

**SPECIAL COMMITTEE ON FINANCIAL CRIMES,
TAX EVASION AND TAX AVOIDANCE (TAX3)**

THURSDAY 28 JUNE 2018

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PUBLIC HEARING

'VAT FRAUD'

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Neven Mates, Member of the European Court of Auditors

Maite Fabregas-Fernandez, Director, Indirect Taxation and Tax Administration Unit,
Taxation and Customs Union Directorate General, European Commission

Ms Alma Olofsdottir, Swedish Tax Agency and Chair of Eurofisc

Mr Richard Murphy, Director of TAX Research UK

1-056-0000

IN THE CHAIR: PETR JEŽEK

*Chair of the Special Committee on Financial Crimes,
Tax Evasion and Tax Avoidance*

1-057-0000

Chair. – I would like to welcome Members, our new guest speakers and the audience, to the second panel of this TAX3 Committee hearing. The hearing will be devoted to a series of presentations on key issues and challenges in the combating of VAT fraud. Firstly, we will hear Neven Mates, Member of the Court of Auditors, who led the audit that addressed the question of whether the EU is tackling intra-Community VAT fraud effectively.

Following him, Maite Fabregas-Fernandez, Director of Indirect Taxation and Tax Administration, from DG TAXUD at the European Commission, will deliver a presentation entitled ‘End of the transitional regime, the end of VAT carousel fraud?’.

Afterwards, Alma Olofsdottir, from the Swedish Tax Agency and Chair of the Eurofisc Network, will give a presentation on ‘Could Member State cooperation be improved in the fight against VAT carousel fraud? What is the role of Eurofisc?’.

Closing our series of presentations, Richard Murphy, Director of TAX Research UK, will provide elements relating to the question ‘How come that a solution to tackle VAT fraud could not be found?’.

I give the floor to Neven Mates.

1-058-0000

Neven Mates, Member of the European Court of Auditors. – Chair, thank you for offering me the opportunity to present to you the main findings of our report on the issue of VAT fraud and our subsequent report on import procedures. I have provided detailed written answers to your questions so I will now limit myself to highlighting the main points.

One of your questions was about the biggest loopholes in the fight against VAT fraud. One of them, for sure, is related to imports under the so-called CP 42. We are very pleased that our recommendation to ensure automatic incorporation of customs data into the VAT Information Exchange System (VIES) has eventually been accepted by the Commission and incorporated into the latest amendments to the regulation on administrative cooperation. We understand that it has also recently been approved by the Council, but it has yet to be published.

This will facilitate the proper integration of data from customs declarations into the VIES, and the other countries of destination will be able to cross-check this data with the data of tax returns of actual importance. These amendments will come into force on 1 January 2020 and, while the legal framework has thus been created, of course, the actual implementation still lies ahead for the EU, and it will certainly be important that this new regulation is effectively implemented as soon as possible.

Secondly, we looked at areas where further improvement in measures to fight VAT fraud is necessary, particularly in relation to the effectiveness of tax administration cooperation between Member States. We are glad, in this context, that the Commission has accepted our recommendation to carry out more monitoring visits to Member States selected on a risk basis. In 2017, Commission staff carried out these visits in 10 Member States in the context of preparing the report on VAT collection and control procedures. In its conclusions after these monitoring visits, the Commission addressed several recommendations to Member States to improve the reliability of the VIES, in line with the recommendations in our report. I have

indicated in more detail where we coincided with the Commission, and you can see this in my written reply to you.

The most important area where further improvement is needed relates to better cooperation between administrative, judicial and law-enforcement authorities across the EU. VAT fraud is a very international business, and tax authorities in a single state can hardly cope with it. Even bilateral cooperation between tax authorities in two Member States is not sufficient because, in practice, goods quite often move across several countries in cases where substantial VAT fraud is involved. Therefore, there is a strong case for strengthening the authority of the European institutions in this area.

We are pleased that the new proposal enhances cooperation and, reflecting also the recommendations in our special report, provides for European officials to share information with Europol and OLAF. We see too that the new Directive on the Protection of the Financial Interests of the EU (PIF Directive) is strengthening the role of the Public Prosecutor's Office in pursuing cases of VAT fraud above a certain level. We also see a need to improve statistics on established cases of VAT fraud. Currently, unfortunately, there is no systematic effort in this respect at European level.

The Commission produces so-called top-down estimates of the VAT gap but these are the subject of many methodological problems. Fundamentally, it depends very much on the assessment of the grey economy in particular Member States and, by its very nature, measuring the grey economy is an uncertain business.

Depending on the assumed size of the grey economy, this heavily influences the estimated VAT gap, so therefore it is also important that we can go from the bottom up, and that we collect actual statistics on established cases or discovered cases of VAT fraud.

In a few cases where countries made such estimates, it came out that the differences between bottom-up and top-down estimates were pretty substantial – up to a factor of two at least, so we encourage the Commission to do something in order that statistics will be collected on a consistent basis from all Member States. Currently, I think only Belgium and the UK are regularly publishing those estimates, and it will be useful to use the experience of those countries to arrive at some common approach to this issue at EU level.

Finally, there is an issue of incentives created by the current system of sharing customs revenue. According to the Treaty and the relevant regulation, customs are an 'own resource' of the European Union. However, the way this system is run is closer to the sharing arrangement because, currently, Member States of importation retain 20% of customs collections to cover their costs, but there is no clearly established link between the actual cost and this amount of retained revenue. This creates strange and unfortunate incentives.

If you look at from the point of view of enforcing proper valuation, if you are in a single country – not in a union like the EU – the tax administration faces a choice: if the lost revenue is 100 but the cost of enforcement in a particular case is, let's say, 50, then I am sure they will go after it because they will recover more than twice the cost; but if they retain only 20, and the rest is handed over, then there will be a discrepancy in terms of net income. The current arrangement, which does not acknowledge actual costs of collection, reduces the incentive for customs administrations to proceed with enforcement which might be costly. That is one side of the problem.

The other side is that retaining 20% of customs duty creates incentives to attract trade flows through your ports. There are, of course, other incentives to do that but here you have an additional incentive to attract trade flows through your ports.

In the subsequent report, which I mentioned, it was discovered that there is a link between weak valuation procedures and the fact of trade flows going more towards the ports concerned, so you have this unfortunate situation that the system creates incentives for not forcefully imposing proper valuation of imports because of the new revenue arrangement. And, as I said, if the cost of collecting a single tax is 20% of the receipts, that is very expensive. This would be the highest cost of collecting any tax revenue in any Member State, so this 20% is pretty much unrelated to actual costs.

It is my understanding that the Commission is now proposing to reduce the percentage of retained income, but this in itself will not resolve the problem. It might reduce the scope of the problem, but it will not resolve it because the solution should be – and this is my view, because the Court of Auditors as such did not take a position on it – better alignment of the actual costs with the revenue retained.

The current proposal by the Commission says that the retained proportion should be reduced to 10% but it will be compensated with new resources for investment in customs. However, this would only partly resolve the problem. The question is also about current enforcement costs.

