

TO BE CHECKED AGAINST DELIVERY

INTRODUCTION

Dear Chair,

Members of the TAX3 Committee of the European Parliament,

Ladies and Gentlemen,

Thank you very much for offering me the opportunity to present to you the main findings of our report on the issues of VAT fraud and subsequent report on import procedures.

As I have provided detailed answers to your questions in a written form, I will limit myself in this introduction to just highlighting the main points.

You inquired about the biggest loopholes in the fight against VAT fraud.

One of the biggest is related to the imports under CP 42. We are very pleased that our recommendation to ensure automatic incorporation of customs data into VIES system has eventually been accepted by the Commission, and incorporated into latest amendments to the Regulation on administrative cooperation that has been recently also approved by the Council. According to Articles 17 and 21 of the amended Regulation, the information collated by the customs authorities, as part of CP 42, will be made available via VIES to the competent authorities of the Member State of destination, ensuring comprehensive cross-checking of import data with tax declarations. This will enter into force on January 1, 2020. While the legal framework has hereby been created, it still remains to be implemented in an effective way.

Second, there is substantial scope for improving the effectiveness of the administrative cooperation.

We are glad in this respect that the Commission has accepted our recommendation 8 to carry out more monitoring visits to Member States selected on a risk basis. In 2017 Commission's staff carried out these visits in 10 Member States in the context of preparing the Eighth Report under Article 12 of Regulation (EEC, Euratom) n° 1553/89 on VAT collection and control procedures. The Commission addressed in this report several recommendations to Member States to improve the reliability of VIES, in line with the recommendations in our report.

Third area where substantial improvement is possible is related to better cooperation between administrative, judicial and law enforcement authorities across the EU. We are pleased in this context that the new proposal on administrative cooperation, echoing recommendation 12 of the Court's Special Report¹ No 24/2015, provides for Eurofisc officials to share information with Europol and OLAF².

Specifically, the Court recommended in its Special Report No 24/2015 (recommendation No 14 (a)) to *"include VAT within the scope of the proposed directive on the fight against fraud to the Union's financial interests by means of criminal law (PIF directive) and the regulation on the establishment of the European Public Prosecutor's Office"*³. We see that this recommendation has been met by the European Parliament and by the Council in the PIF Directive including within its scope serious VAT offences affecting two or more Member States when the total damage caused by the offences is at least 10 million euro. According to the PIF Directive, the Member States, Eurojust, the European Public Prosecutor's Office and OLAF shall, within their respective competences, cooperate with each other in the fight against the criminal offences, including the referred serious VAT offences.

Fourth, we see need to improve data collection on various forms of VAT fraud, including those tracking from of missing traders. I have to say that there are still no reliable figures available at EU level about the size of the MTIC fraud. In our Special Report No 24/2015, we found that only two Member States, Belgium and the UK, publish estimates about VAT losses due to intra-Community fraud. Unfortunately, there is still no common system of estimating the size of MTIC fraud, as the Court recommended in its recommendation No 1 of this Special Report. We unfortunately have not seen much progress in this respect.

Finally, there is an issue of incentives related to the current system of sharing customs revenue. One could argue that performance of public institutions should not be affected by financing

¹ Special report no 24/2015, *'Tackling intra-Community VAT fraud: More action needed'*, http://www.eca.europa.eu/Lists/ECADocuments/SR15_24/SR_VAT_FRAUD_EN.pdf.

² See recital 8 of COM(2017) 706 final. *'Amended proposal for a Council Regulation amending Regulation (EU) No 904/2010 as regards measures to strengthen administrative cooperation in the field of value added tax'*.

³ See recommendation 14 of Special report no 24/2015.

arrangements, but this is not a realistic assumption. According to paragraphs 93 to 104 of the Court Special Report No 19/2017 on import procedures⁴ there are strong indications that trade flows are affected by weaknesses in the accurate assessment of import values. The Report also pointed out the conflicting incentive structure of the current arrangement to share custom revenue, with 20% remaining to Member States at the port of importation. Under such an arrangement, there is no correspondence between the actual costs of collection and the retained custom revenue. This on one hand reduces incentives for engaging in expensive valuation checking procedures, but it also creates additional incentives for attracting imports. Closer alignment of retained revenue and actual costs would be a way to avoid this.

Thank you for your attention.

Neven Mates

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⁴ Special Report No 19/2017, *“Import procedures: shortcomings in the legal framework and an ineffective implementation impact the financial interest of the EU”*.