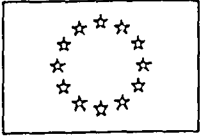

COMMISSION OF THE EUROPEAN COMMUNITIES

Brussels, 08.01.1997
COM(96) 681 final

REPORT FROM THE COMMISSION TO THE COUNCIL
AND THE EUROPEAN PARLIAMENT

Second Article 14 Report

APPLICATION OF COUNCIL REGULATION (EEC) NO 218/92 OF 27 JANUARY 1992 ON ADMINISTRATIVE COOPERATION IN THE FIELD OF INDIRECT TAXATION (VAT)

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1. BACKGROUND

1.1. The transitional VAT arrangements

In order to achieve the removal of border controls for tax purposes inside the Community from 1.1.1993, the Council decided in 1991 to establish the transitional VAT arrangements[1]. These arrangements provide that intra-Community operations between taxable persons continue to be taxed at the rate and conditions of the Member State of destination. An exemption for supplies of goods destined for another Member State was introduced to replace the exemption for exports and the taxable event of "importation" was replaced by "acquisition" in the Member State of arrival of the goods.

Detailed information on the functioning of the transitional VAT arrangements can be found in the report from the Commission to the Council and the European Parliament on the operation of the transitional arrangements for charging VAT in intra-Community trade[2].

1.2. The control implications of the transitional VAT arrangements

Before 1 January 1993, cross-border trade in goods between taxable persons in the Community was controlled by checks at national frontiers on documents accompanying the physical movement of the goods. Abolishing border controls resulted in the integration of the control of taxation of intra-Community trade into domestic VAT control.

The demands of VAT control and the challenge presented by the abolition of border controls required cooperation between Member States on a new scale. In particular, Member States needed information from other Member States in order to be able to control the tax. These needs were:

- To be able to obtain information on all intra-Community transactions made between traders on their own VAT identification register and those identified in other Member States.

- To be able to confirm the validity of a VAT identification number of the purchaser.

These data, which form an input into Member States' methodology to control VAT on intra-Community transactions, are provided by the VAT Information Exchange System (VIES) which is a common computer network.

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[1] Council Directive 91/680/EEC supplementing the common system of value added tax and amending Directive 77/388/EEC with a view to the abolition of fiscal frontiers. OJ No L 376, 31. 12. 1991, p. 1.

[2] COM(94) 515 final, 23.11.1994

1.3. The Community legal framework for administrative cooperation

Council Regulation (EEC) No 218/92[3] concerns administrative cooperation in the field of indirect taxation (VAT). It provides the legal framework which obliges the Member States to provide to one another the information necessary for controlling VAT on intra-Community trade; it is designed to complement the provisions of Directive 77/799/EEC[4] (on mutual assistance between Member States in the field of direct and indirect taxation). The Regulation also provides Member States with the right to obtain the information regularly in aggregated form, as well as to obtain supplementary detailed information on request. Directive 76/308/EEC provides for mutual assistance between Member States in the recovery of, inter alia, VAT claims owing to national administrations[5].

The Standing Committee on Administrative Cooperation in the field of Indirect Taxation (SCAC) was set up under Article 10 of the Regulation. The SCAC, managed and chaired by the Commission, is responsible for keeping a continuous watch on the development of administrative cooperation and mutual assistance. It also monitors the performance of the Member States in the collection, exchange and exploitation of the data. At Member State level, the day to day operation of the arrangements is overseen by a network of Central Liaison Offices (CLOs).

Article 11 of Regulation (EEC) No 218/92 requires that "Member States and the Commission shall examine and evaluate the operation of the arrangements for administrative cooperation provided for in this Regulation ...". Under Article 11, the Commission is also responsible for pooling Member States' experience concerning new means of tax evasion and avoidance.

Article 14 requires that "Every two years after the date of entry into force of this Regulation, the Commission shall report to the European Parliament and the Council on the conditions of application of this Regulation on the basis, in particular, of the continuous monitoring procedures provided for in Article 11 ".

The first report under Article 14 of Regulation (EEC) No 218/92 which was published on 23 June 1994[6] outlined the new administrative framework which was put in place following the removal of border controls for VAT purposes and reported on its successful implementation. This second report describes the development of the arrangements since 1993, evaluates their effectiveness and makes recommendations for improvements.

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[3] OJ No L 24, 1. 2. 1992, p. 1.