These are the main issues that we found in our work on the report, and I am here to try to answer whatever other questions you might have.

1-059-0000

Maite Fabregas Fernandez, *Director, Indirect Taxation and Tax Administration Unit, Taxation and Customs Union Directorate General, European Commission.* – I am very pleased to be here today to present the Commission's views on this crucial topic of VAT fraud in the EU and also to talk about the Commission's initiatives to make the European VAT system more efficient within the internal market and VAT-fraud-proof, in order to create a single European VAT area.

VAT is an important revenue source for national budgets and is also part of the EU's own resources. In 2016, in the EU28 Member States VAT revenues were around EUR 1 044 billion and this corresponds to 18% of all tax revenues in Member States. However, every year large amounts of the expected VAT revenue are lost because of fraud. Our statistics show that in 2015 the VAT gap amounted to EUR 151 billion, which represents more than 12% of the total expected VAT revenue.

Even though the VAT gap is also due to reasons other than VAT fraud, such as, for instance, bankruptcies, financial insolvencies and miscalculations, we estimate that intra-EU VAT fraud causes EUR 50 billion to be extorted from the national budget each year. Such a massive amount of money requires an efficient money laundering process comparable, if not the same, to the one showcased in the Panama and Paradise Papers. The Paradise Papers and the recently published report by the UK House of Commons on VAT fraud in the field of e-commerce also raise concerns about the efficiency of the current VAT system, and call for action from Member States and the Commission. The UK report mentioned that there was about GBP 1 billion to GBP 1.5 billion worth of fraud in the UK.

What are the Commission's initiatives? The Commission takes this issue of VAT fraud very seriously. President Juncker made the need for a deeper and fairer internal market one of the priorities of his mandate. Everybody – citizens and businesses – should pay their fair share of taxes.

First, the Commission has continuously stressed that the Member States should apply VAT rules. This has been raised in several VAT avoidance cases – highlighted also by the Paradise Papers – made possible because of the wrong VAT treatment of certain supplies for yachts and

aircraft, for which the Commission opened infringement procedures against a few Member States and also inquiries in other Member States.

Second, as mentioned by Mr Mates, Ecofin agreed last week, on 22 June, on a general approach on a Commission proposal to provide tax authorities with new and more efficient tools to combat the so-called missing trader fraud. In particular, Member States would have the possibility to carry out joint risk analysis to better detect and fight organised fraud. This new proposal also allows data to be shared with customs, OLAF and Europol, with the aim of establishing a multidisciplinary front line against VAT fraud. They need this legal basis in order to perform this sharing of information.

This file is now in Parliament for an opinion and the Committee on Economic and Monetary Affairs (ECON) already issued its opinion this month. We are waiting for the final one.

Third, we need to be aware that, even with the enhanced administrative capacity of the tax authorities to combat fraud, the current EU VAT system remains subject to VAT fraud and needs to be modernised. The Commission has therefore proposed changing the VAT system as regards B2B intra-Union supplies of goods. This new regime will be based on the principle of taxation in the country of destination of the goods. This means that the taxation rules, according to which the supplier of goods collects VAT from his customers, will be extended to cross-border B2B transactions on goods.

The removal of the exemption for intra-Community supplies of goods, which is at the root of this cross-border VAT fraud, should help reduce fraud by EUR 40 billion per year. This is what we intend to do in order to move from this transitional VAT system to what we call the definitive regime.

The new rules will be combined with the introduction, at least in the first phase, of the concept of the Certified Taxable Person (CTP). This status is granted to a reliable taxpayer recognised as such by its own tax administration. Only when the acquirer of the goods is a CTP will the goods be allowed to cross borders without the VAT having been paid, which in itself should not give rise to fraud since the CTP status will only be granted to reliable taxpayers.

In the context of the definitive VAT system for intra-EU trade, in October 2017 the Commission adopted a legislative proposal which, inter alia, outlines the cornerstones or basic principles of the definitive regime, these being, as mentioned, the destination principle, the reliability of the supplier, except when the customer is a CTP, and the use of the one-stop shop for output and input VAT. This is what we consider will create a simpler and fraud-proof definitive system.

This first proposal was followed by another proposal from the Commission, adopted on 25 May, for the directive containing the detailed technical measures for the practical implementation of the definitive regime. We expect that the Council and Parliament will proceed quickly with these files, given the urgency of the issues we have at stake on VAT fraud.

To conclude, fighting fraud is a priority for the Commission. In this regard, two main elements need to be addressed. One is the capacity of tax authorities to enforce VAT rules and cooperate to fight VAT fraud, and the other element is the VAT system as such. The administrative actions to tackle the VAT gap, while useful, are not sufficient to put an end to the cross-border fraud. The VAT system needs to be modernised to be fully compatible with the requirements of the internal market.

Thank you for your attention and I look forward to the discussion later.

1-060-0000

Alma Olofsdottir, *Swedish Tax Agency and Chair of Eurofisc*. – Chair, in my presentation I will initially demonstrate the role of Eurofisc in combating VAT fraud, and especially ‘missing trader intra-Community carousel fraud’, also called MTIC fraud.

The VAT system in the European Union is vulnerable to fraud and in particular to MTIC fraud. VAT fraud has been continuously developing during the past decades and has become a major problem in the Union. The fraud schemes are getting increasingly complex and include various markets. It is difficult to estimate the exact amount of losses in the EU caused by fraud, but cross-border VAT fraud is estimated by the Commission to cost approximately EUR 50 billion in VAT losses. It is therefore crucial that VAT fraud is prevented, detected and combated as quickly as possible.

MTIC carousel fraud usually involves companies which are located in several Member States and engaged in fraudulent trading schemes, and addressing it calls for strong, efficient, international cooperation between tax administrations.

The Eurofisc network was established by Council Regulation (EU) No 904/2010 to enhance administrative cooperation between Member States in combating organised VAT fraud, and especially MTIC carousel fraud. Eurofisc is a network for the swift exchange of targeted information between Member States. All 28 Member States participate in the network but they can choose in which working fields to participate and can also decide to terminate their participation.

When joining a working field, Member States are obliged to participate actively, as agreed by the participants in that field. In practice, this includes uploading and downloading data to and from the Eurofisc network, and also providing feedback on information received. Each Member State has designated at least one Eurofisc liaison official, who is a VAT fraud expert, as the competent official to exchange information in the working fields. Their task is also to share experience with different types of fraud, national risk analysis, risk areas and other relevant information related to VAT fraud.

The information shared in the network is exchanged only between the Eurofisc liaison officials. Each Member State appoints one national Eurofisc liaison official, who will express the vote of his or her Member State and attend the Eurofisc Group meetings.

Currently, the network comprises the Eurofisc Group and the working fields. The role of the Eurofisc Group, among other tasks, is to decide on the creation and termination of working fields and to evaluate the results of Eurofisc. The Chair of Eurofisc is elected among the national liaison officials participating in the Eurofisc Group.

