCO modernization was successfully integrated into the WCO Strategic Plan 2022-25.

Finally, 2021 was the first year in which DG TAXUD's new programmes were implemented. Despite delayed adoption of the programmes legislation, due to late adoption of the Multiannual Financial Framework 2021-27, the **Customs and Fiscalis programmes** continued to support strong collaboration between Member States last year. Over 90% of the budget of the new Customs programme and over 70% of the new Fiscalis programme are dedicated to creating new trans-European electronic systems (EES) – thereby contributing to the digitalisation of customs. In addition, DG TAXUD could launch the first call for proposals under the new **Customs Control Equipment Instrument (CCEI)**, to help Member States buy, maintain and upgrade their control equipment at border points and in customs labs, thereby further modernising customs across Europe.

B. Key Performance Indicators (KPIs)

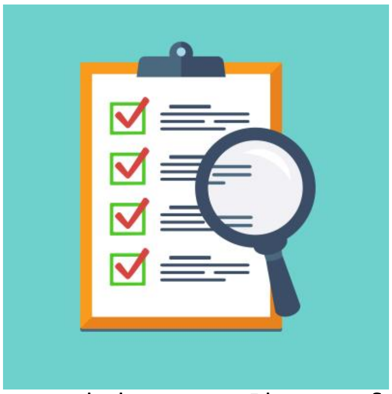
KPI 1
Tax Action Plan Implementation Indicators



KPI 2 Customs Action Plan Implementation Indicators	

C. Key conclusions on Financial management and Internal control

In line with the Commission's Internal Control Framework DG TAXUD has assessed its internal control systems during the reporting year and has concluded that it is effective and the components and principles are present and functioning well overall, but some improvements are needed as minor deficiencies were identified. Please refer to AAR section 2.1.3 for further details.



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

In conclusion, management has reasonable assurance that, overall, suitable controls are in place and working as intended; risks are being appropriately monitored and mitigated. Improvements are necessary in the area of human resources and anti-fraud strategy. The following actions will be taken in this respect: 1) finalisation of the audit recommendations on the management of human resources, 2) formal adoption of the new anti-fraud strategy. The Director-General, in his capacity as Authorising Officer by Delegation has signed the Declaration of Assurance.

D. Provision of information to the Commissioner

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

1. KEY RESULTS and progress towards achieving the Commission’s general objectives and DG's specific objectives

General Objective 1: European Green Deal

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

From the very start of her mandate, President Von der Leyen announced her commitment to climate neutrality and soon after presented the European Green Deal as the means to achieve this. In July 2021, this ambition became legally binding, as EU leaders and the European Parliament agreed on the Climate Law, committing to reduce greenhouse gases by 2030 and to achieve climate neutrality in Europe by 2050. This ambitious pledge forms the backbone of the Europe's climate policies and the growth strategy for the decades ahead.

To help deliver on these objectives, on 14 July 2021, the Commission presented the comprehensive "Fit for 55" Package. DG TAXUD contributed two significant proposals to this Package, to ensure that the taxation of energy products and the treatment of carbon-intense imports reflect the EU's ambitious climate goals.

The proposed **revision of the Energy Tax Directive** overhauls the way in which energy is taxed in Europe, to bring it into line with the EU's climate objectives. The proposal introduces a new structure of tax rates, based on the energy content and environmental performance of fuel and electricity. It also broadens the taxable base, by removing many exemptions and reductions that currently exist, notably for the most polluting products. The proposal aims to encourage cleaner energy sources and remove the incentives that currently encourage fossil fuel consumption. It should reduce the harmful effects of energy tax competition, stimulate innovation and help secure revenues for Member States from green taxes, thereby directly supporting the green transition.

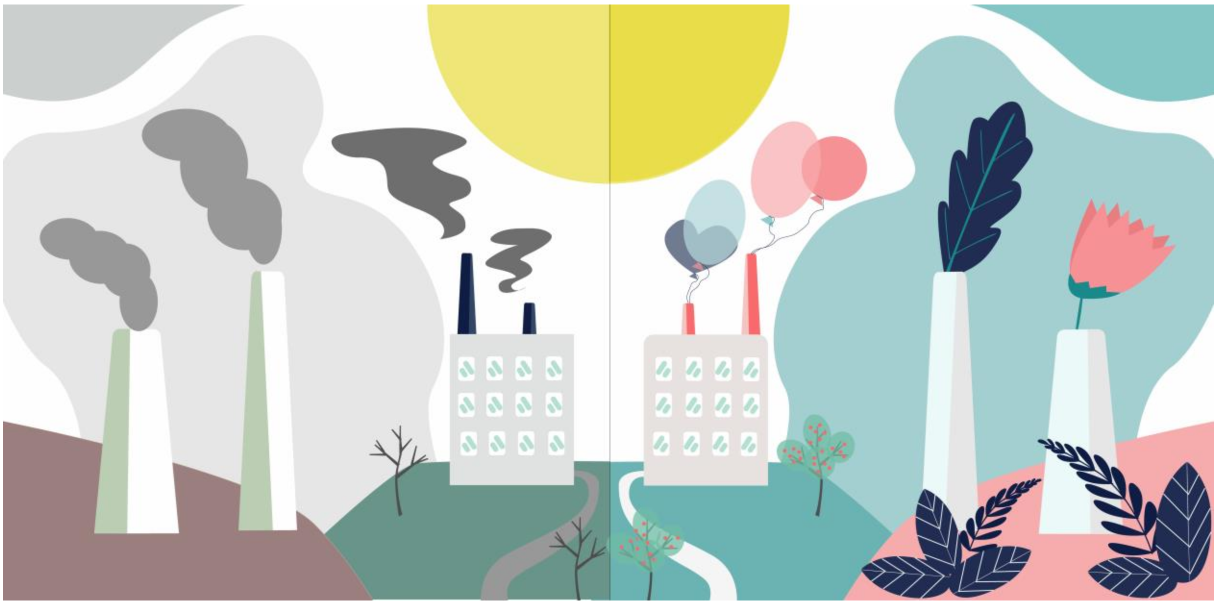
At the same time, targeted exemptions for vulnerable and energy-poor households are introduced under the proposed revision, and Member States are given a 10 year transition period to align to the new minimum rates, to avoid energy price shocks. The Commission's toolkit of measures to ease the effects of high energy prices, published in October 2021, also includes targeted reductions in energy taxation and VAT rates.

The second proposal prepared by DG TAXUD for the July 'Fit for 55' Package was the **Carbon Border Adjustment Mechanism** (CBAM). This proposal aims to address the risk of carbon leakage, by encouraging producers in non-EU countries to engage in greener production processes. In full compliance with WTO rules, the CBAM will put a carbon price on imports, corresponding to what would have been paid if the goods had been produced in the EU. The cost of any carbon price already paid in a third country can be deducted by the EU importer, to ensure a level-playing field and in recognition of any equivalent climate efforts of international partners. Initially, the CBAM will apply only to a targeted number of sectors considered to be most at risk of carbon leakage - cement, fertiliser, iron and steel, aluminium and electricity. To avoid unnecessary shocks to businesses or the market, the CBAM will be introduced gradually, with the full mechanism only applying from January 2026. In the long-term, the CBAM could serve as a model for other countries to follow in implementing carbon pricing policies, and should promote a "greening" of production process by third country producers that wish to sell into the EU market.

The Commission has also proposed to allocate 75% of the CBAM revenues to the EU budget, as one of the new **Own Resources**. As such, CBAM will not only ensure that the EU's climate goals are protected at our borders, but will also contribute to Europe's long-term recovery and growth.

Following the Commission's adoption of these two proposals, DG TAXUD engaged intensely with Member States and the European Parliament to facilitate constructive negotiations on both initiatives, with a view to their swift adoption. In addition, we monitored negotiations on other elements of the Fit for 55 Package, to ensure that they remained consistent and coherent with the CBAM and ETD proposals. We also conducted a wide stakeholder outreach, to explain the proposals and their impact to businesses, traders and representative groups in the EU and in third countries. At international level, DG TAXUD contributed actively to discussions on green taxation and carbon pricing, and supported collaboration with global partners to address carbon leakage more widely.

In addition to delivering these two major legislative proposals, DG TAXUD continued the work to promote green taxation as part of wider national tax reforms. Through the **European Semester** and the monitoring of the **Structural Reform Support** measures, DG TAXUD sought to ensure that Member States take the European Green Deal objectives into account in their national tax policies.



In the area of customs, DG TAXUD also worked on the **customs enforcement** of new legislative initiatives linked to the EU Green Deal, such as Deforestation and the Waste Shipment Regulation.

In March 2021, DG TAXUD also organised a **virtual conference**, bringing together policy-makers, MEPs, academics and stakeholders to discuss green taxation. The event was watched live by over 650 viewers and the recording was viewed another 2 200 times. DG TAXUD also ran a **social media campaign** to raise awareness of the green taxation agenda, in the run up and immediately following the July proposals. This generated extremely good results, with almost 16.5 million Twitter impressions, 24 408 link clicks and 1.7 million video views.

General Objective 3: An economy that works for the people

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

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

I. A fairer business tax environment, equipped for modern challenges

Corporate taxation has long been in need of radical reform. The current rules were conceived over a century ago, and have proven to be ill-equipped for today's globalised, digitalised business environment. While some important measures were taken over the years to introduce piecemeal changes, it had become increasingly clear that a radical and fundamental reform was the only way to realign corporate taxation to the needs of businesses and administrations. The pandemic, and the pressures it put on public finances, further intensified this urgent need for action.

In 2021, remarkable progress was made in the area of **corporate tax reform**, at both EU and global level, which should ensure more modern, resilient and just taxation systems for all businesses – digital and traditional - in the decades ahead.

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

In May, the Commission adopted the Communication on '**Business Taxation for the 21st century**' **(BT21)**. This set out an ambitious corporate tax agenda for the EU, in the short, medium and long-term, to support Europe's recovery and sustainable growth. Building on the Commission's 2020 Tax Action Plan, the BT21 initiative aims to promote a robust, efficient and fair business tax system in the EU, to boost job-rich growth and ensure adequate public revenues over the coming years. The BT21 Communication detailed the EU's tax agenda for the coming years, with measures to promote investment and entrepreneurship, tackle tax abuse and support the green and digital transitions (see further details below). It also announced the launch of a high-level **Tax Symposium,** to generate debate and ideas on the priorities for taxation policy between now and 2050. DG TAXUD began the preparatory work for this project in autumn 2021, with a view to rolling out the first events in 2022. A **communications campaign** was carried out to promote and explain the BT21 initiative, while linking it to the Commission's wider priorities.

As its centre-piece, the BT21 Communication announced that the Commission would present a comprehensive new framework for business taxation in the EU by 2023. The "**Business in Europe: Framework for Income Taxation" (BEFIT)** will serve as a single corporate tax rulebook for the EU, to reduce administrative burdens, remove tax obstacles and create a more business-friendly environment in the Single Market, thereby increasing Europe's competitiveness. BEFIT will replace the 2016 proposal for a Common Consolidated Corporate Tax Base, which will be withdrawn. From June to December 2021, the work on BEFIT took its first steps. Nine interviews were conducted with tax professionals (i.e. Heads of Tax in multinational enterprises (MNEs), allowing for some brainstorming on how to re-imagine business taxation, today and in the future.

In parallel to defining the EU's domestic tax agenda for the years ahead, in 2021 DG TAXUD was actively engaged in the final stages of the G20/OECD Inclusive Framework discussions on **international tax reform**. These discussions culminated in a historic agreement on the most significant tax reform in a century, endorsed by 137 countries including all EU Member States. The global agreement on the reallocation of taxing rights for the largest multinationals and on a 15% minimum effective tax rate worldwide will modernise the international corporate tax framework and ensure greater tax fairness worldwide.

Less than 2 months after this agreement, DG TAXUD presented the first legislative proposal to ensure that it could be swiftly and effectively implemented in the EU. The proposal for a **Directive to a minimum effective tax rate (Pillar 2)** was adopted by the Commission on 22 December, to provide businesses and Member States with legal certainty on the implementation of the internationally agreed rules in Europe. The proposed Directive mirrors the G20/OECD agreement and sets out how the 15% effective tax rate will be applied in practice within the EU. It includes a common set of rules on how to calculate this effective tax rate, so that it is properly and consistently applied across all Member States. The Pillar 2 proposal delivers on the Commission's pledge to move extremely quickly to ensure that EU Member States could be among the first to implement the landmark global tax reform. A **communications campaign** on the Pillar 2 proposal resulted in 4.25 million Twitter impressions, with a 34% engagement rate, and over 600 000 views of the campaign video.