[4] OJ No L 366, 27. 12. 1977, p. 15. Directive last amended by Directive 92/12/EEC (OJ No L 76, 23. 3. 1992, p. 1).

[5] OJ No L 73, 19. 3. 1976, p. 18. Directive last amended by Directive 92/108/EEC (OJ no L 390, 31. 12. 1992, p. 124).

[6] COM(94) 262 final.

2. DEVELOPMENTS IN ADMINISTRATIVE COOPERATION DURING 1994 AND 1995: AN EVALUATION

2.1. Community developments

2.1.1. The 1995 enlargement

One of the main tasks facing the SCAC and its Technical Sub-Committee during 1994 was to prepare for enlargement of the Community on 1 January 1995. The acceding Member States and the Community had to prepare to ensure that the transitional VAT arrangements for intra-Community trade could be properly applied from the date of accession. This task principally fell to the new Member States themselves, but the SCAC still had to ensure that Austria, Finland and Sweden were connected to the VIES network and the system was adapted for the enlarged Community.

The VIES was successfully made available for testing by the three new Member States and the Community of 12 from the first week of December 1994, and was fully operational for the Community of 15 from 1 January 1995.

2.1.2. Anti-Fraud matters

In 1992, the SCAC had set up an Anti-Fraud Sub-Committee whose purpose was "to examine the existing legislative, administrative and technical arrangements - already in existence and/or in the course of development within the Community - for anti-fraud activity in the field of indirect taxation." At the time, the Commission had recommended that the Member States adopt a more strategic and operational programme for the fight against fraud, but this was rejected by some Member States. During 1994 the Sub-Committee met only twice and it did not meet at all during 1995. The activity at its meeting in December 1994 was limited to cases of VAT fraud, provided by a few Member States.

In practice, the work of the Sub-committee in its early years concentrated on the installation of a computerised network (Fiscal SCENT) in the Member States and on the training of national officials in its use. Although all Member States are now connected to the network and despite the training of officials, it is clear that with a few exceptions, very little use is made of the network for the communication of messages between Member States. This suggests that the full potential of the system is not being exploited. This is particularly worrying as the purpose of the fiscal SCENT was to facilitate rapid and secure contacts between national services dealing with VAT fraud. In 1996, the Commission has relaunched its efforts to demonstrate the advantages of the system.

This lack of common activity in the fight against fraud on a Community level is regrettable. It stems partly from the limited terms of reference initially given to the Sub-Committee by the Member States, which fell well short of trying to formulate a Community strategy for the fight against fraud. In addition, the reluctance of some Member States to cooperate with one another on a multilateral basis in investigating suspected fraud also hampered the Community's ability to develop a coherent strategy. The Commission accordingly encountered problems in meeting its responsibility under Article 11 of Regulation (EEC) No 218/92 to pool Member States' experience concerning new means of tax avoidance and evasion.

However the SCAC has, during 1996, adopted the Commission's proposed new terms of reference for the Sub-Committee with the aim of encouraging and facilitating a greater coordination of Member States' efforts and resources in the fight against fraud. The relaunched Sub-Committee has adopted an ambitious work programme: to identify the aspects of the indirect tax system most sensitive to fraud; to evaluate the functioning and adequacy of the arrangements in place to tackle fraud and to maximise their effective use. For this work programme to succeed, all Member States will need to commit themselves to the exchange of information based on concrete investigation case studies. Only a real willingness to pool information will permit the development of a Community strategy, which is essential for the proper functioning of the internal market, to deal with VAT fraud.

The Commission has been informed on an *ad hoc* basis of cases which concern revenue loss of between 2 and 60 million ECU. It is clear from such cases that a need exists for a close coordination of the efforts of the national authorities in complex transnational cases. The assistance which the Commission can provide in coordinating Community action in this area is hampered by the lack of a sufficiently broad legal basis such as already exists in the fields of Customs and Agriculture.

2.1.3. Multilateral VAT control experiments

Companies trading in several Member States are normally treated as separate national entities for the purposes of VAT control. The Commission and Member States became concerned in 1994 that multinational companies were capable of exploiting any apparent differences in treatment by Member States' tax administrations to the detriment of fair competition and overall control. As multinational traders are responsible for large amounts of VAT, Member States need to give a high priority to the control of these traders.

In 1994 and 1995 the SCAC launched experiments, using Directive 77/799/EEC as its principal legal basis, with financial support from the Community, on the joint control of multinational companies.