The number of working fields in Eurofisc can vary depending on the need, and currently there are six. Each working field has a coordinator chosen from the participating liaison officials. Working fields 1 to 4 were established in 2010 to address specific fraud schemes known to cause serious damage to VAT revenue in the EU.

Working field 1 deals with MTIC fraud, including all goods and services. Working field 2 deals with fraud in relation to new means of transport, including boats, planes, airplanes and cars. Working field 3 focuses on the abuse of customs procedure code 4200.

Representatives from both tax administrations and customs participate in working fields 2 and 3. But working field 4 acts like an observatory and collects intelligence about new trends and developments in fraud patterns, as well as techniques and approaches in the fight against fraud.

Then we have working fields 5 and 6, which were created later, in 2016 and in 2017. As a result of globalisation and newly developed technologies, tax administrations are constantly facing

new challenges in collecting VAT on cross-border trade. Working field 5 was established in 2016 to exchange information and knowledge on cross-border e-commerce, which is rapidly growing in the world and now has a major impact on the economy.

Developments in business models, globalisation, new trading platforms and payment platforms pose challenges for tax administrations in monitoring and identifying new trade risk patterns and fraud models in the field of e-commerce. So there is a serious risk of VAT avoidance and of fraud in this sector.

Working field 6 was created in 2017 for the implementation of Transactions Network Analysis (TNA) in Eurofisc. The aim of TNA is to support the operation of Eurofisc and make the network more efficient. TNA will automate information exchange in Eurofisc, and consequently is expected to improve Member States' ability to send early warnings and to provide feedback, and to enhance the quality, reliability and security of the information shared. TNA will visualise carousel networks and is expected also to speed up detection. It is scheduled to be fairly operational in working field 6 before the second quarter of 2019.

Eurofisc has, without doubt, contributed to reducing VAT losses in the EU. But despite the various efforts in the Member States to combat VAT fraud, and to improve international cooperation between tax administrations, the problems are still extensive due to the complexity and speed of fraud and the involvement of new markets. Apart from massive VAT losses in the Member States, organised fraud can also affect the credibility of the market and contribute to unfair competition. The EU emissions allowance market was heavily affected by carousel fraud in 2009-2010, costing approximately EUR 5 billion in VAT losses in only 18 months. Thereafter the fraudsters moved to the electricity and gas markets.

Other markets, such as electronics, metals and telecoms, have also been deeply affected. Cross-border VAT fraud is not only limited to intra-Community transactions but also often involves goods arriving into the EU from non-EU countries, especially under customs procedure 4200, although direct import/export transactions have also been connected to VAT fraud. So this calls for enhanced cooperation with customs, non-EU countries and also marketplace players and the business sector.

Despite the various efforts in the Member States to combat MTIC VAT fraud, and despite the international cooperation, the threat still remains. Many Member States have introduced sector-specific reverse-charge procedures over the past year on goods and services frequently involved in MTIC fraud. However, there are still no signs that the scale of VAT losses in the EU is diminishing. Although reverse charging is beneficial to the Member States in stopping VAT fraud in a specific sector in their country, it can result in the fraud shifting to other Member States or to new markets.

Usually it is the tax administration responsible for the assessment and collection of VAT which plays a central role in preventing and detecting tax fraud. The information that tax administrations exchange through the Eurofisc network is confidential, as provided for in Article 55 of Council Regulation (EU) 904/2010, where it is stated that the information exchanged shall be covered by an obligation of official secrecy and shall enjoy the protection extended to similar information under the national law of the Member State which receives it. It is also specified that information exchanged can be used in criminal investigations. However, the possibility of sharing information received through this channel with law-enforcement agencies at national level before a criminal investigation can vary between Member States.

The definition of organised crime and criminal organisation is found in various EU documents. MTIC carousel fraud must always be regarded as an offence organised by criminal groups. According to Europol, it is estimated that EUR 40-60 billion of annual VAT losses in the

Member States are caused by criminal groups, and 2% of those groups are behind 80% of the MTIC fraud. MTIC carousel fraud can also be associated with other areas of serious crime such as terrorist financing and money laundering.

So the conclusion is that, by bringing all the agencies and networks responsible for combating MTIC carousel fraud closer together at national level and EU level, there are greater opportunities to be more efficient in stopping MTIC carousel fraud in the EU, minimising the tax losses and also prosecuting the criminal groups involved.

1-061-0000

Richard Murphy, *Director of TAX Research UK*. – Thank you for inviting me. I have been researching the issue of VAT fraud and tax caps on behalf of the Horizon 2020 project called ‘Combating illicit financial flows and empowering regulators’, or COFFERS for short, and in the process of that I have been looking at a whole range of issues at a more macroeconomic level. I am delighted I didn’t talk about the issues you’ve just talked about, because I was tempted to, and I will touch on some of the issues the other presenters have already addressed, so I’m going to slightly change the presentation that I proposed because some issues have been covered.

You asked me why haven’t we stopped this problem, and I think it’s an important question. One of the answers is quite simply that we haven’t changed the VAT law as yet, and we have already heard that VAT law is going to change to a country of destination basis. I do believe that will be incredibly effective.

I believe your estimate of EUR 40 billion of VAT recovered is entirely plausible, and that a large part of the missing EUR 50 billion will be found as a result. But what we have also heard is that the VAT gap could be between EUR 125 billion and EUR 150 billion in my estimate, and if you base it on the size of shadow economies, it could be EUR 135 billion, all of those numbers sort of coalescing around that area, and that means that even if we tackle that problem, there is a substantial fraud left.

And if I look at the UK’s data – and the UK does, I think, have the best data on the VAT gap, although it does also have a very small shadow economy in European terms – 62% of the loss arises as a result of the shadow economy: 10% is from distance selling, 10% is from taxpayer mistakes, 13% is from bad debt. Only 4% is considered to be criminal activity, which is so low that HM Revenue and Customs are thinking of not reporting it in the future. And just one per cent is VAT avoidance. The tax profession, and I am a chartered accountant, is not very present in this sector, I am pleased to say.

So the big issue that we have to address is in fact the shadow economy and this is largely domestic, not international. One reason why to date we have not closed the VAT gap is because we have spent a lot of time, as we have on many tax issues in the last 15 years since tax justice became a major issue. We’ve looked at the international dimensions of the issue, but we must remember that domestic tax abuse is also of great significance, and I believe we have underestimated that.

If we look at the relative importance that Member States give to this issue, it is disappointing that only 14 of the 28 Member States at present are estimating any tax gaps. Those that do, focus almost entirely upon VAT and most of them do, as has been said by the Court of Auditors, look at a top-down approach. I personally believe the top-down approach is the right one for VAT. I believe that all tax gaps should be calculated on that basis. I don’t exclude a bottom-up basis, but I think they add information to the overall estimate.

