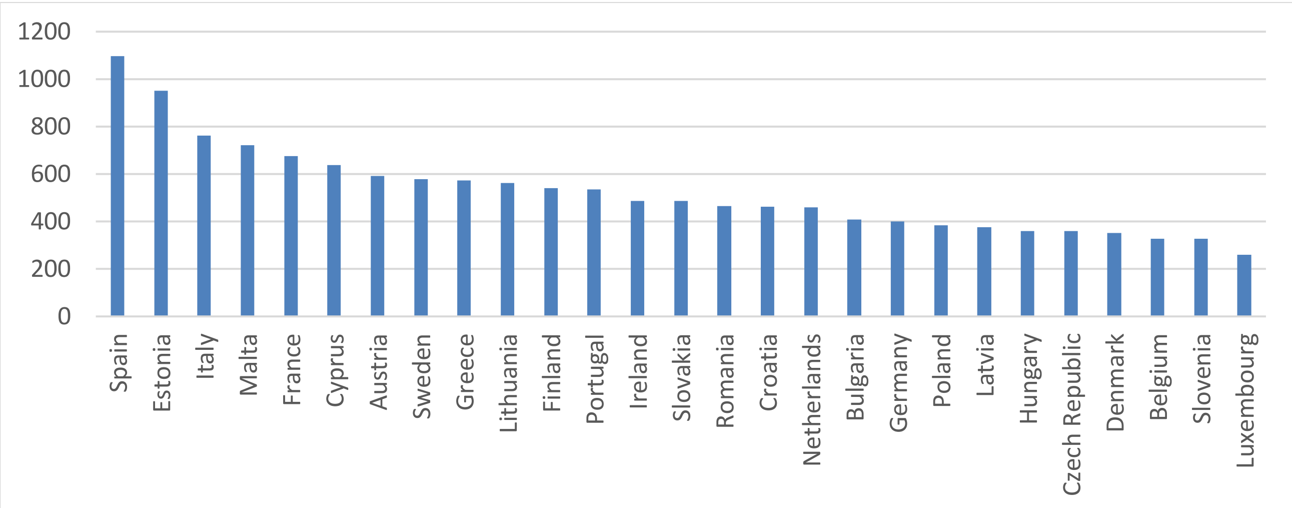
The work of tax administrations: Resources, strategies and cooperation

With important challenges ahead for EU Member States, the work of tax administrations is key to protecting national budgets (and in turn the EU budget) and enforcing tax legislation. While the power to charge and collect tax lies with the Member States, with the EU having only limited competence, over the years there has been greater cooperation between national tax administrations at EU level.

Tax administrations in the EU Member States

In 2020, the EU's national tax administrations averaged around 420 000 employees. A rough indication of the relative size of these administrations can be shown by adjusting for labour force population. As the graph in Figure 1 shows, individual 'tax employees' in Spain, Estonia and Italy look after approximately three times as many citizens as their colleagues in the Belgian, Slovenian and Luxembourgish tax administrations. The size of a tax administration can be an indicator of its potential effectiveness in facilitating taxpayer-friendly services and stopping fraud and evasion, but this is not always the case. For example, Finland has the lowest VAT gap in the EU (relative to total VAT required), but the size of its tax administration is relatively average compared to that of other Member States.

Figure 1 – Ratio of labour force to number of full-time employees in tax administrations (2020)



Source: OECD Tax Administration series (2022).

Not only do tax administrations across the EU differ in terms of relative size, but the allocation of their staff to particular roles can also vary greatly. Audits and the verification of tax returns tend to be the most resource-intensive activities. In 2020, the majority of tax administrations in the EU dedicated more than a third of staff to this. In Austria and Luxembourg, this task occupied more than half the staff. The continued digitalisation of tax administrations may lead to the full automation of certain tasks, but will at the same time require the hiring of information technology (IT) experts.

Digitalisation of tax administrations

The use and development of digital tools has changed every aspect of tax administrations' work significantly. This ranges from setting up online-filing tools for tax returns (about 80 % of EU enterprises filed both their VAT and corporate income tax returns electronically in 2019) to using data mining tools to detect and track VAT (carousel) fraud more quickly. Including investment in artificial intelligence and cloud

Author: Pieter Baert, Members' Research Service
PE 738.202 – October 2022

computing tools, IT expenditure already represents more than a 10th of total expenditure in several national tax administrations in the EU. This investment seems to pay off. According to a Commission study, the top 10 Member States who invested the most in IT in their tax administrations between 2016 and 2019 saw an 81 % greater increase in VAT revenue compared to other EU countries. This may be the result of both faster and better detection of VAT fraud and through simplification of administration for taxpayers (thereby supporting quick, error-free and voluntary compliance).

The Tax Administration European Union Summit (TADEUS), held twice a year, provides an opportunity for tax administrations to discuss, share and coordinate best practice on IT efforts. The summit brings together the heads of national tax administrations to work on digitalising tax administrations, preventing non-compliance and improving the implementation of EU legislation.

Cooperation in the fight against tax fraud and evasion

While the power to tax is in the hands of Member States, there has been greater cooperation over the years between national tax administrations at EU level to detect and stop tax fraud and tax evasion. One key piece of legislation has been the Directive on Administrative Cooperation (DAC1), implemented in 2013, and its several updates (DAC2 to DAC7). To give a more detailed overview of taxpayers' income streams and the tax burden, the DAC ensures the (increasingly automatic) exchange of information between tax administrations on a range of issues, such as financial accounts, tax rulings, country-by-country reports on multinationals, and beneficial ownership information.

In a September 2021 resolution, the European Parliament argued that, while the DAC had broadened its scope positively over the years, 'too little attention was paid to improving data quality and completeness'. Parliament also noted the lack of consistency regarding penalties (for non-compliant taxpayers) across Member States, and called for 'more harmonised and effective sanctions'. Similarly, a report by the European Court of Auditors stated that the information exchanged under the DAC was of 'limited quality' and was 'not widely used' by the Member States for follow-ups.

In December 2022, the European Commission tabled a proposal (DAC8) both to address the current disparity in sanctions and to broaden the scope of the DAC, focusing on the exchange of information regarding crypto-asset transactions.

European Trust and Cooperation Approach (ETACA)

Aiming to prevent the double taxation of cross-border operating EU companies, in early 2022 the European Commission launched a pilot project that encourages closer cooperation between EU tax administrations. This takes place under a 'cooperative compliance' programme known as ETACA (the European trust and cooperation approach). The practice of cooperative compliance already exists at national level in many Member States: upon request from a company, a 'preventive dialogue' with the domestic tax administration is launched whereby the company is required to share detailed information (often in real time) about the way it is handling intra-group transactions from a corporate tax perspective. In return, the tax administration checks and provides its opinion straightaway, thus preventing or at least minimising the risk of any costly legal disputes or audits afterwards.

ETACA adds to national cooperative compliance programmes by setting up a framework under which two (or more) tax administrations can work in unison with respect to one company, thereby stimulating more cooperation, trust and transparency between tax administrations and enabling them to come to a common understanding of the taxation of routine cross-border intra-group transactions (in particular concerning transfer pricing methodology). Fourteen Member States[1] are currently participating in the ETACA's pilot project, which focuses exclusively on multinational enterprises.

[1] Belgium, Denmark, Germany, Ireland, Spain, Italy, Luxembourg, Hungary, Netherlands, Austria, Poland, Portugal, Slovakia and Finland.