With regard to the re-allocation of taxing rights on multinationals' profits - **Pillar 1 of the global agreement** – DG TAXUD continued to engage intensely within the OECD on the technical aspects of how this will apply. We also began the preparatory work on a Directive to implement the Pillar 1 rules in the EU, with a view to presenting this proposal in 2022 once the international multilateral convention is signed. As proposed by the Commission in December 2021, 15% of the share of residual profits of companies in the scope of this Pillar 1 proposal will serve as a **new own resource** for the EU budget. As such, the upcoming Directive will contribute directly to Europe's recovery and repayment of NextGenerationEU. Meanwhile, the Commission decided last year to put the project for a possible **digital levy** on hold, while the EU focusses on implementing both pillars of the international tax reform by the deadline of 2023.

Own Resources: New sources of revenue to fund the EU budget

On 22 December 2021, the Commission put forward a proposal for three new own resources for the EU budget. These new sources of revenue will help to repay the funds raised by the EU to finance the grant component of NextGenerationEU, and should also finance the new Social Climate Fund.

The first is based on revenues from emissions trading (ETS).

The second is the Carbon Border Adjustment Mechanism (see General Objective 1 above), whereby 75% of the revenues it generates through the sale of certificates to importers will be reallocated to the EU budget. This is estimated to be around EUR 1 billion annually from 2026-30.

The third new own resource will be a proportion of the revenues arising from the upcoming Pillar 1 proposal (see above). A share of the residual profits from multinationals that will be re-allocated to EU Member States under Pillar 1 will be ear-marked for the EU budget.

The CBAM and Pillar 1 own resources will arise from proposals under DG TAXUD's remit. DG TAXUD has therefore been, and will continue to be, a key player in making the own resources package a reality. DG TAXUD's work spanned from identifying suitable own resources candidates to drafting the legislative proposals and supporting negotiations in Council. This work will continue in 2022 with the tabling of a Directive implementing Pillar 1 in the EU, and subsequent Council negotiations.

The Commission will present another package of new own resources in 2024, that could include proposals related to the financial and corporate sector, including further tax policy initiatives.

II. A more robust tax framework, fit for the digital age

In addition to the EU and international work to overhaul corporate taxation, DG TAXUD continued to support Member States with their **national tax reforms**. To meet the challenge of economic recovery and enjoy the full benefits of the green and digital transitions, Member States need more modern, data-rich and agile tax administrations, and rules that are simpler for taxpayers to comply with. DG TAXUD cooperated extensively with DG REFORM in 2021 in assessing the proposals made by Member States under the **Technical Support Instrument (TSI)** - the EU instrument specifically designed to provide technical support to Member State authorities in their efforts to design reforms based on their priorities or in line with EU policies. In this respect, DG TAXUD assisted in selecting the tax and customs related projects to be financed under the TSI. Examples of projects include helping Member States in transforming and modernising tax and customs administrations.

DG TAXUD also produced its annual '**Taxation Trends in the European Union**' and '**Annual Report on Taxation'** reports in 2021, which provide valuable insights into, and statistics on, Member States' tax systems, with a view to supporting informed and evidence-based reforms.

In the area of Value Added Tax (VAT), there is also an urgent need to modernise the system and rules. The current EU VAT system has become increasingly complex and burdensome for businesses and is vulnerable to fraud. The 2021 **VAT GAP report** showed that Member States lost EUR 134 billion in VAT revenues in 2019, due to fraud, avoidance and evasion, as well as miscalculations and administrative errors, amongst other things.

The weaknesses in the VAT system partly stems from the fact that it has been unable to keep pace with the challenges of more agile, online transactions, the surge in e-commerce and the opportunities that new technologies offer. DG TAXUD is therefore focussed on creating a more modernised, digitalised and robust VAT system, that can effectively deliver much-needed public revenues and ease the lives of compliant businesses. In 2021, some important progress was made in this direction, to deliver a VAT system better equipped for the needs of Member States and businesses.

Significant **new rules for e-Commerce** have been applied since 1 July 2021, introducing major simplifications for cross-border sellers and creating a new level of price transparency for EU online shoppers. The new rules make it easier for online sellers, marketplaces and platforms to comply with their VAT requirements, by enabling them to register and declare all their cross-border sales in the EU in one single Member State. This is expected to cut red tape by up to 95% for companies registered in the new One Stop Shop (for their intra-EU sales) or Import One Stop Shop (for their imports). The VAT exemption for imports of small consignments valued up to EUR 22 has also been removed, which reduces the risk of VAT fraud at the EU borders and created a level playing field for EU sellers. By the end of 2021, over 7608 were already signed up to the Import One Stop Shop (IOSS), with sales on the 8 biggest marketplaces accounting for 90% of the imports in the IOSS. DG TAXUD will continue gathering data on both the OSS and IOSS in 2022 and will prepare a first **evaluation** of the VAT e-commerce package. A worldwide **communications campaign**, educating both sellers and consumers on the new rules, was carried out in the run-up to their entry into force. This included a social media campaign with a reach of roughly 70 million, and around 900 press articles across many different countries.

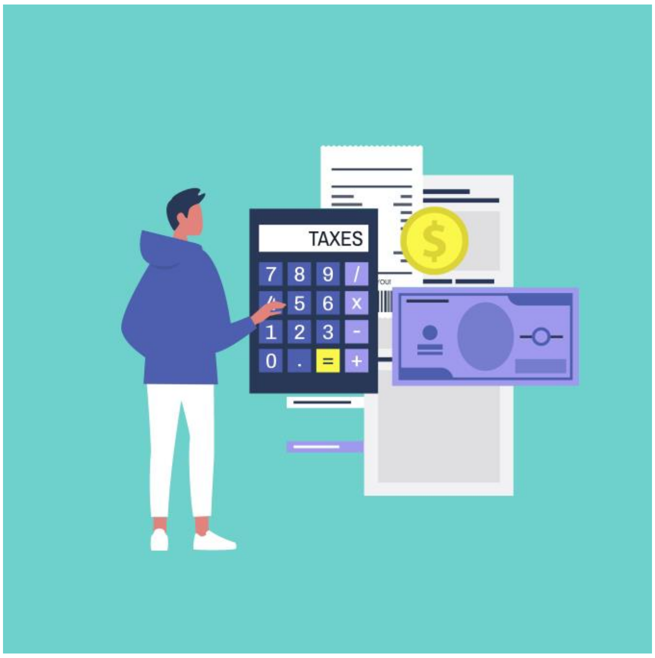
In parallel, DG TAXUD launched work on an ambitious new initiative to overhaul the VAT framework so that it is better adapted to the digital sphere, the new realities of the platform economy, the digitalisation of reporting obligations and exponential increase in e-commerce. The aim is to carry out a holistic revision of EU VAT rules, to fully exploit the technological solutions that can improve taxpayers' compliance and improve the fight against fraud. The **VAT in the Digital Age** initiative will focus in particular on digital reporting requirements including e-invoicing, registration and rules for plaforms. The changes related to digital reportings will require significant IT investment, to properly support transaction-based

exchanges of information and to offer modern functionalities for data analytics and automation. In 2021, an external **study** was carried out, covering the three main aspects of the upcoming initiative. It built on two Fiscalis workshops (May and October 2021) where Member States, businesses and other stakeholders were consulted. An **IT feasibility study** was launched in 2021. Another Fiscalis workshop was organised at the end of 2021, to gather feedback on how new compliance rules envisaged under the VAT in Digital Age initiative could help in identifying and preventing VAT fraud. All of these will feed into the preparation of the proposal that the Commission intends to present in the second half of 2022.

Finally, in another advance to better align the VAT rules with the needs of consumers and national authorities, Member States reached **agreement on new EU VAT rates** rules, after 3 years of negotiation. The new rules provide governments with more flexibility in the rates they can apply and align VAT rules with the EU's top priorities such as fighting climate change, supporting digitalisation and protecting public health.

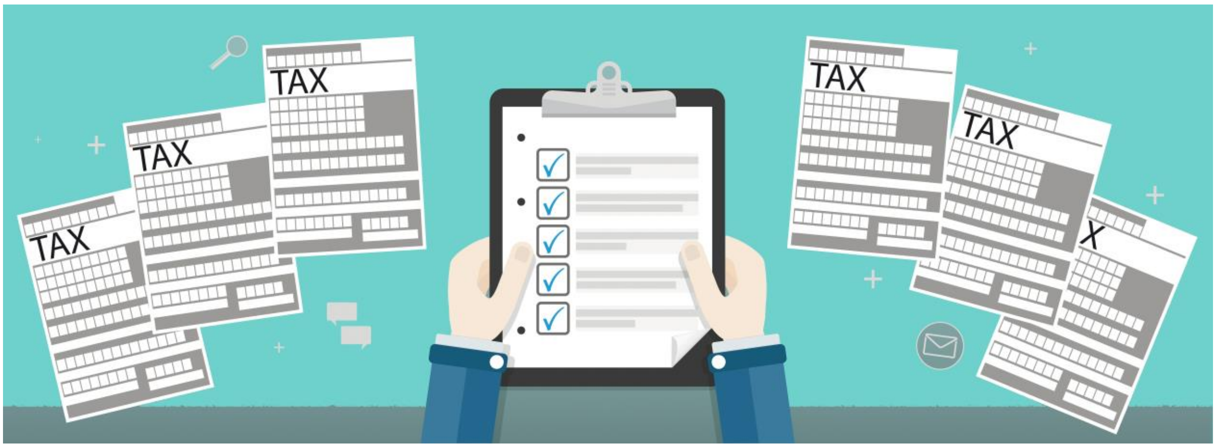
III. Fair taxation for sustainable revenues and a level playing field

In the context of Europe's recovery, the fight against tax evasion, avoidance and fraud has become ever more important, as a means of safeguarding public revenues, promoting fair competition amongst businesses and ensuring fair burden sharing. Fighting tax abuse and increasing tax transparency therefore remained a core aspect of DG TAXUD's agenda in 2021.



In December 2021, the Commission proposed new measures to tackle the misuse of shell companies for tax purposes. The **UNSHELL** proposal seeks to prevent companies in the EU without sufficient activity from benefiting from any tax advantages. The proposal also provides for automatic information exchange between tax authorities on all entities in the scope of the Directive and enables a Member State to request specific tax audits be carried out by other Member States in order to enforce the new measures. UNSHELL will deter aggressive tax planning through empty shell companies and protect the level playing field for the vast majority of European businesses, who are key to the EU's recovery. While presenting its new proposal, the Commission made clear that it is intended to pursue work in 2022 to also respond to the tax challenges linked to shell entities established outside the EU.

Major reinforcements to the EU's tax transparency framework were also achieved in 2021. The Commission's proposal to extend the automatic exchange of information to digital platforms (**DAC7**) was officially adopted in March 2021. The new rules, which will apply from 1 January 2023, will bring the EU's transparency rules more into line with the modern economy and ensure that those who make money through the sale of goods or services on platforms also pay their fair share of tax. Work on implementing acts for DAC7 and on the common IT elements necessary for the Directive to function was also initiated in 2021. Some of this work was carried out in coordination with the OECD Secretariat, to ensure a common approach to reporting and exchange content where useful.



Continuing with this modernisation of the tax transparency framework, DG TAXUD started work on another amendment to the Administrative Cooperation Directive **(DAC8)**, to provide tax administrations with more information on crypto assets and ecurrencies. During the year, consultations with Member States took place and a **public consultation** was carried out, which both fed into the **Impact Assessment**. This proposal will be ready for adoption by the Commission in 2022.

In another move towards greater transparency, DG TAXUD also launched its initial preparatory work and brainstorming on a new proposal for the **publication of multinationals' effective tax rates.** Complementary to the Pillar 2 initiative on minimum effective taxation (see p. 21 above), the proposal will oblige the largest multinationals to publish the rate of tax that they effectively pay. The proposal, which the Commission will adopt in 2022, will expose aggressive tax planning strategies and provide authorities with a better overview of the tax contribution made by large multinational companies in the EU.

To intensify the scrutiny around tax abuse, DG TAXUD also launched a new **European Tax Observatory** in June 2021. Funded by the EU and set up jointly by the Commission and European Parliament, the Tax Observatory's task is to provide quality research and data-analysis, as input into evidence-based EU policy-making in this field. In September, DG TAXUD and the Tax Observatory, together with the Joint Research Centre, hosted a 3-day **event** on the fiscal and

distributional consequences of global tax avoidance and tax evasion, with a view to gathering views from a wide array of high-level stakeholders, policy-makers and academics.