What worries me is that whilst we do obviously have a Commission estimate for the VAT gap for the EU as a whole, if the Member States aren’t actually taking up the issue at home, and

addressing the issues within their own economy which are giving rise to these losses, I do not understand how they can have an effective strategy to tackle the issues. I would therefore suggest to the Committee that one thing it should recommend is legislation to require that not just VAT gaps, but tax gaps as a whole be calculated by every EU Member State.

I make that point very clearly, because if you lose VAT, VAT is a tax on turnover, particularly when we come to the domestic economy. Most of you will be familiar with accounting – and I am very familiar with accounting – and if you do not record the turnover, then you will not record the income tax, social security or corporation tax that is also due on that same income. In other words, once you've lost the VAT, you've lost other taxes as well and so the cost is much higher than the initial estimate of the VAT gap.

It is essential that countries begin to take this issue seriously but unfortunately, as I say, at present they aren't, and that to me is the biggest issue we face. I follow that up and I reinforce the point already made: no tax authority can obviously do anything with this data if it does not have the resources to tackle the problem that it discovers.

So the failure to provide tax authorities with the resources has also to change. We face a substantial problem in many governments which see tax authorities as cost centres rather than revenue centres. I do not understand that logic. As an accountant, as somebody who has been a business entrepreneur, if something brings in money I tend to like it. And yet we treat our tax authorities as things we must shrink in size. That logic is to me baffling and I think has to be changed.

If we are to tackle the domestic economy, I think there are a number of very important things we must do. One is we should look at Portugal and its model of actually ensuring that every single sale that is recorded is electronically notified to the domestic tax authority. I happen to think that works. I have some reservations about the whole concept of online tax reporting, but with regard to this issue and the issue of turnover reporting, I think that turnover reporting is fundamental. I happen to like the incentive that is provided, that a receipt becomes an entry into a national lottery. I think that brings the public in line with the sentiment. I can see that there is some reticence. Does it work?

(Interjection from the floor: 'No')

Maybe. I'm open to persuasion, but I think that the idea is one worth pursuing and worth extending.

But by far the most important issue that I think we have to look at is the fact that we do suffer from missing trader fraud in the domestic economy as well as between economies. It's not just that we miss some of the top of the reported trading entities: we completely miss those traders altogether. If I look at the UK, and I am most familiar with the UK, at least 400 000 companies a year in the UK do not file corporation tax returns, and do not file accounts as required of them by law. They therefore also, by the way, never file any beneficial ownership information.

So we have the most massive hole in the UK tax system where at least 10% of all companies never file information with regard to their trading. Of those companies, at least half will never file information throughout their entire life cycle. In other words, they will exist, potentially trade and disappear, and nobody will ever know why. There are five million self-employed people in the UK. Their average earnings are now well below the national minimum wage. That implies that there is substantial systemic under-reporting of income there.

So what we need to find is a smoking gun to actually encourage those people to start to report, and the way to do that, I think, is to introduce automatic information exchange into the domestic

tax environment. Over the last 15 years I have been heavily involved – and I was one of the founders of the Tax Justice Network – with promoting the idea of automatic information exchange from tax havens as a way to try to identify illicit funds in those places, but the fact is we don't do the same thing in our own economy.

So, for example, Barclays Bank in the Cayman Islands now has to report to the UK if one of its customers in that territory is resident in the UK and provide information with regard to the company that they own. But if that customer owned a company in London they would not have to do that. That is quite absurd. Quite simply, we have to actually bring this system, which exists and for which the entire infrastructure is available, into the domestic environment and we must extend it to all domestic bank accounts where there are erratic patterns of depositing, which would imply the existence of trading, and we have to extend it to all trading platforms on the internet. So not just the traders, but the payment platforms as well. If we did that, people would know that the chance of being discovered would increase.

The evidence from research in the USA shows that when people think there is very little chance that the information on their income will ever be automatically disclosed to a tax authority, there's only a 50% to 60% chance they will actually declare the source of income. I mean the source, not actually the amount, just the source. If they believe that that source of income will be declared automatically to a tax authority, the probability of disclosure goes up to 90%.

We therefore have to create the smoking gun: an automatic information exchange within domestic economies is the way to do that. We don't need much information, but good beneficial ownership data from banks – and after all, they have it and verify it whereas, I'm afraid to say, companies can, frankly, still file anything in the UK and get away with it; it's an honesty box regime we have – so we need to have the banks, which actually verify the ownership of accounts, to make this disclosure to the tax authority, and the tax authority must be provided with sufficient resources to be able to process it, so we can begin to track down the missing traders, because that's the only way we can close this problem and, at the same time, support those honest businesses whose trade is undermined by this, which I think is one of the other fundamental objectives of the whole process.

1-062-0000

Chair. – Thank you very much, Mr Murphy, and thank you to all the speakers for their introductory remarks. We will now open the discussion. As always, questions will be asked in slots of five minutes, one minute maximum for a question, the remaining time for the answer. If there is still time within the given framework, a follow-up question may be raised.

1-063-0000

Luděk Niedermayer (PPE). – Chair, I would like to thank all our guests for coming and discussing this substantial issue. This is a big fiscal issue and, as we said this morning, it is also a matter of criminal activity and other wrongdoing.

It seems to me – and this was confirmed in the debate – that the regime of intra-EU cross-border trade plays a very substantial role. So my first question to all the panellists, except the Commission, is to ask whether you see any alternative to changing the VAT regime across EU borders in order to reduce, in a really efficient way, the huge VAT gap.

My question to the Commission is whether you are surprised that there is such resistance among the Member States to moving forward to a definitive VAT regime. How would you overcome what, for me, is a surprisingly high lack of confidence between the Member States and the tax authorities? It is necessary to do this in order to move forward.

1-064-0000

Neven Mates, Member of the European Court of Auditors. – It is definitely the trade regime that you mentioned? I would not underestimate the challenges in arriving at that point and I am

not sure that within the current framework of exchanging data on transactions electronically you cannot effectively achieve the same result.

If you really make sure that all transactions are reported in the VIES, particularly those coming from imports, this is almost like a system in which there is a liability on the final recipient of the goods. It is easily established by the country of destination and collection is quite possible.

So I think that moving towards a system in which, let us say, the tax authorities in Member State A collect revenue which, after that, is supposed to be transferred to the country of destination is not going to be easily acceptable. The countries which are then entitled to receive this revenue will not take this easily. I would not underestimate the political difficulties in arriving at such an end result.

I think that, on the other hand, there is a simpler solution, which is that you just make sure that this VIES system and customs data are accurately transformed. I think that this can basically address these concerns quite effectively.

So that is my comment that I have to make here. I think that, as I said, I cannot envisage that it would be easy to put in place a system in which the tax revenue of France is expected to be collected by the tax revenue of some other country and then transferred. I do not think that would be such an easy thing to push through.

I think the current system and particularly the strengthening of the current system – and particularly of enforcement, of prosecution – could easily go a long way towards effectively reducing VAT fraud. So that would be my comment on that.

1-065-0000

Richard Murphy, *Director of TAX Research UK*. – With regard to the first part of the question, there is no substitute for changing the VAT regime. I think that's the simple answer to that question.