The objective of the experiments was to test the effectiveness of the tools provided by the Community legislative framework for administrative cooperation in controlling multinational enterprises. The experiments also provided an opportunity to compare the different control methods in the Member States.

Certain Member States did not participate in the experiments, for a number of reasons. Some preferred bilateral rather than multilateral VAT control and some felt that they could not participate because of the involvement of the Commission. The national legislation of some Member States inhibited their participation, notwithstanding that Community legislation permits such activities.

As a result of the coordinated controls, those Member States that did participate reported that they had obtained a more complete knowledge and understanding of the activities of the traders controlled. Trade practices designed purely to maximise tax advantages were discovered. Indeed some administrations discovered activities of the traders which were previously completely unknown to them. The controls also confirmed that traders were exploiting the complexity and ambiguity of the transitional VAT arrangements and the different interpretations permitted to Member States.

The results of the experiments showed that the tools provided by the Community legal framework can be used to improve the control of multinational traders. They also, however, highlighted a number of legal and practical impediments to fully effective cooperation in the control of these complex, but not unusual, trading activities. The SCAC adopted a first set of general guidelines to be followed for future multilateral VAT controls.

The Commission will, in the short term, continue to fund some experiments, to further demonstrate the necessity of multilateral, rather than national or bilateral VAT control, and to refine the guidelines already issued. Despite the evident success of the two experiments, however, Member States have yet to undertake such multilateral controls on their own initiative as part of their day to day control.

The Commission believes that, to meet the challenges posed by such traders, these controls should become a common part of national control strategies. In addition, the Commission believes that those Member States who have not taken part in the experiments to date should do so as soon as possible.

2.1.4. Mutual assistance on recovery

It has been clear for some time that there were shortcomings in the functioning of cooperation under Directive 76/308/EEC, which provides for mutual assistance between Member States in the recovery of VAT claims. The number of claims for which assistance is requested is very small and Member States acknowledge that the success rate in recovering the often significant amounts of tax outstanding are well below what should be expected. The Commission, with the help of the Member States, undertook an extensive analysis of the causes of these problems. The results of the Commission's analysis, broadly endorsed by the SCAC, identified five main factors behind the shortcomings:

- wide divergence between Member States' national recovery powers;
- lack of equal legal treatment between inter-Member State claims and domestic claims;
- low priority given to recovering claims for other Member States.
- slow, complicated and poorly understood mutual assistance arrangements and;
- the sheer difficulty of tracing some debtors;

The Commission will make proposals in early 1997 to improve the functioning of the Directive. This will also have to be backed up by a sustained effort from the Member States both to make greater use of the Directive and to give higher priority to responding to requests made under it.

2.2. Administrative cooperation at Member State level

2.2.1. Use of the tools of cooperation

The purpose of the Community arrangements for administrative cooperation put in place by Regulation (EEC) No 218/92 is to avoid tax revenue losses for Member States. Article 4(2) of the Regulation provides information on request to a Member State about whether one of its traders has made intra-Community purchases during a particular quarter. Article 4(3) of the Regulation identifies the suppliers from which the purchases have been made. The aggregated form of Article 4(2) data is also exchanged automatically between Member States at the end of each quarter by the VIES. Member States can also, under Article 5 of the Regulation and Article 2 of Directive 77/799/EEC, make more specific requests for information, for the purpose of control of particular traders, relating for example to the invoice numbers, dates and values of individual transactions. The use of Articles 4(2), 4(3) and 5 of the Regulation by Member States are the key elements in the control of traders engaged in intra-Community trade.

At the time of the adoption of the transitional VAT arrangements, the Community did not lay down any particular single control methodology or method of exploiting the VIES data and other opportunities to gather information. Each Member State retained the right to control its own traders in the way which it deemed appropriate. Nevertheless, the Community has, in the context of the Matthaeus-Tax programme[7], fostered a debate on the methodology of control of intra-Community trade. The programme has provided opportunities for Member States to compare approaches to VAT control generally and the intra-Community trade and the use of the VIES in particular and to identify best practice.

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[7] OJ No L 280, 13. 11. 1993, p. 27. Further details of the programme can be found in the Commission reports to the Council and the European Parliament (COM(95) 663 final) and COM(96) 543 final).

