

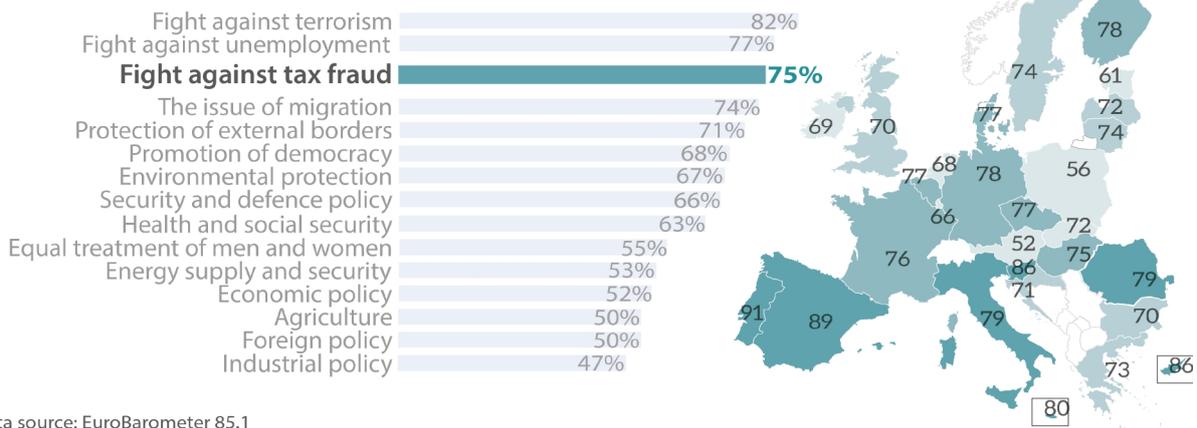
Fight against tax fraud

OVERVIEW

Tax matters remain closely linked to Member States, and the EU's competences in tax are limited. Different forms of escaping tax obligations result in tax fraud, evasion or avoidance, dealing with which is a cross-border issue. The fight against fraud and evasion is a mix of national and EU actions. However, EU citizens express strong support for EU involvement in the fight against fraud and this creates a gap between citizens' expectations and the actual EU involvement in this policy area.

Public expectations and EU commitment on the fight against tax fraud – is there a gap?

Percentage of respondents who would like the EU to intervene more than at present



Data source: EuroBarometer 85.1

According to a new Eurobarometer survey of the European Parliament on '[perceptions and expectations](#)', 75% of EU citizens surveyed would like the EU to intervene more in the fight against tax fraud, one of the areas with the strongest support for more EU involvement. The support for this in Portugal (91%), Spain (89%), Slovenia and Cyprus (86%) is overwhelming. The weakest support for more EU intervention is in Austria (52%) and Poland (56%), which nonetheless still represents the support of the majority. Two thirds of EU citizens evaluate the current EU action in the fight against fraud as insufficient; this contrasts with the limited EU competences in this area. There is a significant gap between the expectations of citizens for EU involvement and the current involvement in the fight against tax fraud.

According to Eurobarometer 74 (conducted in 2010), European citizens strongly support various measures at EU level aiming at reforming the global financial markets. Tougher rules on tax avoidance and tax havens tops this list with 88% support and it is perceived rather consistently across Member States.

Differences across socio-demographic groups in terms of preference for more EU involvement are moderate. Women between the age of 35 and 74, and men over 45 express the strongest support for greater EU involvement in the fight against tax fraud. Citizens under 25 express the weakest support, but still more than two thirds in this age group would like to see more EU involvement.

Legal framework

The fight against tax fraud often [covers](#) not only tax evasion and fraud (both are illegal, with fraud requiring intentional behaviour), but also tax avoidance, which refers to legal behaviour that tax authorities and ultimately courts may qualify as an abuse of law. Tax fraud, evasion and avoidance involve [individual as well as corporate taxpayers](#) and relate to all types of taxes. The fight against tax fraud covers tackling fraud, avoidance and evasion. The fight against tax avoidance, namely [aggressive tax planning](#) resulting in base erosion and profit shifting ([BEPS](#)) practices involving multinational enterprises (MNEs), has gained [particular importance](#).