On the second part, I think the point is about political will, as you have mentioned. I wrote a book a couple of years ago called *The Joy of Tax* – not everybody saw the humour in the title! It was about political will, because what I suggested was that tax is the way in which a politician has the greatest chance of reshaping the economy for which they are responsible.

Therefore, tax is actually a gift to any politician and they should be using it for the purposes of actually achieving their political objectives. Unfortunately, far too many politicians still see tax as theft, as confiscation, as a burden, and everything else, when in fact it isn't: it is a legitimately required contribution of those who live in a state, created as a property asset for the state in the same way that any other property right is created.

So my belief is that politicians are not grabbing the mettle here and going forward and saying 'This is a tool for social benefit, not an oppressive instrument to suppress markets.'

1-066-0000

Maite Fabregas Fernandez, *Director, Indirect Taxation and Tax Administration Unit, Taxation and Customs Union Directorate General, European Commission*. – I am going to reply to the question addressed specifically to the Commission concerning the cornerstones of the definitive regime, in particular, which were presented by the Commission in October last year, and to which, it is true, the first reaction in the Council – the reaction of the Member States – was that to agree only on principles without knowing the details was very difficult.

That is the reason why the Commission moved quickly to present the full proposal containing all the details on implementation of the cornerstone principles for the definitive regime. That was done on 25 May, therefore discussions are starting now on the real definitive regime.

Concerning the aspect, raised by Mr Niedermayer and also by Mr Mates, of lack of confidence among Member States concerning the one-stop shop, in particular. Here we can say that the mini one-stop shop is already operational today for some electronic services, and the information we are receiving from the Member States is that they are happy: they are pleased with this system because now they are getting some revenue that they were not getting before in respect of electronic services of this type.

In December, the Council also agreed on the VAT e-commerce package, which includes the extension of this one-stop shop to e-commerce as well. In this regard, we know it is very important to try to build trust between tax administrations, between Member States, and one of the measures that will help to do that is the measure on joint audits. Member States agreed last Friday at the Ecofin Council to perform joint audits, to be able to work together in cases where one Member State sees a problem concerning a taxpayer in another Member State. That is a very important step.

In addition, the Commission has started organising meetings with heads of tax administrations in the Member States. There was a first meeting recently, in Thessaloniki in Greece, where all the heads of national tax administrations came together to discuss the common issues of concern for them. We consider this a starting point with a view to instilling confidence and building the trust that is absolutely necessary for the acceptance of a genuine EU single VAT area.

1-067-0000

Jeppe Kofod (S&D). – Chair, I would like to thank the panel for their excellent contribution.

I have, first of all, a question for the whole panel, linked to the Commission's initiative on VAT. With regard to this new legal tool, the Certified Taxable Person status for companies, as also described by the Commission – and known as CTP – where you prove you are a faithful taxpayer and responsible VAT actor: what is the panel's assessment of the CTP model? Is it an effective tool to fight VAT fraud? And, if not, how can it be improved? That is the first very concrete question.

Secondly, I would like to know whether in the panel's view – because the Member States are very reluctant about this – the risk of VAT fraud would rise if the CTP model was not implemented as planned.

And then a question for Mr Murphy: you mentioned in your contribution on combating VAT fraud that a successful model could be to ensure digital registration of sales directly to the tax authorities, as done in Portugal. This made me wonder whether this method could be used to fight other tax scams. I am thinking specifically about the various dividend tax scams we have seen in Europe in recent years, where, for instance, both the Danish and the German authorities were scammed out of several hundreds of millions of euros. So can you reflect on that too?

1-068-0000

Richard Murphy, Director of TAX Research UK. – If you wish, I am very happy to take the second one. Let me take the first one briefly.

I like the idea of the CTP model. I do have a concern that obviously, you have got to prove your status and this does create a barrier to entry. Therefore there are problems there and it may be that governments need to look at ways in which support can be provided to growing businesses which may face some difficulties as a result. I just put that up as a potential flag from a business point of view.

With regard to the digital issue, I think that this is quite critical. How this is recorded doesn't really worry me greatly – whether block chain is used for it or whatever is not the issue. What does matter – and again actually the precise detail does not matter – actually making people

aware that information flows is what matters. This is about behavioural economics. It is not about absolute specifics.

It would be very interesting to have information supplied by banks on turnover in businesses where they think that trading is taking place, to see whether it would tie up with the reported sales of those enterprises supplied through point of sale records – but they won't ever do so perfectly, we know that. There would always have to be margins for error because some will deal with cash. Some will have transactions which flow through bank accounts which, of course, are not to do with sales – capital flows and indeed dividend flows, which of course are not vatable – and so there will be differences which will require explanation.

But the fact that somebody would know that that requirement is there will place the onus of responsibility on them to improve their accounting and to explain what they are doing.

That to me is quite critical and I believe will actually empower the tax agents, the accountants and others who are assisting businesses – as I did in my past career, I was a practising accountant for 20 years – to say, look if you don't comply, someone is going to come and get you.

I used to advise my clients that if they had a choice between a nasty VAT audit or a messy divorce, to go for the messy divorce – it tended to be more fun.

So overall, that provides an immense power and in most countries at present VAT audits are declining in number considerably and that is to the distinct detriment to this.

Digital has great power, but it has to be backed up by on-the-ground measures. If we know who is trading, we can identify where the risk is because a disparity between reported activity and banking activity does in itself indicate risk. It's no more than a risk indicator, but the whole move in tax is towards risk indicators. I was responsible for creating the idea of country-by-country reporting: that is a risk indicator, this is another and we need it because behaviour will change.

We are seeing it with multinational corporations now because they know their international activity is going to be monitored. We will see it with businesses if they know that their turnover is going to be monitored. So I believe it will work.

1-069-0000

Maite Fabregas Fernandez, *Director, Indirect Taxation and Tax Administration Unit, Taxation and Customs Union Directorate General, European Commission.* – I will take the floor if no one else wants to talk about the CTP.

So, the Commission proposal: I've mentioned already some elements concerning the CTP. But as I mentioned, one of the key principles of the definitive regime will be the liability of the supplier, except, as I mentioned, when the customer is a CTP.

In such a case this is a reliable taxpayer, one that has been recognised by its own authorities as a reliable taxpayer, and therefore there is no risk of fraud because the CTP, being the customer, will pay the relevant VAT in the country of destination.

We have included this new concept in the VAT framework in order to facilitate this move towards a destination principle. Therefore, the question was – well, there were two questions on CTP – can it improve the fight against fraud? We consider that to be, yes, because this is a reliable taxpayer; the customer will pay the VAT due.

Is there a risk if it's not included in the proposal? Well as said, we consider this is a transition towards the fully fledged definitive regime. Therefore, now it is under the consideration of the

Member States and Parliament in order to consider whether we need this intermediate stage, let's say, when we are operating with CTPs, or whether it has to remain for the overall definitive regime, or whether we can move towards the destination principle and liability of the supplier right from the start of the application of the definitive regime.