Given the cross-border nature of tax evasion and avoidance, DG TAXUD also continued the work to promote fair tax competition and tax good governance standards internationally. In close cooperation with the EEAS, we provided technical, diplomatic and political support to third countries in the context of the **EU list of non-cooperative jurisdictions**. We also presented regular technical assessments to Member States on the progress of third countries in meeting the criteria of the EU list. As foreseen in the 2020 Communication on 'Tax Good Governance in the EU and beyond', DG TAXUD also worked with Member States to upgrade and strengthen the criteria, to ensure that the EU list remains relevant and up-to-date.

In the area of VAT, anti-fraud measures revolved around upgrading **Eurofisc**, as foreseen in the 2020 Tax Action Plan, as well as exploring better use of data in line with the digital agenda. Member States finalised a concrete action plan on ways to enhance Eurofisc through the informal **TADEUS** network, and the first actions were launched already in 2021 with the creation of a Eurofisc Advisory Board. Furthermore, under the Fiscalis programme, work continued to strengthen the EU's tools to fight fraud. This included looking at means of delivering better statistics on cross-border VAT fraud and of adding new data to **Transaction Network Analysis (TNA)**, in particular customs and cars data. A tool for the **automated collection of statistical data** was made available to the Member States in 2021 and can be used for the statistics that have to be reported by 31 March 2022 (concerning recovery assistance in 2021). In addition, work continued to develop algorithms for VAT risk analysis of payment data, in order to identify suspicious traders.

IV. A tax environment that supports recovery and growth

Sustainable economic recovery relies on a fair, stable and supportive business environment, in which companies can innovate, invest and grow. The needs of businesses need particular attention as they work to get back on their feet, after two years of operating in crisis mode. Tax policy plays a key role in minimising obstacles and red-tape for businesses, ensuring a level-playing field and delivering sound public revenues. In 2021, DG TAXUD worked on several new taxation initiatives to reduce compliance costs, support enterprise and encourage productive investment and innovation.

As part of the BT21 Package in May (see p. 20), the Commission put forward a **Recommendation on the domestic treatment of losses**, encouraging Member States to allow loss carry back for businesses to at least the previous fiscal year. This targeted measure aimed to support healthy businesses, by providing flexibility for those that were profitable and paying taxes prior to 2020, but that suffered set-backs due to the pandemic. It was focussed in particularly on SMEs, as a means to support them on the path to recovery.

The BT21 Communication also announced an upcoming proposal for a **new equity allowance system (DEBRA)**, in order to promote innovation and the re-equitisation of companies post-covid. The proposal will seek to address the current debt-bias in corporate taxation, which can contribute to financial instability, by providing new incentive for equity financing. In 2021, DG TAXUD organised a **public consultation** from July to October and worked together with JRC on producing quantitative evidence that could support the options of the Impact Assessment. The **impact assessment** advanced throughout 2021, with the goal of submitting it to the Regulatory Scrutiny Board before the end of February 2022.

DG TAXUD also launched the preparatory work on a new **EU Witholding Tax Procedure**, which aims to create an EU-wide system to prevent double taxation, as well as tax abuse. During 2021, the Commission continued with the fact-finding phase of the withholding tax procedures initiative, organising several meetings with stakeholders from various fields such as Member States' tax administrations, private sector agents and other EU Institutions. The **inception impact assessment** was published at the Commission website in September 2021.

DG TAXUD also undertook several other activities in 2021 to further contribute to a supportive tax environment for businesses in the EU. These included:

- Launching pilot projects on a new **cooperative compliance programme** for businesses and authorities to work out cross-border tax problems, including a **public consultation** on the project in June 2021.
- Conducting the preparatory work for a Communication and Recommendation on **EU Taxpayers' Rights**, due in 2022, which should improve legal certainty for taxpayers across Europe.
- Preparing implementing provisions and drafting IT specifications for the new **Simplified VAT rules for SMEs**, which will apply from 2025.
- Renewing the **special tax regime for the French outermost regions** until 2027, to encourage local production and facilitate the competitiveness of the economies in these regions.

Proper Enforcement for Better Results in EU tax policy

In 2021, DG TAXUD intensively monitored the correct and timely implementation of EU law and prioritized its enforcement actions. In this context, DG TAXUD actively supported the Member States' efforts in transposing and implementing the new VAT e-commerce rules, amendments to the Anti Tax Avoidance Directive (ATAD) and the Directive on administrative cooperation (DAC). In addition, the Commission took action to ensure proper transposition of the Directive on tax dispute resolution mechanisms in the European Union (DRM).

DG TAXUD took enforcement actions against those EU countries which failed to transpose and implement the required legislation on time. Through infringement procedures, DG TAXUD targeted national fiscal measures creating distortions of competition in the Single Market. These included issues such as the VAT exemptions on postal services, the wrong application of the VAT scheme for small and medium businesses, withholding taxes for royalties or capital gains paid to non-resident taxpayers and discriminatory taxation of dividends paid to public pension institutions elsewhere in the EU/EEA.

In the area of car taxation, the enforcement efforts tackled national measures creating serious cross-border obstacles for EU citizens and businesses. The enforcement actions resulted in 18 new infringement procedures being launched in 2021 in the field of indirect taxation and 7 in the field of direct taxation. At the same time, working together with the Member States to ensure compliance with EU law led to 22 indirect taxation and 29 direct taxation related infringement cases to being solved and thus, closed.

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

2021 was the first year of implementation of the **new Customs and Fiscalis programmes**. It was also a year of transition from the previous Customs 2020 and Fiscalis 2020 programmes.

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

a) European electronic systems (EES);

b) Collaborative actions (including expert teams);

c) Human competency building and trainings; and

d) Innovation (Customs programme only).

The adoption and launch of the Fiscalis and Customs programmes, as well as the Customs Control Equipment Instrument (CCEI), were delayed due to late adoption of the Multiannual Financial Framework 2021-2027. The Customs programme entered into force on 15 March 2021 with the Financing Decision / Multi-Annual Work Programme adopted in April. The Fiscalis programme entered into force on 28 May 2021, with the Financing Decision and related Multi-Annual Work Programme (2021-2023) adopted in July 2021. DG TAXUD also completed the **review of the performance measure frameworks** (PMFs) for the three programmes in 2021, with a view to streamlining and improving them.

Despite the delayed adoptions, the collaboration generated by the Customs and Fiscalis programmes remained strong in 2021 and the transition to the new programmes was smooth and successful.

Last year was also the first year of implementation of the **new Customs Control Equipment Instrument (CCEI) programme**, which will help Member States to purchase, maintain and upgrade state-of-the-art customs control equipment for both border crossing points and customs laboratories. In 2021, the programme's operational framework was established and, in October 2021, DG TAXUD launched the first **CCEI call for proposals**. DG TAXUD invested heavily in preparing the different documentation and templates, to support Member States' customs authorities ahead of the call for proposals. Member States were provided with a comprehensive guidance package and a dedicated CCEI Coordination Group was set up to support the implementation of the programme. The Commission expects to sign the grant agreements and proceed with the first pre-financing payments as of June 2022.

By the end of 2021, DG TAXUD carried out the final **evaluations** of the **Customs and Fiscalis 2020** programmes. Building on the outcomes of the evaluations and the Commission's reports, DG TAXUD will proceed with a strategic assessment for the way forward in order to leverage the impact of the programmes. In particular, DG TAXUD will deploy a more streamlined approach to programmes' activities and provide a more strategic steer in order to reach the expected results. We will also encourage participating countries to reinforce their ownership in current activities and to increase their initiative for activities to be launched.

Specific Objective 3.3: Support other EU policy priorities through taxation and customs

Taxation can considerably influence behaviours and help steer consumers toward healthier, more sustainable choices. Tobacco taxation has been long used as a tool by governments to prevent and reduce smoking, while alcohol taxation can deter excessive consumption and alcohol abuse. DG TAXUD is committed to ensuring that EU tax policy contributes to the objectives of the EU Health Union, and fully plays its role in protecting public health, while delivering the necessary public finances.

In this respect, in 2021 DG TAXUD continued the preparatory work on key contributions to the Commission's Beating Cancer Plan. The **revision of the Tobacco Directive**, due in 2022, will review the minimum excise duty rates for tobacco, harmonise the taxation of new tobacco products and strengthen the measures against tobacco fraud. In 2021, to prepare for the proposal, DG TAXUD commissioned an extensive external **study** and launched a public consultation in March. On this basis, we began to draft the **Impact Assessment**, in close consultation with other relevant services (OLAF, SANTE, GROW, SG and LS).

DG TAXUD also continued the preparation of new **rules for cross-border acquisitions of alcohol and tobacco**, to facilitate better enforcement by Member States and reduce public revenue losses. The current rules include an exemption from excise duties for goods that a private individual takes to another Member State for his/her own use. However, the legislation has become ineffective and difficult to enforce, and leaves open the risk of smuggling and fraud. DG TAXUD therefore carried out a **public consultation** and began work on the **Impact Assessment** in 2021.

General Objective 5: Promoting our European Way of Life

Specific Objective 5.1: Develop a more modern Customs Union, to facilitate trade, safeguard revenues and protect citizens and businesses[3]

Customs has a critical role to play in Europe's recovery – both by protecting the EU and Member States' financial interests at the borders, and by facilitating the smooth and swift trade that underpins EU prosperity. At the same time, customs is at the centre of the EU Security Union, protecting the safety and security of citizens and serving as the gate keeper of the Single Market. It is at the forefront of the fight against organised crime, terrorism, smuggling, illicit cash and counterfeit products. In addition, customs has to uphold EU rules and standards in a wide array of different policy areas, enforcing around 350 EU laws at the EU borders, ranging from intellectual property rights to drug precursors, product safety to firearms. This will only increase in the years ahead, as customs is called on to implement key initiatives linked to the green and digital transitions, including the Carbon Border Adjustment Mechanism (CBAM). All of these roles must be performed in the context of new and emerging challenges – from a surge in e-commerce to increasingly complex global supply chains - that impact the daily work of EU customs officers.

The current legal framework and governance structures for the Customs Union are ill-equipped to face such challenges, or to ensure customs' effective performance of its different roles. Therefore, DG TAXUD's top priority in customs policy is to radically overhaul the EU Customs Union, and make it more modern, digital, agile and inter-connected. The objective is to cover the many different angles of customs work and governance, for a holistic and impactful reform. At the same time, DG TAXUD continues to ensure the day-to-day functioning of the Customs Union and the proper implementation of EU customs legislation.

I. A Customs Union that it is Fit for the Future

In her political guidelines at the start of her mandate, President von der Leyen announced that it was *"time to take the Customs Union to the next level, equipping it with a stronger*

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

framework that will allow us to better protect our citizens and our single market". In 2021, DG TAXUD intensified the groundwork needed to design, prepare and implement such reforms.

An independent, high-level **Wise Persons' Group** was established to reflect on and develop innovative ideas and concepts with regard to the future of the Customs Union. The Wise Persons Group focussed in particular on four key areas linked to the biggest challenges that Customs face: risk management, e-commerce, non-financial risks and future governance structure. It considered each of these aspects from the angle of making customs smarter, more agile, more effective and better equipped against crises. The recommendations from the Wise Persons' Group, due in 2022, will feed into a wider reflection on the future of Customs and help in preparing a fundamental overhaul of the Customs Union.

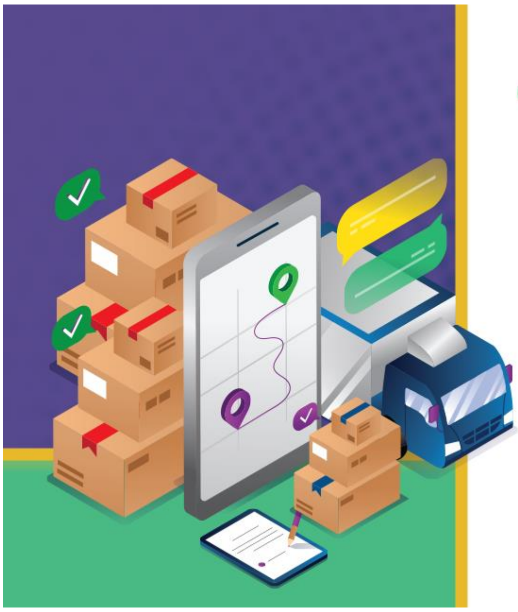
In parallel, DG TAXUD continued the **evaluation of the Union Customs Code (UCC)**, as another strand in the preparation for customs reform. An interim **evaluation**, announced in the Customs Action Plan, aimed to assess the current functioning of the UCC and identify areas for improvement, supported by an external **study** and targeted and public **consultations**, was concluded at the end of 2021. The findings were stark, identifying serious shortcomings across a whole spectrum of issues, including risk management, e-commerce challenges, authorised economic operators (AEOs), IT systems and non-financial risks. DG TAXUD will build on these findings, together with the recommendations of the Wise Persons' Group, recent European Court of Auditors' reports and input from several studies and consultations, in defining the key areas for reform and shaping the path for Customs in the years ahead.