There are [three](#) main categories or types of taxes: indirect taxes, direct taxes and social contributions. **Direct taxation** describes taxes that are levied on income, wealth and capital, whether personal or corporate (EU action focuses on the treatment of cross-border tax issues and measures linked to the single market, in particular for [company taxation](#)). **Indirect taxation** comprises taxes that are not levied on income or property (in particular VAT, excise duties, import levies and energy and other environmental taxes). [Tax matters](#) have been included in the Treaties since the Union's beginnings. Nevertheless, they have remained closely linked to Member States (special legislative procedure and unanimity requirement). The chapters on tax provisions and approximation of laws of the [Treaty](#) on the Functioning of the European Union (TFEU) specifically refer to taxes. The fight against tax fraud is not specifically covered.

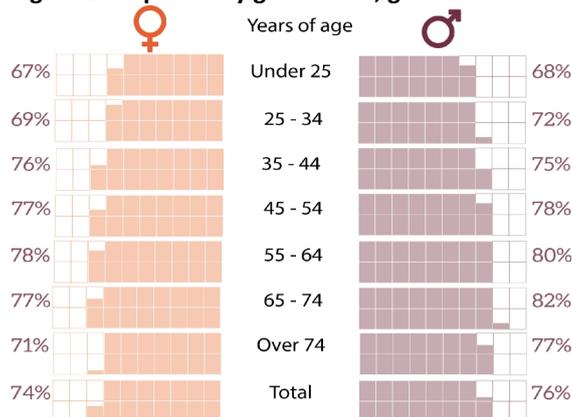
Both collecting taxes and combating tax fraud are Member States' competences. Yet in a globalised environment, there is a need for cooperation since flows of money can move easily from one country to another, whereas tax authorities cannot act beyond their borders. The European Union provides a framework and offers instruments to effectively handle cross-border tax [issues](#).

Current implementation and EU action

Fraud exists with all taxes, and measures to fight tax fraud involve specific and general actions. Fraud practices are adjusted to the specific taxes (like [VAT carousel fraud](#)), to specific taxpayers (like aggressive tax-planning schemes set up by some MNEs) or specific locations (income routed to places providing a shelter from tax authorities through opacity resulting from non-[transparent](#) entities, as highlighted by the [Panama Papers](#), and the use of tax havens). Tax fraud results in lost resources for national and EU budgets. Its quantification is not straightforward, nor its detection which is expected to be improved by increased transparency requirements and the fight against opacity.

The fight against tax fraud also requires [cooperation](#) between tax authorities and in [exchange of information](#) on all sorts of taxes, as well as in providing [mutual assistance](#)

Figure 1 – Opinion by generation, gender



Data source: EuroBarometer 85.1

in tax recovery matters. The result is better detection of and reaction to tax **non-compliance**. In recent years the mechanisms for cooperation and [exchange of information](#) have undergone a number of improvements linked to the adoption of an international standard for exchange of tax information, enlarged scope of compulsory exchange (including tax rulings) and [country-by-country information](#) for large companies. This is complemented by action relating to [tax good governance](#) with third countries.

Actions specific to some taxes aim at **closing the loopholes and mismatches** on which frauds are based. This is the case for recent modifications in VAT, for a number of mobile transactions linked to [telecommunications services](#), and the [action plan on VAT](#) presented by the Commission on 7 April 2016. This is also the case for the measures taken at international and EU level to address BEPS, with the aim of reducing the possibilities available to MNEs to locate activities and allocate resources in several countries for tax fraud purposes. This covers actions linked to the implementation of the OECD [BEPS action plan](#) as well as EU measures going further than OECD and presented in the recent tax packages, for example the 28 January 2016 [Anti-Tax-Avoidance Package](#).