In the impact assessment supporting the Commission proposal, there were some data evident to support inclusion of the CTP, but now it is at the level of the Member States in the Council and the European Parliament to decide what they consider most appropriate.

1-070-0000

Tom Vandenkendelaere (PPE). – Chair, ladies and gentlemen, I am sorry that I was unable to be here for part of your presentations. I have been attending another committee meeting. I have looked at all your preparatory work, and my question is about the cost of complying with VAT regulations. It is specifically addressed to Mr Murphy, Mr Mates and Ms Fábregas Fernández.

To give you some idea of the background: in Belgium, companies pay an average of EUR 27 500 per year in order to comply with our complex patchwork of VAT rules. Of those total costs, more than 50% arises specifically from VAT compliance. These costs are accounted for by VAT accounting, preparation and submission of VAT returns, the collation of accounts and the collection of information on the different national VAT systems.

I am specifically working on the SMEs scheme in the Committee on the Internal Market and Consumer Protection. SMEs incur significantly higher costs in complying with these complex VAT rules than multinationals do. On average, a business with more than 50 employees has to spend 0.75% of its turnover in order to obtain the necessary know-how and resources. A business with fewer than 20 employees has to spend 7.40% of its turnover on this. So the costs incurred by SMEs are indeed much higher.

My point is clear: the costs of VAT compliance are huge, particularly for small businesses. Of course, there is a need to weigh up the interests at stake: on the one hand, making it possible for the authorities to monitor business activities sufficiently and on the other hand, avoiding creating disincentives for business activity by creating a completely opaque patchwork of rules.

With this in mind, my questions to Mr Mates and Mr Murphy are these: what is your view of the current VAT framework? Do we need more monitoring machinery for the public authorities – and should we do more monitoring – or should we, on the contrary, try to simplify things more?

My question to Ms Fábregas Fernández is this. In recent years, many measures have been examined, suggested and also adopted at European and national level to counter non-compliance. I have in mind the definitive VAT arrangements, the reverse charge mechanism for VAT, payment in instalments, real-time reporting of transactions and so on. They all have their merits, but of course they also make compliance extra complex and costly. The question is: what does the Commission think will be the solution for the future in order to achieve exactly that? And is there a holistic view somewhere, because of course there are many elements to consider which are at issue simultaneously?

1-071-0000

Neven Mates, Member of the European Court of Auditors. – Harmonisation of EU VAT legislation will, for sure, be helpful.

Currently, if you do not switch to this definitive system in which each entity has to apply the VAT of the country of destination, given the variety of VAT legislation in the various Member States affecting very many important aspects, that would, for me, mean imposing a lot of

compliance costs on businesses. So some harmonisation would be extremely helpful and would contribute, in many ways, to reducing the possibilities for fraud.

There was a project to unify the VAT tax return, which in the end was cancelled after no agreement had been reached. If agreement cannot be reached on such a trivial matter as the form of a VAT return – allow me to be a victim of caution here – a more ambitious project will certainly not face fewer obstacles. But yes, unifying and harmonising VAT legislation would be a big step forward. It is the way to go. I will stop here.

1-072-0000

Richard Murphy, *Director of TAX Research UK*. – I wouldn't like to guess how many VAT Returns I have been responsible for on my own behalf or on clients' behalf in my career, but it's a lot. I don't think that the estimate of EUR 27 000 is realistic, I think it seriously overstates the cost of compliance. The reason why is that, actually, every piece of paper which has VAT on it has got to be processed for accounting purposes anyway. Therefore, the additional cost of processing the VAT is often not a lot.

If I am completely honest, I don't believe that VAT compliance in itself is expensive. I do think that mistakes can happen and providing regimes for SMEs which are simpler can be of benefit, but unfortunately UK experience is that those are now abused and have been used for fraudulent purposes in themselves. So some of those schemes are disappearing and we have to think about how, perhaps, flat-rate schemes for small traders can be brought in but which can be prevented from being abused by fraudsters in their own right.

I do think that there is a substantial cost that many small businesses face with regard to VAT which is wholly unjust, and that is the automatic imposition of penalties in some countries for making mistakes, particularly for making late returns, when some small businesses simply cannot do some things on time, and yet there is no tolerance with regard to late submission of returns. All errors, whether innocent or otherwise, are treated equally and heavy penalties charged.

Those I think are quite unjust and contrary to natural justice. I believe that issue does require to be separated from the issue of fraud because they are quite distinct and separate. One is a burden – and actually a cause of some fear for small businesses – because they do genuinely suffer as a result of that, whereas the cost issue is not significant. But that I would draw out.

Should we simplify the system? Yes, I would like to see that, but I wouldn't greatly encourage other countries to go in the direction that the UK has gone – for as long as we in the EU of course – where we have a very high VAT registration threshold, because that does create its own problems, as many businesses, first of all, report that they have a turnover just below the VAT registration threshold – not all of them, I have to say, probably honestly. And secondly, the cost of going over the threshold then becomes an impediment to their own growth.

So actually, a low threshold is fine but we need simple systems based on turnover alone for smaller businesses, I suspect, and that would be the way to go forward.

1-073-0000

Maite Fabregas Fernandez, *Director, Indirect Taxation and Tax Administration Unit, Taxation and Customs Union Directorate General, European Commission*. – Concerning the costs for SMEs, there is currently, under negotiation here in Parliament and in the Council, a proposal to try to simplify the VAT rules for SMEs in general, and also to help them to operate within the internal market in all relevant Member States. We in the Commission are putting forward proposals aimed at simplifying the rules.

In terms of the cost at national level, it is true that in the different Member States we have different systems, which might impose additional costs or not, and might, as Mr Murphy

mentioned, sometimes help companies to comply with similar obligations, coming from taxation or from other areas, in a similar way, together. What we see is a trend on the part of tax administrations in some Member States – Italy, Spain, maybe also Portugal and the Netherlands, and some others – also to provide a service to taxpayers, through IT systems or through direct Q&A processes, including even using artificial intelligence to help taxpayers. I think more and more tax administrations are understanding that there is a need to talk to their taxpayers, not only to get the revenue, which is the important goal of tax administrations, but also to help them to comply. This is something which is very important, this trend among the national administrations.

When we, from the Commission, are presenting proposals on VAT, of course our proposals relate to VAT, but then at national level VAT is just one of multiple taxes in respect of which companies have to be compliant. That is why, when we in the Commission are dealing with VAT, we cannot deal with the whole environment, just with one part of it. However, as Mr Mates mentioned, there was, for instance, a proposal to harmonise a VAT form, but this was not accepted by the Member States.

That was some years ago. Who knows whether in the future we can move towards more harmonisation of some aspects of tax, in order help the tax administrations and also help them to help taxpayers to be compliant, which is also a key element?

1-074-0000

Arndt Kohn (S&D). – Chair, I would like to put my questions in German. I would like to thank all the speakers who have come here today to answer our questions.