As part of the Future of Customs project, DG TAXUD is also working to modernise the **Authorised Economic Operators (AEO)** programme. The AEO programme has been key to facilitating faster and more efficient customs procedures for approved traders, since it was established in 2008, and there are approximately 18 000 authorised operators registered today. However, it has become clear that the programme needs to be upgraded, to address identified weaknesses and to keep up to speed with modern challenges. In 2021, DG TAXUD, together with Member State experts, prepared a draft update of the EU AEO Guidelines. These aim to strengthen the monitoring of AEO authorisations and step up the uniform implementation of the AEO programme. DG TAXUD continued its AEO fact-finding visits (online) too, to assess where improvements are needed on-the-ground, and launched a **study** on how to further enhance the quality of the programme. This will all feed into proposals for legislative amendments in 2022.

II. Modern, digitalised and data-rich protection at the EU borders

Customs is central to the EU **Security Union**, as the first line of defence against security and safety threats from illicit goods trying to cross the EU's external borders. DG TAXUD works consistently to support customs in effectively tackling financial and non-financial risks to EU citizens and businesses. In this respect, over the past few years, particular focus has been put on strengthening risk management, optimising the use of data and improving the inter-connectivity of enforcement authorities and systems.

In 2021, the new **Import Control System (ICS2)** was launched (Release 1), marking a major reinforcement of customs' risk management and the EU's safety and security controls. ICS2 is a large-scale, advance cargo information system, through which new pre-arrival security and safety requirements are enforced by customs. In its first phase, ICS2 focussed on postal and express consignments entering the EU by air, and it will eventually be applied to all modes of cargo transport through subsequent releases. DG TAXUD also started work to implement the data analytics component of ICS2 (see below) and to examine how ICS2 could be linked with the Schengen Information System and Europol, to further strengthen EU coordinated action against security risks.



In December 2021, DG TAXUD launched another important modern IT system - **customs risk management system (CMRS2)** - to reinforce controls by facilitating the real-time exchange of risk-related information between customs administrations. This rapid exchange of information has proven particularly useful during the COVID-19 pandemic, when large quantities of medical goods need to be swiftly checked and cleared for use. In total, roughly 900 customs offices and national centres and 6,500 customs officers and risk experts are now connected to CRMS2.

Despite this practical progress in customs risk management, it has become clear that the overall legal framework for risk management needs to be substantially reviewed. There is lack of uniformity and consistency in how risk management is applied across the EU, as highlighted in the March 2021 European Court of Auditors' report[4]. Custom risk management therefore remained a central focus of DG TAXUD's work in 2021.

In 2021, DG TAXUD started work on drafting a new **Risk Management Strategy** which the Commission will present in 2022. This work included identifying priority areas for action, and considering concrete actions for the Strategy and UCC revision, which would enable Customs to act as one and be seen as one. DG TAXUD also regularly consulted other services in this reflection, to ensure that risk management is considered from all policy angles.

DG TAXUD also continued working more widely on data analytics in 2021, given the importance of the smart use of data for effective risk management and robust customs controls in the Member States. In 2021, we continued inception work on the **Joint Analytical Capabilities (JAC).** This focused on financial risks, by identifying relevant analytical projects and getting the access to data and processing required to implement them. DG TAXUD signed a Memorandum of Understanding on Joint Analytical Capabilities with DG BUDG and OLAF, to cooperate on the identified projects. DG TAXUD also continued the preparatory work for the implementation of **Safety and Security data analytics** component of ICS2 from 2023. The work included designing and constructing the analytics capabilities, setting-up a governance structure and concluding data protection agreements with certain Member States involved in the upcoming ICS2 analytics pilot.

With regard to non-fiscal risks, DG TAXUD developed the first '**Integrated EU Prohibitions and Restrictions List'**, which aims to give a comprehensive overview of all of these risks that need to be tackled at the EU external border. The list will be made public beginning of 2022. DG TAXUD also continued, in cooperation with DG GROW, to work on the implementation of the new Regulation (EU) 2019/1020 on market surveillance and product compliance, which entered into application on 16 July 2021. The objective is to enhance cooperation between customs and market surveillance authorities in their fight against non-compliant and dangerous products entering the Single Market.

[4] European Court of Auditors' Special Report No 4/2021 "Customs controls: insufficiaent harmonisation hampers EU financial interests".

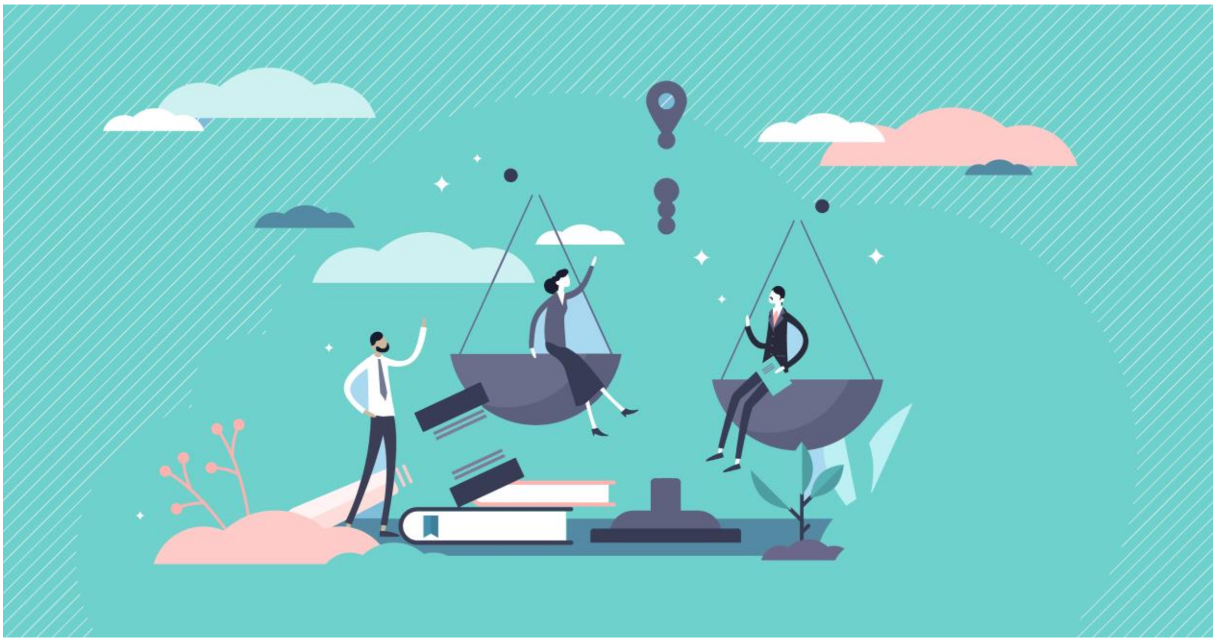
The EU **Single Window Environment for Customs** is a prime example of an initiative to digitalise, simplify and inter-connect EU customs with other regulatory authories. Proposed by the Commission last year, the Single Window will facilitate different authorities involved in goods clearance in exchanging electronic information submitted by traders and support the automated verification of non-customs formalities for goods entering or leaving the EU. It will also streamline and simplify processes for economic operators by allowing them to provide data to the relevant authorities only once and to fully exploit the use of digital documents, thus strongly increasing the gains for trade facilitation.

In 2021, the European Parliament and Council started the first reading of the proposal. DG TAXUD supported this process by facilitating technical meetings with the co-legislators to clarify key concerns, providing explanations and clarifications to Member States and MEPs, and discussing challenges with respect to the scope and legal implications of certain provisions with the Council and Commission legal services. The trilogue negotiations are expected to start in 2022, with a view to reaching a compromise by the end of the year. In addition to supporting the co-legislation activities, DG TAXUD also launched the the Single Window business-to-government (SW B2G) project group in April 2021. This group serves as a key intermediary in capturing lessons-learnt from national experiences on trade facilitation and applying these towards facilitating the legislative process.

The development of a legal framework for the EU Single Window Environment for Customs is built on the pre-existing **EU Customs Single Window Certificates Exchange** (EU CSW-CERTEX) pilot project. EU CSW-CERTEX covers exchanges for a multitude of non-customs formalities hosted in EU databases and regulated in different policy areas. In 2021, this platform supported nine certificates from different policy domains. DG TAXUD is working to expand its coverage, traffic capacity and functionalities through regular releases, in close coordination with other DGs and services.

III. Proper enforcement of customs legislation

The **Common Customs Tariff (CCT)** is the cornerstone of the Customs Union. It applies uniformly to goods imported into the EU, regardless of the Member State they are imported into and the rates of duty are set through international trade negotiations. Throughout 2021, DG TAXUD continued to ensure the uniform application of the CCT, which is essential to ensure a level playing field in the Single Market and prevent fraud. Among DG TAXUD's activities in this domain last year were the daily update of the Integrated Tariff of the European Union (**TARIC**) and providing economic operators with a comprehensive view of all tariff and also other type of measures (e.g. prohibitions, restrictions) that apply. In 2021, DG TAXUD prepared five implementing regulations and two Council regulations on tariff quotas, and ensured the management and daily allocations for more than 1,700 tariff quotas – an increase of 20% since 2020. We published 27 legislative tariff classification measures, and solved 44 other cases of divergent classification by consensus with the Member States.



In October 2021, we published the latest version of the **Combined Nomenclature** (CN), applicable as from 1 January 2022. This was a substantial exercise as it was the version in which significant changes stemming from the Harmonised System (HS)/WCO cycle of 2022, were introduced. The Combined Nomenclature determines the rate of customs duty that applies and how the goods are treated for statistical purposes and is, thus, a vital working tool for business and the Member States' customs administrations.

In addition, we managed the **European Binding Tariff Information** (EBTI) system in which around 36 000 Binding Tariff Information (BTI) decisions were issued in 2021. DG TAXUD also completed a feasibility **study** on Binding Valuation Information (BVI) last year, with a view to launching a legal initiative in 2022.

In the area of non-financial controls, new EU rules on **market surveillance and product compliance** entered into force in July 2021, and customs has an important role in enforcing them. In 2021, DG TAXUD worked closely with DG GROW on the implementation of this new legislation. In particular, two implementing acts were adopted covering the statistical data on controls and the electronic interface between the EU market surveillance information system (ICSMS) and national customs systems.

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

As part of the Customs Action Plan (CAP), in 2021, DG TAXUD started a comprehensive analysis of the EU's international cooperation in customs matters, with a view to proposing possible enhancements.

Specifically with regard to **China**, an **evaluation** was undertaken on the functioning of the bilateral Customs Cooperation and Mutual Administrative Assistance Agreement. Negotiations with China on a new Strategic Framework for Customs Cooperation 2021-2024 were also finalised last year, and a new Action Plan on Intellectual Property Rights was agreed.

Bilateral cooperation with other major trading partners dialogues included exchanges with **Japan** on the customs aspects of the implementation of the Economic Partnership Agreement. Discussions on the mutual recognition of Authorised Economic Operators were advanced with **Canada, UK**, **Moldova, Turkey** and **Ukraine** and were initiated with **Singapore**.

DG TAXUD also continued work last year to enhance cooperation with EU neighbouring partners. With regard to **Switzerland** and **Norway**, the respective Agreements on simplification of inspections and formalities and on customs security measures were successfully amended in March 2021. This amendment reflects the adaptations made in light of the EU's new risk management system for security and safety (ISC2).

Within the **Pan Euro-Mediterranean** area, a new set of modernised rules of origin ('transitional rules') entered into force with 11 Pan Euro-Med countries in September 2021. The rest of the Pan Euro-Med partners will follow suit in 2022. The new rules will facilitate the use of trade exchanges with the EU and will foster the regional integration of the area.

