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COVER NOTE

from: Secretary-General of the European Commission,
signed by Mr Jordi AYET PUIGARNAU, Director

date of receipt: 25 May 2007

to: Mr Javier SOLANA, Secretary-General/High Representative

Subject: Commission Staff Working Document: Progress report on the preparation of an
anti-fraud strategy at EU level

Delegations will find attached Commission document SEC(2007) 740.

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COMMISSION OF THE EUROPEAN COMMUNITIES

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COMMISSION STAFF WORKING DOCUMENT

"Progress report on the preparation of an anti-fraud strategy at EU level"

Background

1. In its conclusions, the ECOFIN Council of 28th November 2006 stressed the importance of taking all necessary measures to combat tax fraud, notably in the area of indirect taxation, and recognised the urgent need to establish an anti-fraud strategy at Community level that complements national efforts to combat tax fraud.
2. The Council accordingly invited the Commission to prepare the elements of such a strategy in close co-operation with the Member States and defined a number of aspects to which the Commission should give particular priority.
3. The Council also requested the Commission to report to the Council on the progress made on these aspects and to present an outline of an anti-fraud strategy at EU level at its meeting in June 2007.

The current state of play

4. The Commission created a new expert group with Member States (Anti Tax Fraud Strategy expert group) in view of fleshing out the elements identified by the Council as priority areas. This expert group has had 3 meetings until now.
5. The discussions within the group have made it obvious that a lot of substantial work still needs to be undertaken on a number of potential measures, some of which originate from constructive contributions submitted by several Member States. The list of topics considered until now by the expert group is joined in annex.
6. This is the reason why the Commission considers that it is at this stage too early to present an outline of the anti-fraud strategy.
7. There are a number of topics which so far seem to have been supported by a large majority of Member States. All these topics are related to intra-Community supplies where indeed improvements are necessary although these changes should not disadvantage intra-Community trade by comparison to domestic trade. The topics are:
 - Reduction of timeframes for declaration of intra-Community supplies;
 - Speedier availability of such information among tax administrations;
 - Exploring the possibilities for extending information on intra-Community supplies to include transaction based information;
 - Consider joint and several liability where information on intra-Community supplies was not or not correctly provided in case it leads to loss of VAT at a subsequent stage;
 - Improve confirmation messages and information on VAT identified business to operators active in intra-Community trade.

8. The expert group will also continue the assessment of the other measures listed in annex, other measures raised in the Commission's Communication of May 2006 which have not been discussed yet – such as the role of OLAF in the support of operational and intelligence activities - and any other potential measure which might be raised during these discussions.
9. All proposals examined within the expert group need to be carefully evaluated as to their efficiency, neutrality, proportionality, burden on businesses and their impact on the internal market. The potential impact on business of the possible measures is indeed an issue that is constantly taken into consideration during the discussions within the group. When necessary an impact assessment will be considered.

The future anti-fraud strategy

10. Until now, discussions have been initiated on a number of wide ranging measures. The coherence between these measures will need to be ensured as the discussions advance.
11. When developing the anti fraud strategy, the Commission will also take into account the input provided by business into this debate, notably during the conference on VAT fraud organised by the Commission in March. There was a clear statement about disproportionate costs for businesses emerging from divergent national reporting requirements and a call for a more efficient use of the information already available to the tax administration.
12. Although it is premature to present an outline of the strategy today, there are some factors which have already emerged from the ongoing debate and which could constitute the guiding principles for the future strategy. These factors are:
 - The need of tax administrations for accurate information;
 - Optimising the use that tax administrations make of this information;
 - Enhancing the possibilities to act against fraudsters;
 - Respecting the expectations of legitimate businesses.
13. Finally, in order to convert the ongoing discussions into concrete results, a certain degree of flexibility and willingness to change current practices will be required from Member States. They will notably have to look for ways to overcome obstacles that might be confronted at national level for the implementation of measures whose added value at EU level is acknowledged.

ANNEX

The list of topics discussed by the expert group until now:

- Quicker exchange of data between Member States on Intra-Community transactions;
- More detailed exchange between Member States on Intra-Community transactions;
- Automated access to data kept by other Member States;
- Shared responsibility between Member States for the protection of revenues - Sanctions taken against persons involved in fraud resulting in tax losses in another Member States;
- Improving the functioning of the validation of VAT numbers;
- The possibility of allowing a Member State to request in an automated way turnover information concerning a third Member State;
- Enhance the possibility for the tax administrations to act against traders not submitting their recapitulative statement on Intra-Community supplies (joint and several liability);
- Reduction of the taxable amount in case of partial/total non-payment by the customer;
- Treatment of VAT credits;
- Possibilities to withhold or deny repayments to suspect traders;
- Imposing additional reporting obligations at domestic level;
- Consequences of the non compliance with additional reporting obligations at domestic level (consequences on the right to deduct or joint and several liability).