My first question is, in principle, addressed to all, namely how we can improve cooperation between national tax authorities and in particular OLAF. In various discussions with OLAF, time and again, I seemed to detect some slight feeling of regret about the fact that national egoism frequently seemed to prevail, that, say, we in the German tax authority are in possession of better information but that we would rather keep it to ourselves, while OLAF is seen as quite nice but not necessarily as a partner at our side to achieve the objective, which in the end we all share, which is to combat fraud. In this connection, perhaps a question for you, Ms Olofsdottir: OLAF is not, or so I believe, part of the Eurofisc network; what do you say to the possibility of OLAF also participating in it?

And then a question for Mr Murphy: first of all, thank you for your remark that tax offices should not, first and foremost, be a place for austerity measures, but rather a revenue authority, which must also have the means to achieve its objectives. I, myself, am a tax inspector; hence, I do know what you are talking about. That said, I also had a group of visitors from my former tax office, who gave me something to think about, that is that the Reverse Charge procedure had in the past always been a good means of combating fraud within a specific sector. What would you say to applying this instrument throughout, or to at least extending its scope significantly, in order to effectively prevent VAT fraud?

1-075-0000

Alma Olofsdottir, Swedish Tax Agency and Chair of Eurofisc. – Thank you for your question. As I mentioned in my presentation, all types of cooperation between the Member States, and also at EU level, would improve the possibility of combating VAT fraud more effectively. At the moment, however, Eurofisc is only a network linking the Member States, and specifically tax administrations, so as to share information about tax fraud swiftly. It is totally up to the Member States, when they receive this information, to provide resources to tackle fraud on their territory efficiently and also to share information, in return, with other Member States.

Regarding your question about whether bodies like OLAF or Europol could be part of the network, I don't think the question is really about that because even if, in future, the network

were to have the possibility of exchanging information with these other networks, they would still not be a part of it.

Regarding your second question, about the implementation of reverse charging, we have seen, as you mentioned, that the implementation of reverse charging is efficient in the Member States which have implemented it on specific goods or services, but we can also see that fraud has not stopped in this sector. For example, we have 13 Member States which have implemented a reverse charge on mobile phones. With 13 Member States implementing reverse charging, you might think that the fraud would be over in this sector, but it has only meant that the fraudulent companies have moved to other Member States. And because, in the carousel chain, you need pairs of companies which are both participating in fraud, you then have VAT losses in other Member States.

What happens is that you locate the VAT losses in the Member States which have not implemented reverse charging and you locate the participating companies – so-called conduit companies – in the Member States which have implemented it. So the problem is still the same in the EU. With regard to implementing reverse charging in all the Member States, that is another question.

1-076-0000

Richard Murphy, Director of TAX Research UK. – I cannot comment on the first question. That's not within, I think, my area of competence. On the reverse charge issue, I can remember when reverse charges came in and I think I was quite a young man at the time when they first arrived and they were of course introduced to combat fraud. They took a lot of explaining to people as to what this was all about and why they had to do it and that, to some extent, still remains the case, which is why they are open to abuse.

All opportunities for abuse inside accounting arrive on a boundary – a border, if you like, where the ownership or the physical location of goods or services changes – and what you are trying to do is make those borders, those boundaries, as tight as possible so that you can ensure that transactions are recorded correctly on both sides of that boundary or border.

That is the whole issue that we are looking at, and this is true across a wide range of issues, not just VAT. This is about all of tax fraud altogether, about the whole of the tax haven issue and everything else, making sure that we understand what's going on on both sides of a transaction.

The fact is that here we are relying upon different methods on each side of the transaction, as has just been explained, and the moment you've got that you've got an opportunity for arbitrage and abuse. So unless everybody has a reverse charge system it isn't going to work. And you are still relying upon the fact that, actually, somebody has got to be honest and actually do the reverse charge accounting and I'm afraid to say – I don't think we can do that as well.

Imposing VAT across the border is the answer to eliminate the reverse charge problem. I'm afraid you actually have to have the cash being required to cross the border as well, because the whole point of reverse charge is to make sure the cash does not cross the border. I'm afraid the cash has to move too now. That's the only way you can be sure to deal with the reverse charge problem.

1-077-0000

Chair. – I thought the reverse charge was meant rather as a solution, not a problem.

(Laughter)

1-078-0000

Richard Murphy, Director of TAX Research UK. – It is an interim solution which hasn't solved the problem is what I'm saying.

1-079-0000

Arndt Kohn (S&D). – One additional question to Mr Murphy, as well. Did I understand you right, that in the UK there is no external audit by the financial authorities?

1-080-0000

Richard Murphy, Director of TAX Research UK. – It is not true that there is no external audit now in the UK by the financial authorities. If you are a large company, for example, you will have a member of the tax authority pretty much sitting in your office all the time.

But let's be honest. They are also, by and large, going to be the people who are going to be CTPs in the future. They are not the area where we looking at fraud. They are reliable in that area. They may not be with regard to corporation tax avoidance, but they probably are with regard to VAT. And the amount of avoidance, as I noted, is tiny with regard to this, and large companies, by and large, don't commit fraud – large companies do avoidance.

The issue is that because of the massive cut in the number of staff we have in the UK tax authority, which has halved its numbers effectively in the last 10 years or so, the number of local visits to VAT-registered traders has collapsed. Once upon a time, every VAT-registered trader in the UK could expect a visit from our tax authority once every three years, whatever their size. Now, the average is about once every 300 years.

In other words, most are never going to see a VAT inspection, and therefore don't frankly care about it; that threat has simply disappeared. And I am afraid to say, I think that threat should be recreated because I think it's highly effective and actually should be there, to be imposing this threat against fraud which is happening on the ground every day.

1-081-0000

Tom Vandenkendelaere (PPE). – I am sorry to trouble you again with a question in Dutch and to compel you to put your headphones on. Ms Olofsdottir, I have a specific question for you about the Eurofisc initiative. First of all, thank you for the explanation of how the Eurofisc group is addressing VAT fraud. It is a good initiative, which certainly has its strong points, but it seems to me that there is still one problem with it: although all the Member States are members of Eurofisc, actual participation in it remains voluntary. It is optional.

It is therefore of course difficult to establish which Member States are genuinely contributing to the various areas in which they are active. My question therefore is this: could you perhaps let us know how the Member States are contributing the most or the least, and which Member States are making little or no effort? Naming and shaming is popular these days, so I would say: go ahead and do so. And to what extent could a more binding framework for Member States contribute to better functioning and thus to efforts to fight serious VAT fraud? Would that make a substantial difference to the functioning of Eurofisc?

1-082-0000

Alma Olofsdottir, Swedish Tax Agency and Chair of Eurofisc. – Thank you for your question. Regarding the participation of the Member States, it is correct that the Member States participate voluntarily in the network. But when they decide to actively join a working field, they are also obliged to exchange the information according to what all the members of the working fields have agreed. So they are also a part of the Member States' decision about exactly what information they are going to change. Contributions to the network depend on the scale of fraud in the Member States. You have 28 Member States, and the level of fraud and fraudulent companies in the Member States varies a lot. This means that large countries with many companies involved in fraud put more transactions on information into the system, but it is very important that all the Member States detect fraudulent companies at national level and put information into the system.