In 2021, DG TAXUD also assisted the the **Eastern Partnership and enlargement countries** in their path towards the accession to the Common Transit Convention and the deployment of NCTS. For the first time, the Eastern partneship countries will be allowed to join enlargement countries in participating in the Customs and Fiscalis programs from 2022, facilitating common capacity building. Throughout last year, DG TAXUD supported the preparations for this participation. We also continued to work with these countries on the customs and taxation chapters, to ensure closer alignment to the acquis and progress in the access process.

DG TAXUD also continued working on the correct implementation of the **EU–Turkey Custom Union**, as a key pillar of the bilateral relationship and presented the annual Report on the benefits for the people of **Western Sahara** on extending tariff preferences to products from Western Sahara.

DG TAXUD continued monitoring the implementation of **preferential origin rules and procedures** by GSP beneficiary countries, which protect the EU's financial interests and ensure fair trade between the EU and the countries concerned. In 2021, DG TAXUD held a one-week monitoring meeting with the Nepalese authorities, providing them with tailor-made explanations and advice. We also worked on the extension of the monitoring of Rules of Origin from the EU's autonomous preferential regimes to Free Trade Agreements, by identifying possible partners and establishing a methodology.

More broadly, in 2021 DG TAXUD continued to actively participate in negotiating and implementing EU agreements with international partners, focusing on customs and taxation aspects. This work covered dozens of multilateral and regional agreements, as well as more than 100 bilateral agreements. worth noting the first meetings of the special customs committees with Ghana and Ivory Coast opening the dialogue on customs and trade facilitation, as well as continuation of discussions on the other bilateral and regional agreements. The objective is to facilitate legitimate trade and ensure preferential market access in third countries, ensure efficient controls to protect EU citizens and safeguard EU own resources.

We also continued to actively invest in the **reform of the World Customs Organisation (WCO)** throughout 2021. In June, DG TAXUD presented the EU initiative for the modernization of the WCO, at high level meetings of the Organisation. We further fine-tuned and promoted this initiative through bilateral contacts with other WCO members and with partners different regions. This resulted in the WCO Policy Commission integrating the EU initiative into the WCO Strategic Plan 2022-2025, thereby reflecting EU priorities at global level.

Implementing the EU-UK Agreement and Monitoring the Protocol on Ireland/Northern Ireland

With the end of the transition period on 1 January 2021, DG TAXUD became heavily involved in the work to ensure the proper implementation of the EU-UK Trade and Cooperation Agreement, as well as closely monitoring the application of the Protocol on Ireland/Northern Ireland.

Through an intensive **communications campaign** and extensive engagement with EU industry and national authorities, DG TAXUD contributed to the smooth implementation of the tax and customs aspects of the Agreement. Detailed Guidance, frequently asked questions and check-lists were published and updated in line with developments, and we maintained a continual contact with all main stakeholders to minimise the impact of the UK's withdrawal from the EU. Towards the end of 2021, we also focussed on raising EU operators' awareness of the new UK customs procedures for imports from the EU, which entered into force on 1 January 2022.

DG TAXUD worked successfully on the implementation of different elements in the Agreement, such as the application of several origin quota derogations or the development of an automated system for the Mutual Recognition of AEOs. Intensive work was also carried out to progress on the definitive arrangements for exchange of information and administration to combat VAT fraud and on recovery of taxes. From the governance perspective, DG TAXUD participated in the first sessions of the Specialised Committees on tax and customs issues in the last quarter of 2021. On the IT side, access of the UK customs authorities to EU customs systems was gradually disconnected throughout 2021.

With regard to the implementation of the Protocol on Ireland/Northern Ireland, DG TAXUD sent six officials to Belfast on 2 January 2021, as part of the Northern Ireland Liaison Team. This team was set up to monitor the implementation of EU law, particularly in the area of customs, VAT and excise, and to monitor the performance of customs controls by the UK authorities. During the year, DG TAXUD recruited further agents to expand the capacity of the Northern Ireland Liaison Team.

DG TAXUD participated in regular technical meetings with representatives from the UK Revenue and Customs Service (HMRC), to resolve open issues related to the implementation of the Protocol. DG TAXUD's IT units were also heavily involved in supporting the UK in adapting their IT systems for application to Northern Ireland only.

On 13 October 2021, the Commission published non-papers with bespoke arrangements to respond to the difficulties that the people and businesses in Northern Ireland have been experiencing. The package proposed further flexibilities in several areas, including customs, as well as more engagement with Northern Irish stakeholders. The Commission package also proposed a different model for the implementation of the Protocol, to facilitate the flow of goods between Great Britain and Northern Ireland, when the goods are destined to stay in Northern Ireland. Following the publication of those papers, intensive discussions with the UK government were launched, in which DG TAXUD actively participated. These talks will continue in 2022.

2. MODERN AND EFFICIENT ADMINISTRATION AND INTERNAL CONTROL

2.1. Financial management and internal control

Assurance is provided on the basis of an objective examination of evidence of the effectiveness of risk management, control and governance processes.

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

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

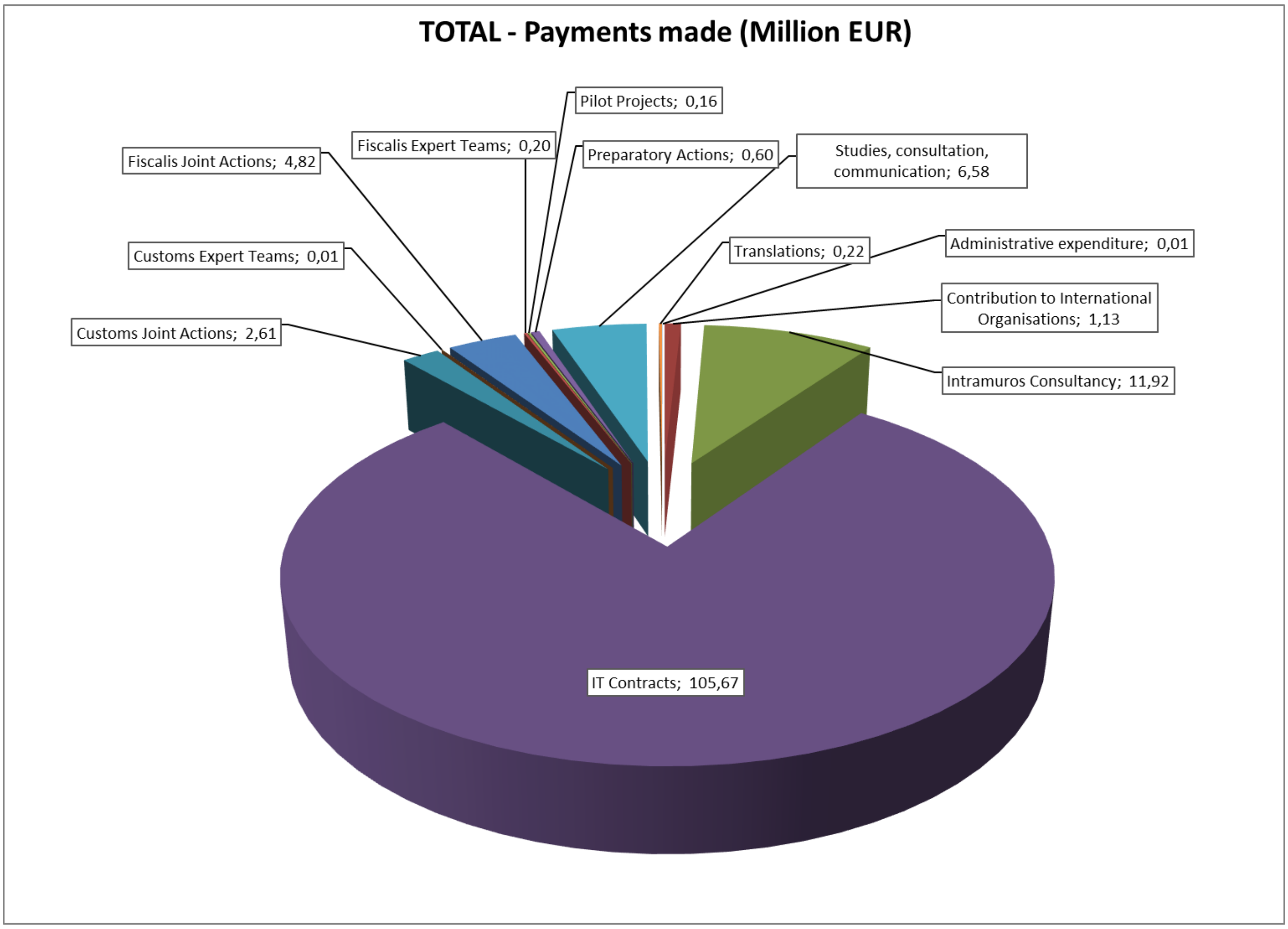
These reports result from a systematic analysis of the available evidence. This approach provides sufficient guarantees as to the completeness and reliability of the information reported and results in a complete coverage of the budget delegated to the Director-General of DG TAXUD.

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

2.1.1. Control results

This section reports and assesses the elements identified by management which support the assurance on the achievement of the internal control objectives (ICO) ([5]). The DG's assurance building and materiality criteria are outlined in AAR Annex 5. The AAR Annex 6 outlines the main risks together with the control processes to mitigate them and the indicators used to measure the performance of the relevant control systems.

DG TAXUD is a policy DG with a relatively small budget, exclusively implemented in direct management mode. DG TAXUD paid EUR 133,93 million in 2021[6].



[5] 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). The 2nd and/or 3rd Internal Control Objective(s) (ICO) only when applicable, given the DG's activities.

[6] See Annex 3, table 2.Payments

DG TAXUD's expenditure is broken down as follows:

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

Overall, the value of signed contracts represents EUR 124,17 million (about 92,71% of payments made in 2021).

The largest part of DG TAXUD's operational budget is dedicated to IT expenses/Intramuros consultancy (EUR 117,60 million or 87,80% of payments made in 2021), through several framework contracts concluded between the Commission and IT suppliers. These contracts provide for the development and operation of the trans-European systems, networks and related databases, as well as the IT training tools, in line with the work programmes of the Customs and Fiscalis programmes.

Other contracts related to procurement of different tools or services such as studies, databases, consultations and communication activities (EUR 6,58 million paid in 2021, i.e. 4,91%).

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

Overall, the expenditure related to Joint Actions and Expert Teams represents EUR 7,65 million (about 5,71% of payments made in 2021), which represents the second major category of DG TAXUD's expenditure.

The expenditure in the framework of the Joint Actions and Expert Teams consists of grants awarded to the participating National Administrations and reimbursement of costs incurred by experts[7]. The beneficiaries of these grants are the national customs and tax administrations of the 27 Member States, and some (potential) candidate countries.

The 2 most important grants relate to Joint Actions under the Customs and Fiscalis programmes (EUR 2,61 million and EUR 4,82 million respectively) and aim at developing better coordination between the national administrations in the tax and customs areas.

Two other grants (EUR 0,21 million paid, 0,16% of payments made in 2021) are related to expert teams under the Customs programme ("ETCIT" - expert team on new approaches to develop and operate customs IT systems; 16 participating Member States) and under the Fiscalis programme ("CESOP", expert team to leverage EU Member States' expertise and resources to assist the Commission in the implementation and operation of the Central Electronic System of Payment information, 10 participating Member States).

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

- **Contributions to international organisations**

This expenditure relates to the membership of the Union to the World Customs Organisation, and represents about 0,84% of payments made (EUR 1,13 million).

- **Pilot Project and preparatory actions**

The pilot project "Monitoring the amount of wealth hidden by individuals in offshore financial centres and impact of recent internationally agreed standards on tax transparency on the fight against tax evasion" generated one payment of EUR 0,16 million i.e. 0,12% of payments made).

In the scope of the Preparatory Action "EU Tax Observatory - Capacity building to support Union policymaking in the area of taxation", EUR 0,6 million was paid (0,45% of payments).

- **Administrative expenditure**

The administrative expenditure managed by DG TAXUD (training, conferences, representation expenses and other miscellaneaous expenditure) during the reporting period dropped to 0,01 % of the total paid budget (EUR 0,01 million) due to the impact of the COVID-19 pandemic.

Throughout 2021, DG TAXUD paid EUR 0,22 million (0,16% of the total budget) for translations made by the Commission's Translation Service (DGT).