Potential for better implementation and further EU action

The fight against tax fraud requires that action is taken at [EU level to act globally](#) to react to the global scale of tax fraud which operates without borders. It is acknowledged that fraud prospers where opacity, lack of cooperation and discrepancies in tax rules exist. Further action to suppress fraud opportunities cover these three aspects, both at EU level and international levels. Coordination between actions is also needed to make sure that they are [moving in the right direction](#) to provide better implementation.

At EU level, further actions have been announced in the tax packages (the March 2015 [Tax transparency package](#), June 2015 [Action Plan for Fair and Efficient Corporate Taxation](#), January 2016 [Anti-Tax-Avoidance Package](#) and the [Action Plan on VAT](#) put forward by the Commission). Some measures have already been adopted. Still to be presented are, in particular, the renewal of the [CCCTB](#) proposal (indicatively announced for 2017), a [common list](#) of non-cooperative jurisdictions and provisions relating to VAT.

The EU budget and the fight against tax fraud

It is not possible to calculate total EU spending on anti-tax-fraud measures with any precision. With such spending taking place mainly at national level, Member States play the primary role in allocating resources to combat tax fraud. The total cost of the budget heading 'Fight against fraud' in the 2016 EU general budget amounts to **€80 million**. Costs include two different sources. First and foremost are the EU funding programmes aimed at supporting all activities concerned with combating fraud, corruption and other illegal activities. The main programme, [Hercule III](#), is managed by the European Anti-Fraud Office (OLAF). Started in 2004, Hercule I was funded with an **€11.8 million** budget until 2006. Hercule II was extended with new objectives and a **€98.5 million** budget for 2007-2013. Hercule III entered into force on 21 March 2014, with **€104.9 million** budgeted to support Member States in fighting fraud for the 2014-2020 period. In 2016, the Hercule III budget amounts to **€14.5 million**. The cost of other programs, such as the [Anti-Fraud Information System](#) (AFIS), is **€6.6 million** in 2016. The same year, another programme (albeit not directly linked with tax fraud, though still relevant), the [Pericles](#) programme, has a budget of **€1 million** in order to protect the euro banknotes and coins against counterfeiting and related fraud.

The second source of costs concerns management expenditure for the bodies and institutions involved in combating fraud at EU level. The administrative budget for OLAF in 2016 amounts to **€59.1 million**. In addition to the costs of OLAF and the programmes it supports, expenditure also concerns other bodies involved in combating fraud, such as the EU's Judicial Cooperation Unit (Eurojust) and the European Police Office (Europol). For the year 2016 the operational costs of Eurojust and Europol were budgeted at **€42.9 million** and **€97.7 million**, respectively.

It must also be taken into account that around **80%** of the EU budget is implemented by Member States at national level. Member States have full responsibility for setting up management and control systems, verifying their functionality through auditing, and to prevent, detect and correct irregularities and suspected fraud. The EU programmes aimed at enabling national tax administrations to create and exchange information and expertise are named [Fiscalis 2020](#) and [Customs 2020](#). The former has a budget of **€234.3 million** for the 2014-2020 period. The latter programme (aimed at supporting customs authorities in protecting the financial and economic interests of the EU and of the Member States, including the fight against various kinds of fraud – not just tax fraud) is financed with **€522.9 million** for the 2014-2020 period.

Financial instruments outside the EU budget

The EU is a partner in a number of international agreements aimed at combating tax fraud. One example is the OECD-driven Base Erosion and Profit Shifting Plan ([BEPS](#)). However, the financial instruments to finance the fight against fraud, including tax fraud, remain inside the EU budget. On this point, the EP has issued numerous calls for an increased budget to implement these measures and strengthen the exchange of information.

Potential for further financing at EU level

In 2013 the EP approved a [resolution](#) on the call for a measurable and binding commitment against tax evasion and tax avoidance in the EU. The resolution suggests creating standardised indicators that would allow for an assessment of the size of the underground economy and tax gap and measure tax evasion and avoidance. Additional areas of potential expansion of expenditure include the implementation of the [Anti-Tax-Avoidance Package](#) adopted on 28 January 2016; and, finally, the increased use of IT tools – e.g. TIN and CNN networks – to support increased accessibility of information for tax collection and risk analysis purposes.

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