The second question was about how to make it mandatory. Well, it's not mandatory – as we said – to participate in Eurofisc and it's not mandatory to exchange this information. I don't

think we can make it mandatory for the Member States to participate in the network because this is a totally national decision.

1-083-0000

Tom Vandenkendelaere (PPE). – But imagine if we could. Do you think then it would be much more effective than it is today?

1-084-0000

Alma Olofsdottir, Swedish Tax Agency and Chair of Eurofisc. – This is a theoretical question. I don't think it's needed because as I said, all 28 Member States participate in the network and almost all Member States – almost all Member States – participate in all the working fields, so the Member States are providing a lot of resources on a voluntary basis for this network. They identify the need to join forces in the Member States to tackle this problem. At some point, all the Member States could suffer heavy losses, and you never know which Member State will be targeted next.

1-085-0000

Ana Gomes (S&D). – I would just like to make a comment about what Mr Murphy said about Portugal.

Yes, the digitalisation of the Portuguese system has been useful, but actually when it comes to small companies and individuals, such as hairdressers or mechanics, the impact – also because of the size of the resources of the tax authorities – has been extremely negative in actually looking at the bigger corporations and wealthy individuals. By the way, the lottery has been abolished, because it was totally outrageous, it was just a scheme to sell German cars.

Nevertheless, yes, the system has improved and it has had an impact on the behaviour of people – their understanding that they have to pay tax. That has been positive, I think.

My question is to the Commission: knowing what is at stake in terms of own resources of the Union, when we are discussing the multiannual framework for the next seven-year period – considering the fact that he's established that this was the subject of the previous hearing – that through fraudulent schemes, VAT is massively financing terrorism and organised crime – how come this is not top of the agenda of our Member States? How come this is not also top of the agenda for the Commission itself – to confront Member States with their responsibilities? How come we don't know which Member States are actually opposing it? Can you tell us, if not now, at some point, which Member States will be opposing so that we will be able to point the finger at them and have them face up to their responsibilities?

My other question to all of you is: in view of the implications of the cryptocurrencies now – including for all sorts of exchange, commerce and other exchanges, trade exchanges, with some Member States even trying to style themselves as hubs for cryptocurrencies, what do you sense are the implications?

1-086-0000

Chair. – I am sure the Commission has a list. The question at the moment is whether it will share it with us, but we will see.

1-087-0000

Maite Fabregas Fernandez, Director, Indirect Taxation and Tax Administration Unit, Taxation and Customs Union Directorate General, European Commission. – Thank you. I appreciate the fact that I am not expected to disclose the list now.

(Laughter)

Now, as you know, the issue is very important and it's very important also for the Commission. President Juncker, in his mandate to Commissioner Moscovici, made very clear that at European level, we need to have a clear policy initiative to combat VAT fraud, in particular, but all the elements concerning tax evasion are key. It is at the top of the Commission agenda

and also for Commission Moscovici, who has been very active in public, going to Member States, but not only in public – he has also been pushing Member States to make efforts to fight against fraud – in particular, VAT fraud.

With all our proposals and initiatives, we are also bringing the debate to the table of the Council. As you know, from time to time this debate goes to ministerial level, where it then becomes more public as it's web streamed by Ecofin. This is when given Member States express their position and why they have taken specific positions.

From our side, we have proposals on the table. As I said, we are taking flanking measures at these meetings with the heads of tax administrations to help them, working together, to make the best of the internal market – because this is one of our key goals – and then to have the deal tax revenue that they have to have, and the part of the EU budget that contributes to that.

We are also taking action against those Member States who are not applying legislation properly. This is very important with regard, for example, to when legislation has been interpreted wrongly or a Member State has a resource problem, or does not have the right procedures or processes to make people comply and to fight against fraud.

In this regard, we act from three sides: first, the political – key messages from the institution – you have heard them and you will continue to hear those messages; second, legislative action, and third, enforcement. We need to make sure that the law is applied in all Member States in the same way. Sorry, a fourth one – helping tax administrations to talk and work together, through the Eurofisc network and also some informal discussions among themselves in order to find solutions to the same problems – because they are confronted with the same problems.

1-088-0000

Richard Murphy, *Director of TAX Research UK*. – Can I make a brief comment on your first observation because in fact, in my current role as a Professor at a university looking at tax, I'm a very isolated person, and the project that I am working on is a very isolated project within the whole of academia.

It is very difficult to actually publish articles which look at journal papers which look at tax in a macroeconomic sphere. You can do an article on a tiny little detail of some research and development project and that is fine, but when you actually want to look at it as an economic issue, first of all, macroeconomics hardly recognises the existence of tax inside macroeconomic theory and to actually publish around things like the tax gap is very difficult, simply because people are not interested and you can't find anywhere to put it. So, this indifference to tax is really widespread, and as a man who suffers from excitement by taxation, as my wife, who is a doctor, once diagnosed me as having, I think that is really worrying.

If I come to the second issue of cryptocurrencies, I think we have to be really robust with regard to cryptocurrencies. We are down to the same issue of information exchange because if there is a cryptocurrency, it is the equivalent of a tax haven. If we cannot find out what is going on in that cryptocurrency, we suffer from opacity, and there is a very simple way to bring them out into the open. If you transact in a cryptocurrency which does not offer full information exchange on the transactions that are undertaken with a tax authority, then your contracts which require settlement in that currency are unenforceable in the law of the states with which you will not exchange information.

In other words, you can contract them if you like, but you would have no way of actually making sure you are paid; so either you cooperate with the tax authorities, or you don't rely upon a tax-funded system of law enforcement. I think we have to be as blunt with them as that; I can't see a way round it. If they want to have this opacity, I'm afraid they have got to be denied the right of access to the legal system to undertake their contracts and try and recover their money.

1-089-0000

Chair. – I would like to thank our guest speakers for their valuable contributions and information on the topic of VAT fraud and its impact, and also for their outlining of the possible ways forward.

There is a definitive VAT system on the table and we shall see what happens with it in Council, but given the volume and the amount of money involved in VAT fraud or the VAT ‘gap’ more generally, and more importantly, it is one of the key issues. This committee will pursue it to raise awareness of the scope of the problem; hopefully there will be more and more pressure on national governments to address the gap in an efficient manner.

The next meeting of this committee will take place in September. In the meantime, there will be a mission of the committee to Washington DC. We will meet the US Treasury, FinCEN, and we will be at Congress. So that is the programme for the coming weeks for the committee. My notes say ‘have a nice summer break’, but I wouldn’t like Members to forget about next week’s plenary session in Strasbourg, so for them it is rather ‘see you in Strasbourg’.

Thank you once again to our guest speakers.

(The meeting closed at 12.39)