Overview table (amounts in EUR million)

Risk-type / Activities	Grants (e.g. actual costs based, or lump sums, or entitlements)	Procurement (e.g. minor or major values)	Shared mngt (MS's OPs, PAs, etc) + EAC (for NAs)	Cross-delegations to other DGs (other AOXDs)	Contributions and/or funds to EE (EU Agency, EA, JU)	Delegation / Contribution agreements with EE (EIB, Int-Org, etc)	Other (describe any other expediture not covered by the previous columns)	*Total Expediture*	NEI, e.g. Revenues, Assets, OBS ((in)tangible or financial assets & liabilities)
Joint Actions	7,44							7,44	
Expert Teams	0,21							0,21	
IT		117,59						117,59	
Studies, databases, communication, administration, translations		6,81						6,81	
Contributions to international organisations		1,13						1,13	
Preparoty actions	0,6							0,6	
Pilot Projects		0,16						0,16	
Totals (coverage)	**8,25**	**125,69**						***133,94***	

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

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

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

1. Effectiveness of controls

a) Legality and regularity of the financial transactions

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

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

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

Procurement

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

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

- During the reporting year, 9 exceptions and 7 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 related to formal compliance issues which do not have a negative impact on the budget.

- The correction of the detected erroneous invoicing which involved an amount unduly invoiced, resulted in 48 credit notes for a total amount of EUR 3,95 million (please refer to table 8 in annex 3 for details). All errors and irregularities have been discovered before the actual payment, which is why no recovery order for unduly paid amount has been issued in 2021. Considering that all corrections take place before the actual payment is made (ex-ante), there are no errors left at the moment of payment. Nonetheless, to calculate the error rate for procurement, DG TAXUD has taken a most conservative approach and estimates the error rate for procurement at **0,50%.**

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

Grants

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

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

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

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

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

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

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

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

The total estimated error rate for grants is an average weighted error rate of the results of the audited countries since 2015 and results in **a best possible estimated error rate for grants under 2014-2020 MFF in 2021 of 1,52%**[8].

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

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

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

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

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

- CCEI is considered to represent a higher risk of fraud than the Customs and Fiscalis programmes, although the beneficiaries are also public administrations.
- Its budget is significantly higher compared to the other two programmes, and funding co-finances the purchase of equipment through public procurement carried out by the national authorities.

[8] See also Annex 5 for the detailed calculation

- the preparation and implementation of the CCEI grants is done using the eGrants platform which embeds the necessary controls and checks;
- Due to the higher risk level, requests for interim payments shall be accompanied by a certificate on the financial statements – produced by an approved external auditor or, in the case of public bodies (which is the case for CCEI), by a competent and independent public officer - when the cumulative amounts of payment requests is at least EUR 0,33 million.

Due to the late adoption of the 2021-2027 MFF and the CCEI regulation, no grants were signed in 2021 and no payments were made. **The error rate for grants under the CCEI in 2021 is therefore not applicable for the time being**.

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

Through recoveries and financial corrections, DG TAXUD has in place an effective mechanism for correcting errors. During the reporting year the executed corrective capacity amounted in total to EUR 0,314 million representing 0,25 % of the relevant expenditure. The benefit at ex ante level control amounts to EUR 0,308 million, whilst recoveries and financial corrections following the results of ex post controls amounted to EUR 0,006 million.

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

The estimated overall risk at payment for 2021 expenditure amounts to EUR 0,628 million, representing 0,5% of the DG's total relevant expenditure for 2021. This is the AOD's best, conservative estimate of the amount of relevant expenditure during the year not in conformity with the contractual and regulatory provisions applicable at the time the payment was made.

This expenditure will subsequently be subject to ex-post controls and a proportion of the underlying errors will be detected and corrected in subsequent years. The conservatively estimated future corrections for 2021 expenditure amount to EUR 0,314 million.

The difference between those two amounts results in the estimated overall risk at closure of EUR 0,313 million, representing 0,25% of the DG's total relevant expenditure for 2021[9].

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

Compared to 2020, the overall risk at closure is decreasing (EUR 0,313 million and 0,25% of relevant expenditure versus EUR 0,43 million and 0,32% of relevant expenditure in 2020). The estimated future corrections are slightly lower compared to 2020 (EUR 0,314 million and EUR 0,36 million respectively).

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

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

DG TAXUD	Relevant expenditure	Estimated risk (error rate %) *at payment*		Estimated future corrections and deductions		Estimated risk (error rate %) *at closure*	
(1)	***(2)***	***(3)***		***(4)***		***(5)***	
	m EUR	***m EUR***	***%***	***m EUR***	***%***	***m EUR***	***%***
Procurement	125,79	0,63	0,50%	0,31	0,25%	0,31	0,25%
Grants 2014-2020	-0.08	0.00	0.00%	0,00	0,00%	0,00	0,00%
Grants 2021-2027	0,00	0.00	0.00%	0,00	0.00%	0,00	0.00%
CCEI	0,00	0.00	0.00%	0,00	0.00%	0,00	0.00%
DG total	**125,71**	***0.63***	***0,50***	***0,31***	***0,25***	***0,31***	***0,25***

b) Fraud prevention, detection and correction

DG TAXUD has developed and implemented its own anti-fraud strategy since 2013 on the basis of the methodology provided by OLAF.

Since then, the anti-fraud strategy and its action plan have undergone several updates in order to align with the evolution of the DG as well as with the guidelines provided by OLAF or stemming by other relevant sources, such as - for example - IAS and ECA audits.

The review of the anti-fraud strategy and implementation of actions of its action plan did not reveal any significant weakness to be addressed. OLAF did not make financial recommendations throughout the reporting period. The 2021 IAS audit on “DG TAXUD’s relations with stakeholders” recommends that DG TAXUD ensure that the elements in relation to cooperation with external stakeholders feature in its antifraud strategy and that related actions are effectively implemented. This aspect will be followed up in the new antifraud strategy that DG TAXUD has been drafting, together with an action plan.

Pending its adoption, DG TAXUD has been taking several policy and legislative initiatives to help prevent and combat customs and tax fraud in the EU, and has been putting in place the necessary control measures to prevent fraud in its programmes, including in rolling out eGrants. Ethics and integrity feature among the mandatory trainings in the new training map for DG TAXUD staff as of 2022.

In 2021, DG TAXUD finalised 1 ex-post audit on the grants to the Member States under the Customs and Fiscalis 2020 programmes. Overall, the management of the Customs and Fiscalis 2020 joint actions programmes in the Member States audited so far was well-organised. The supporting files were complete, well-structured, the calculations were accurate in most cases, and supported by relevant documents.

Once approved by the Senior Management, the antifraud strategy will set out the actions that DG TAXUD will implement during the period of the Commission Antifraud Strategy, and will feed into the revision of the latter.

DG TAXUD also contributed to the Commission anti-fraud strategy. OLAF did not issue financial recommendations for DG TAXUD in 2021.

The results achieved during the year thanks to the anti-fraud measures in place can be summarised as follows: (1) of seven Commission anti-fraud actions, DG TAXUD implemented four; the remaining three recommendations will need to be re-assessed given the political landscape has changed over the time.

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

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

DG TAXUD manages a fair number of intangible assets (EUR 45,.27 million in 2021 – see Annex 3, Table 4).

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

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

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

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

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

2. Efficiency of controls

Throughout the reporting period, DG TAXUD made 1.138 payments (EUR 133,93 million), established 347 contracts (and/or amendments thereto) and 5 grant agreements, audited EUR 1,28 million via desk reviews and recovered EUR 0,005 million non eligible cost, processed 48 commercial credit notes, issued 1 recovery order, committed EUR 291,87 million appropriations and prepared 6 procurement procedures (1 open procedures, and 5 reopening of competitions).

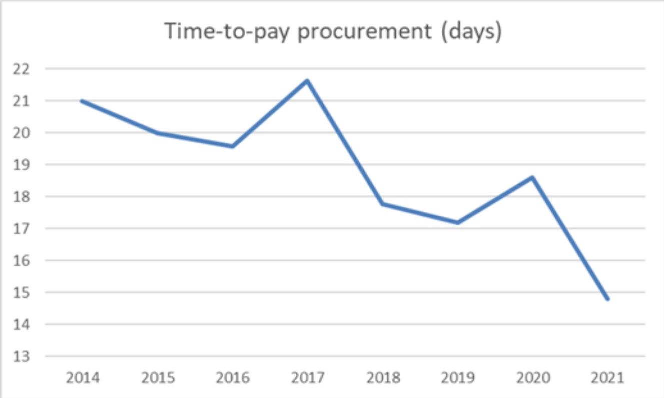
- **Procurement related indicators**

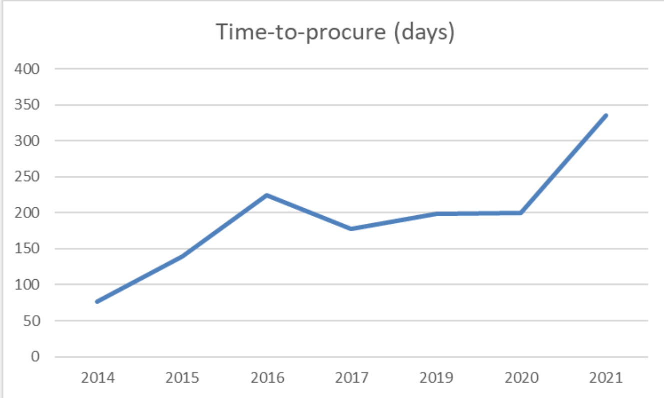
Against this workload, the control efficiency of procurement transactions can be witnessed by the "time-to-pay" and the "time-to-procure" indicators.

Procurement control efficiency indicators	Result 2021 (days)
Time-to-pay (days)	14,8
Time-to-procure (days)	336

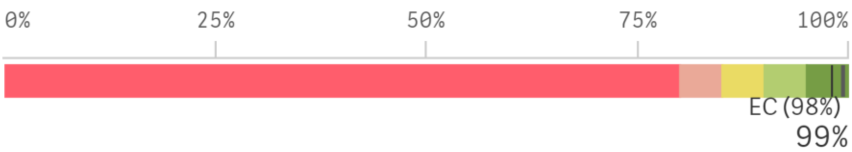
As it can be seen from the below historical overview, the "time-to-pay" indicator has decreased in 2021 from 18,6 days to 14,8 days[10]. The "time-to-procure" increased from 200 to 336 days in 2021 due to a highly complex and largest ever IT procurement procedure in DG TAXUD. The peaks in the 2016-2020 period were equally due to the awarding of complex and large-scale IT framework contracts.

[10] 2020 was atypical where some payments were delayed to avoid a lack of payment appropriations





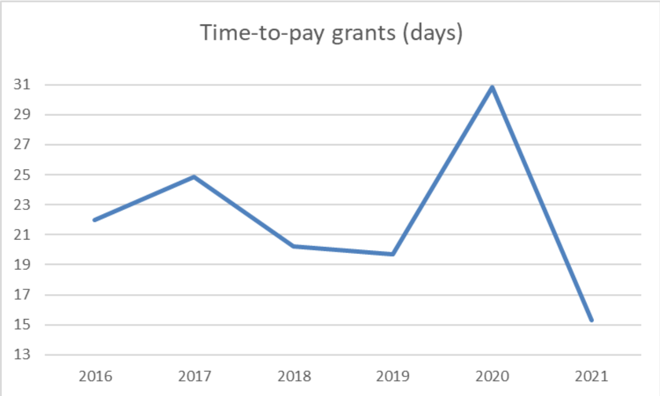
Throughout the reporting period, DG TAXUD made 99% of all payments on time which is above Commission average :

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

- **Grants related indicators**

Grants control efficiency indicators	**Result 2021** (days)
Time-to-pay (days)	15,3
Time-to-inform (days)	22,40
Time-to-grant (days)	45,6

The “time-to-pay” for grants decreased from 30,8 to 15,3 days[11].



The “time-to-inform” and “time-to-grant” indicators are reported for the very first time[12], hence, no historical overview.

3. Economy of controls

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

Procurement

Procurement control efficiency indicators	Result 2021
Procurement - overall cost of control (% over payments made)	1,30%
Procurement - cost of controls of the evaluation and selection procedure / value contracted (%)	0,05%
Procurement - related cost of control of payments/ amount paid (%)	0,53%
Average cost of a payment	EUR 595,84
Average cost of establishing and managing a contract	EUR 1.511,27
Average cost of a procurement procedure	EUR 222.224,65

[11] In 2020, the payment of grants was delayed, knowing that the Covid-19 pandemic would in any case lead to the cancellation of most of travel expenses financed by these grants

[12] The grants under the 2014-2020 MFF are direct grants to the Member States without calls for proposals (the beneficiaries are indicated directly in the basic act). The new programmes under the 2021-2027 MFF are implemented with the eGrants platform and follow a normal lifecycle that allows reporting on the time-to-inform and time-to-grant indicators. A historical overview will be provided from the 2022 Annual Activity Report onwards.

- For **procurement procedures**, an estimated EUR 0,14[13] million were invested in controlling 6 procurement procedures (1 open procedures and 5 reopening of competitions). A typical procurement procedure has an estimated total preparing and handling cost of EUR 0,22 million [14].

- For **payments**, an estimated EUR 0, 67 million[15] were invested in preparing and controlling 1.126 payments worth EUR 125,69million (0,53% of the total payment amount was dedicated to control). On average, a financial transaction costs an estimated EUR 595,84 for processing and controlling.

- For **contracts**, an estimated EUR 0,52[16] million were invested in preparing and controlling about 347 contracts (and/or the amendments of the contracts) worth about EUR 154,60 million (0,34% of the total amount contracted was dedicated to control). On average, preparation and controlling of each contract costs an estimated EUR 1.511,27. This has increased compared to 2020 (EUR 988,88) due to 1) the significant increase in budget managed[17], and 2) the intensified use of more complex contracts that continue to be managed outside the electronic platforms currently available.

- There were no specific ex-post supervisory measures on procurement in 2021.

Overall, during the reporting year the controls carried out by DG TAXUD for the management of the budget appropriations cost EUR 1,33[18] million, which represents only 1,30% of the total payments made for procurement.

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13 1,04 FTE, representing the efforts of all actors involved in the control of the public procurement procedures (i.e. the actors in the financial unit, the Public Procurement Committee, the Authorising Officers by (sub-) Delegation, etc.).

14 1,66 FTE, representing the combined efforts of actors in the operational and financial units in preparing and running a public procurement procedure from the drafting of the specifications until the award decision.

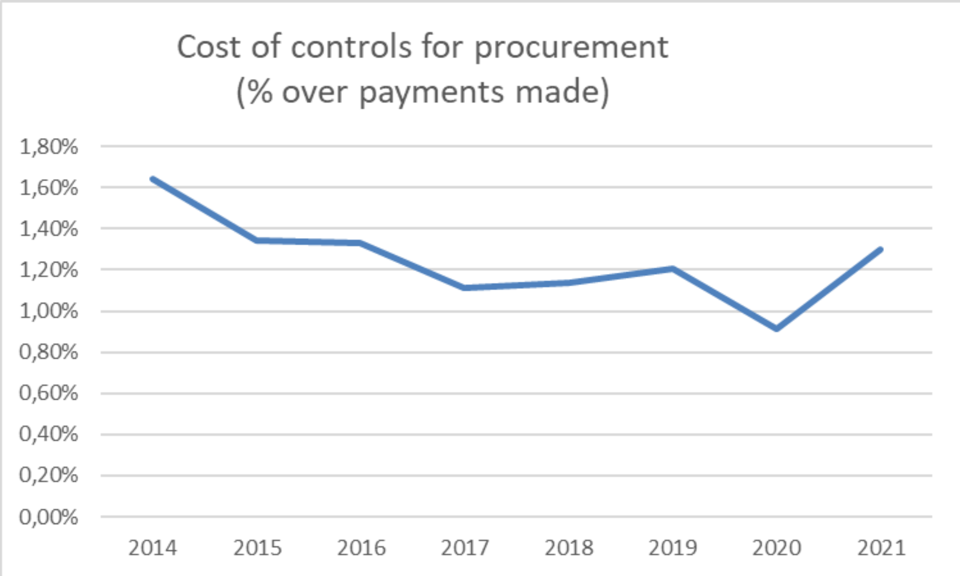
15 5,07 FTE, representing the combined efforts of actors in the financial and operational units involved in invoicing process and in the payments preparation, verification and execution.

16 3,75 FTE, representing the combined efforts of actors in the financial and operational units involved in contracts preparation, verification and validation

17 EUR 291 million in 2021, EUR 124 million in 2020

18 A total of 9,86 FTE, representing the total cost of preparing, verifying and validating procurement procedures, payments and contract and representing the combined efforts of actors in the financial and operational units involved in contracts preparation, verification and validation of procurement procedures, payment, contracts, etc.

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



Grants

Grants control efficiency indicators	Result 2021
Grants - overall cost of control (%) [cost of control from contracting and monitoring the execution up to payment included/ amount paid]	0,10%
Grants - cost of control ex post audits/ value of grants audited	1,07%
Grants - overall cost of control (%) [cost of control from contracting and monitoring the execution up to payment included/ amount paid]	0,10%

During the reporting year the controls carried out by DG TAXUD for the management and control of the grant agreements cost about EUR 19.804,07[19], representing 0,24% of the total grant payments.

The cost of the ex-post audits in 2021 was EUR 13.760,41[20], which represents 1,07% of the total value of grants audited.

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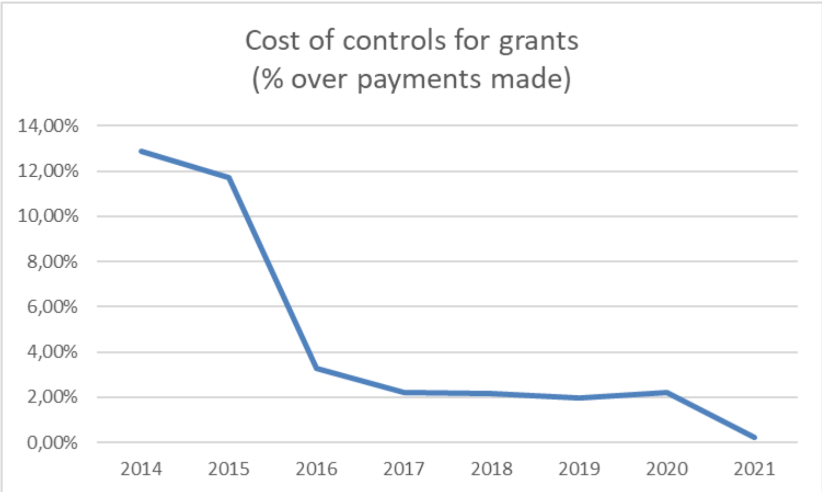
19 0,14 FTE, representing the combined efforts of actors in the financial and operational units involved in grants preparation, verification and validation

The total cost of control for grants, i.e. the overall ex-ante controls and the cost of the ex-post audits was EUR 33.564,48[21] representing 0,41% of payments made.

Whilst the trend since 2014 shows a decreasing curve, it must be noted that the method of calculating the cost of controls for grants changed in 2016. The cost of control is relatively stable since. The continued decrease compared to 2020 is due to 1) the positive effects of using the eGrants platform to prepare and sign the grant agreements, 2) only one ex-post audit could be completed in 2021.



Conclusion

Throughout 2021, the overall cost of control (procurement and grants) was EUR 1,37[22] million representing 1,02% 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.

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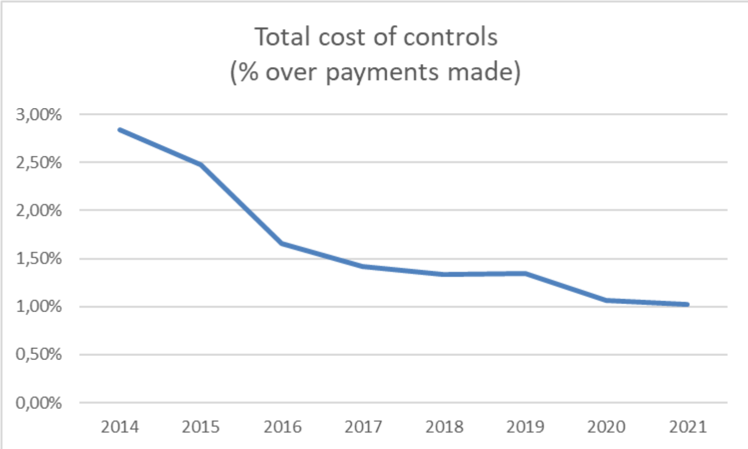
[20] 0,12 FTE, representing the combined efforts of actors in the financial and operational units involved in grants preparation, verification and validation

[21] 0,26 FTE representing the combined efforts of actors in the financial and operational units involved in grants preparation, verification and validation

[22] 10,12 FTE



4. *Conclusion on the cost-effectiveness of controls*

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

DG TAXUD manages a relatively small budget (EUR 133,93 million payments made throughout the reporting period). The majority of financial transactions relate either to procurement contracts (IT contractors) or to multi-beneficiary grants where the beneficiaries are Customs and/or Tax Administrations.

The current control system has been in place since the beginning of the programmes and has been stable. Despite the COVID-19 crisis, which accelerated switching all paper-based workflows to fully electronic workflows, the control system as such remained stable. All controls were implemented as before the pandemic. The control system is considered cost-effective, fit for purpose and the best suited for the programmes currently managed by DG TAXUD.

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

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

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

The results of controls further confirm that the current control system is fit for purpose as can be witnessed by the very limited error rate of 0,50% for procurement and 1,52% for grants and a low overall amount at risk at closure of EUR 0,314 million.

The efficiency of controls has been demonstrated by 99% timely payments in 2021.

In 2021, the overall cost of controls was EUR 1,37[23] million representing only 1,02% of all payments made; these controls are thus considered efficient and cost-effective.

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

2.1.2. Audit observations and recommendations

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

In 2021, the following audits and implementation of action plans took place in DG TAXUD.

EUROPEAN COURT OF AUDITORS (ECA)

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

DG TAXUD was subject to three ECA special reports, two ECA financial reports, two follow-up audits on ECA past special reports, and one ECA review. The section below summarises the **main** ECA audits with recommendations addressed to DG TAXUD. For more details, please refer to Annex 7 of the AAR2021.

Financial year 2021

European Court of Auditors' Special Report no 4/2021: *Customs controls: insufficient harmonisation hampers EU financial interests*

The audit assessed whether the Financial Risks Criteria and Standards Implementing decision and related guidance developed by the Commission for application in the Member States were designed in a way that ensured harmonised selection of import declarations for control, and how Member States were implementing them.

DG TAXUD is responsible for implementing all audit recommendations together with DG

[23] 10,12 FTE

BUDG and/or OLAF. Recommendations aim at enhancing the uniform application of customs controls, developing and implementing a fully-fledged analysis and coordination capacity at EU level. Making progress will require the support and, where necessary, the approval of the Member States. Overall timeframe: Q4 2023.

The other two ECA special reports with some recommendations addressed to TAXUD: **Special Report 22/2021 - *Sustainable finance* and an upcoming report on *Protection of intellectual property rights.***

In 2021, the ECA started **an annual audit on 2021 budget execution** – statement of assurance. The audit was on-going at the time of writing.

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

DISCHARGE[24] for budgetary year 2020 and before

DG TAXUD closely follows up recommendations formulated in 2020 or before; this effort allowed reducing the number of open recommendations. At the end of 2021, there was **one open recommendation** in relation to 2017 discharge, **four open recommendations** in relation to 2018 discharge, and **7 open recommendations** in relation to 2019 discharge, formulated by the ECA, the European Parliament and the Council. For some recommendations, DG TAXUD requested extention of original deadlines providing valid arguments and reporting on what actions had been implemented so far.

The discharge on 2020 budget is on-going; DG TAXUD reviewed the Parliament's draft resolutions.

INTERNAL AUDIT SERVICE (IAS) AUDITS

In 2021, IAS performed two audits: on performance management[25] and **on effectiveness of DG TAXUD's cooperation with external stakeholders'.** The audit on **external stakeholders** resulted in four important recommendations[26], no critical or very important recommendations.

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[24] i.e. open recommendations from the ECA and the Budgetary Authority for which DG TAXUD is the lead service.

[25] Preliminary phase of the audit at the end of 2021

[26] Final audit report Ares(2022)580704 of 25 January 2022. All recommendations accepted and supported with an action plan mid-March 2022.

DG TAXUD continued implementing the recommendations stemming from the **IAS Audit on management of human resources (2020).** Of five accepted (all) recommendations, (3 'very important'), DG TAXUD implemented three: two important and one very important. Two remaining very important recommendations on mapping tasks and skills and on workload assessment and staff allocation have original implementation date end June 2021, extended until June 2022.
By the end 2021, DG TAXUD had implemented some parts on both very important recommendations. For more details, please refer to annex 7 of AAR 2021.

The **conclusion of the Internal Auditor** on the state of internal control in DG TAXUD[27] is that the internal control systems in place for the audited processes are effective except for the observations giving rise to the two above-mentioned 'very important' recommendations stemming from the audit on management of human resources. DG TAXUD will do its best to implement the recommendations based on the elements it already has in place and taking into account the new HR strategy of the Commission.

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

[27] Ares(2022)1078815 of 15 February 2022 based on all work by IAS in the period 2019-2021

2.1.3. Assessment of the effectiveness of internal control systems

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

DG TAXUD uses the organisational structure and the internal control systems suited to achieving its policy and internal control objectives in accordance with the internal control principles and has due regard to the risks associated with the environment in which it operates.

DG TAXUD assesses the effectiveness of its internal control system on the basis of the new internal control 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 receives the endorsement by the Director General and it is approved by the Cabinet.

The internal control system assessment in 2021 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.

After evaluation of the assessment findings, no major internal control deficiencies have been detected and the internal control system, as well as its components, are fully present and functioning in DG TAXUD.

Control principles 4[28] and 8[29] however, represent some margin for improvement, with the expected implementation of the two remaining very important recommendations on mapping tasks and skills and on workload assessment by the agreed implementation deadline.

Control principle 8 represents some margin for improvement since the adoption of the new anti-fraud strategy is on-going at the time of writing.

Closely linked to the assessment of the internal control system, each year a risk assessment exercise is carried out, followed by a mid-term monitoring, as part of the Management Plan process and in accordance with the relevant corporate guidance.

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[28] "The Commission demonstrates a commitment to attract, develop, and retain competent individuals in alignment with objectives"

[29] "The Commission considers the potential for fraud in assessing risks to the achievement of objectives"

Likewise, the self-assessment has been performed by taking into consideration reported non-compliance events and requested exceptions.

The objectives and actions set in the DG's Anti-fraud strategy are based on the results of the 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 do not raise any assurance implications.

The Financial Scorecard indicators (Annex 4) are all positive (green) for DG TAXUD and above Commission average, including the timely payments which was 99%.

DG TAXUD has assessed its internal control system during the reporting year and has concluded that it is effective and the components and principles are present and functioning well overall, but some improvements are needed as minor deficiencies were identified related to human resources management and the anti-fraud strategy.

The improvements and/or remedial measures implemented or envisaged are finalisation of two very important recommendations following the 2019 IAS audit on HR management in DG TAXUD and the adoption of the new anti-fraud strategy.

The two final recommendations from the IAS audit are due to be implemented by June 2022 and the new anti-fraud strategy will be adopted in 2022.

2.1.4. Conclusions on the assurance

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 (past and current MFF).

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 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 1,33 million for procurement and EUR 33.564,48 for grants, is considered cost-effective as this represents only 1,02% of payments made. The control strategy for grants is fit for purpose and in line with the specificities of the grant agreements (Member States' authorities as beneficiaries, full use of the eGrants platform with all its embedded checks and controls, use of the certificate on the financial statements for the Customs Control Equipment Instrument expenditure).

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.

Concerning the overall state of the DG's internal control system, the internal control framework is fully adhered to. No major internal control deficiency has been detected; the internal control system is present and considered effective. Some improvements for internal control principle 4 on human resources and 8 on anti-fraud will be implemented throughout 2022.

It was furthermore demonstrated that the results from the audits performed in the past years, their recommendations and follow-up 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 2021 concluded that the internal control systems audited are effective.

The Anti-fraud 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 2021. 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's scrutiny of sampled DG TAXUD financial transactions were closed without any observations;
- no issues were pointed out by the Sub-delegated Authorising Officers;
- 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 improvement efforts.

In conclusion, based on the elements reported above, management has reasonable assurance that, overall, suitable controls are in place and working as

intended; risks are being appropriately monitored and mitigated; and necessary improvements and reinforcements are being implemented. The Director General, in his capacity as Authorising Officer by Delegation has signed the Declaration of Assurance.

2.1.5. Declaration of Assurance [and reservations]

Declaration of Assurance

I, the undersigned,

Director-General of Directorate-General Taxation and Customs Union

In my capacity as authorising officer by delegation

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

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, 30 March 2022

(eSigned)

Gerassimos THOMAS

2.2. Modern and efficient administration – other aspects

2.2.1. Human resource management

In 2021, DG TAXUD adopted its **local human resources strategy**, as a result of broad consultations with staff and discussions among the management. On the one hand, the strategy puts **people, their competence and engagement** in focus, and on the other, it provides a solid base for informed human resources management. The intiatives outlined below form part of this new strategy.

To support both **people development** and **collaboration** across the organisation, DG TAXUD adopted in 2021 its learning and development strategy. It includes, among others, learning paths designed for different areas, such as newcomers, customs, taxation, data analysis, middle management, which can allow all staff to develop cross-directorate competences. In addition, DG TAXUD developed training maps that serve to identify gaps in skills across the DG and to find ways of closing them. Moreover, it enhanced the collaborative nature of work by adopting a guidance for creating project teams.

To develop solid **knowledge and data for informed decisions** on human resources, DG TAXUD carried out a review of its current workforce to assess its future needs. It undertook a task mapping exercise via ATLAS tool and linked its current resources with priorities. This has given a clearer image of staff allocation across the DG. It also reinforced the HR reporting process by introducing annual and quarterly sets of data.

Over the course of the year, DG TAXUD promoted **diversity and inclusion** in the form of workshops, appropriate composition of selection panels and monitoring related statistical data on gender and geographical balance. In order to open up the possibilities for female candidates for the first Middle Management appointments, it worked on building the local talent pool to draw from. To this end, DG TAXUD organised a series of activities, such as an in-house coaching programme for staff in pre-management positions, nominations of Deputy Heads of Units in all TAXUD units, lunchtime sessions on career guidance, women networking events around Women's day and supporting participation in the corporate initiative of the Female Talent Development Programme. Moreover, it started working on its equality strategy and on creating a local equality network.

Finally, DG TAXUD carried out a staff consultation on the new Commission HR strategy and provided input to the Director General of DG HR.

2.2.2. Digital transformation and information management

Digital transformation

DG TAXUD has taken strategic orientations on the modernisation of its software development practices, technologies and methodologies. During 2021, DG TAXUD has been progressively moving to DevSecOps practice; the Application Lifecycle Management (ALM) platform based on DIGIT's CITnet is fully set up. All TAXUD's applications are being moved to the platform, and in 2022 the platform will be the central to the digital delivery of DG TAXUD. The business and project managers were trained in the project management methodology of the Commission (PM2), especially on its Agile component.

DG TAXUD has continued to take part in the Digital Solutions Modernisation plan. DG TAXUD is contributing to the Data Platform sub-cluster, since it is the one including initiatives from our DG. DG TAXUD kept collaborating in the context of EU ACCESS project, most specifically with TAXUD's user authentication and authorization component (UUM&DS), TAXUD continued the evolution of UUM&DS, further converging to common components.

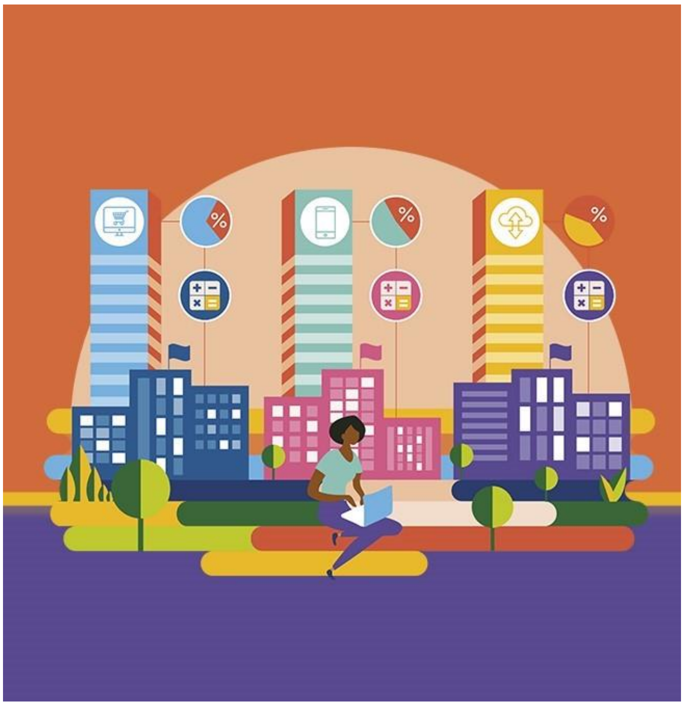
TAXUD supported the corporate Reusable Solutions Platform (RSP):

- TAXUD adopted SERV4DEV becoming one of the biggest users of the corporate reusable solution, and adopting the Cloud with it;
- TAXUD collaborated with DIGIT on the DevSecOps presenting the file commonly to various corporate stakeholders. We contributed to the corporate adoption of the strategy.

TAXUD also collaborated closely with DIGIT for the set-up of the Dual-Pillar approach, which led to its endorsement by the IT and Cybersecurity Board of the Commission.

Due to budget delay linked to the new MFF, development activities on Blockchain were stopped in Q1 and restarted in Q4. In the meantime, we assessed the legal feasibility of our blockchain solution with assistance of DG CNECT. In collaboration with DIGIT and JRC, DG TAXUD performed also the required business impact assessment and risk analysis according to the ITSRM[2] methodology.

DG TAXUD made available in Q3 a data platform (TAXUD Data Lab) for its different policy units, both from Customs and Taxation. In this platform, policy officers and data analysts can find the required computing resources and tools to extract value from data and support their policy files. There is a data programme in place, including a data governance model, where data owners and data stewards are appointed to each data asset available within the service. When policy units require new data assets in the data lab, they can require authorisation to the respective data owner and, if approved, the data asset is added to the platform. The governance of the platform and of data assets, respects the legal basis, information security policy and data protection regulation. The new TAXUD data lab will be instrumental for the Joint Analytics Capabilities and the execution of the data analytics objective agreed between TAXUD, DG BUDG and OLAF, and beyond that.



Document Management

DG TAXUD continued to ensure that appropriate processes and procedures are in place for secure and efficient document management, compliant with the e-Domec principles. In line with the corporate policy, DG TAXUD makes, by default, all its documents available to all colleagues in the corporate management system Hermes-Ares-NomCom. As such, in 2021, 50,6% of the TAXUD files were visible in the Institution. The other documents remained internal to TAXUD for work-specific reasons.

DG TAXUD introduced the qualified electronic signature system in Ares in 2021.

The DG TAXUD document management team regularly reminded colleagues in 2021 on their open tasks and non-filed documents. The team also provided on-demand trainings on the registration and filing of documents.

In 2021 DG TAXUD replied to 246 requests for access of documents, releasing 608 documents

Data Protection

DG TAXUD continued working to ensure compliance with the Internal Data Protection Regulation.

- Within DG TAXUD, one of the key action points remained the awareness-raising of staff on the new and existing data protection requirements. TAXUD's data protection team organised a number of dedicated trainings for instance on data breaches and handling of data subject requests while providing tailor-made assistance to colleagues working on new legislative acts with data protection impact.
- DG TAXUD assessed the compliance of its processing operations with the general principles of the Internal Data Protection Regulation (Article 4 Regulation 2018/1725). As such DG TAXUD ensured its personal data processing records are uptodate. DG TAXUD ensured that appropriate information is provided to the data subjects concerned through concise privacy statements
- In the context data protection compliance of the trans-European IT systems for customs and taxation, DG TAXUD continued exchanges with the network of data protection experts of customs and tax administrations on the respective roles in the processing activities and started the work on concluding the Joint Controllership Arrangement for the systems concerned. This work is expected to be finalised mid-2022.

2.2.3. Sound environmental management

Following the DG HR instructions, the majority of DG TAXUD staff teleworked from home in 2021, except during the period when presence in the office at least once a week was mandatory. This substantially reduced the opportunities for fulfilling the plastic-free objective of our Management Plan. However, DG TAXUD rolled out the eGrants tool, which now allows for 100% electronic signature of Grant Agreements. During 2021, all contracts were provisionally signed electronically and subsequently regularised via paper. Meanwhile, DG TAXUD introduced the Qualified Electronic Signature (QES) for its IT contracts, i.e. the major part of the contracts. However, due to technical problems related to QES compatibility with ARES, the use of the QES is not stable yet.

All meeting rooms have been equipped with videoconference systems, and DG TAXUD largely uses webex licences for meetings with external stakeholders, allowing to compensate for the reduction of expert meetings and missions abroad due to the pandemic.