Early in 1993, in an effort to evaluate the effectiveness of the use to which the VIES data is put, the Commission asked Member States to provide details of additional tax discovered because of the information exchanged over the VIES. At the time, most Member States were unwilling (or unable) to provide this information, though they did agree to report to the Commission the number of cases in which further control action was taken arising from information exchanged over the VIES; nevertheless even now, only two or three Member States regularly provide this information. Accordingly, the Commission can only evaluate the Member States' exploitation of the administrative cooperation framework by examining their use of its key elements which consist of requests made under Article 5 of the Regulation and Article 2 of the Directive, and enquiries made under Articles 4(2) and 4(3) of the Regulation.

Figure 1: Number of requests made per quarter during 1994 and 1995 under Article 5 of Regulation (EEC) No 218/92 and Article 2 of Directive 77/799/EEC

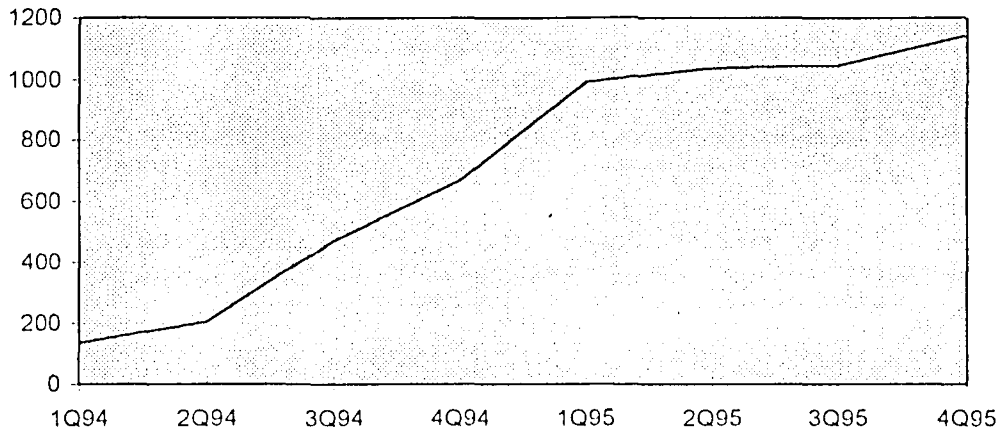
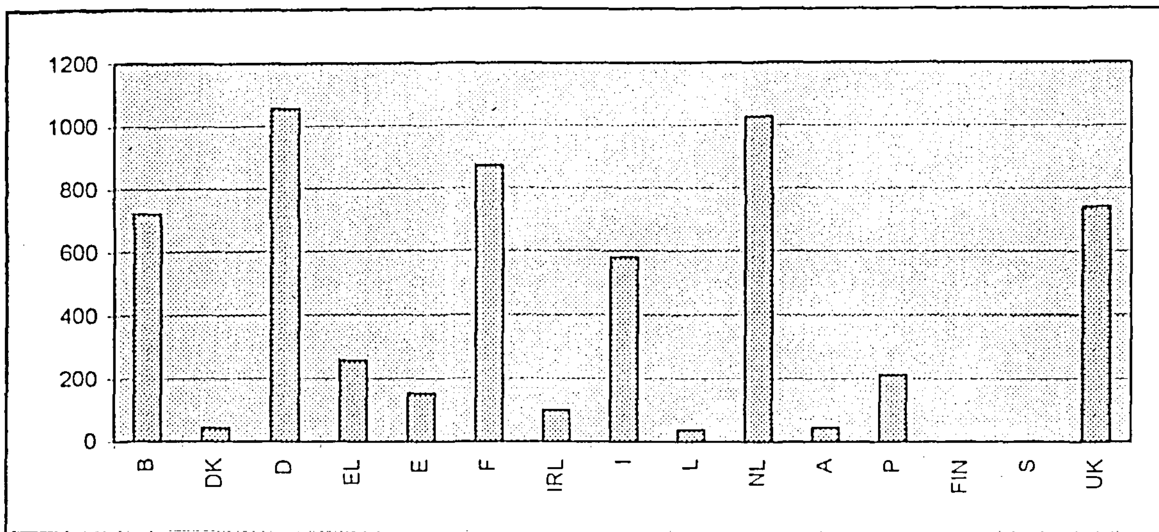


Figure 1 above indicates a gradual increase in the use of requests for information by Member States. However, the number of requests which have been made is only a fraction of the tens of thousands of requests per annum which Member States themselves estimated in June 1993.

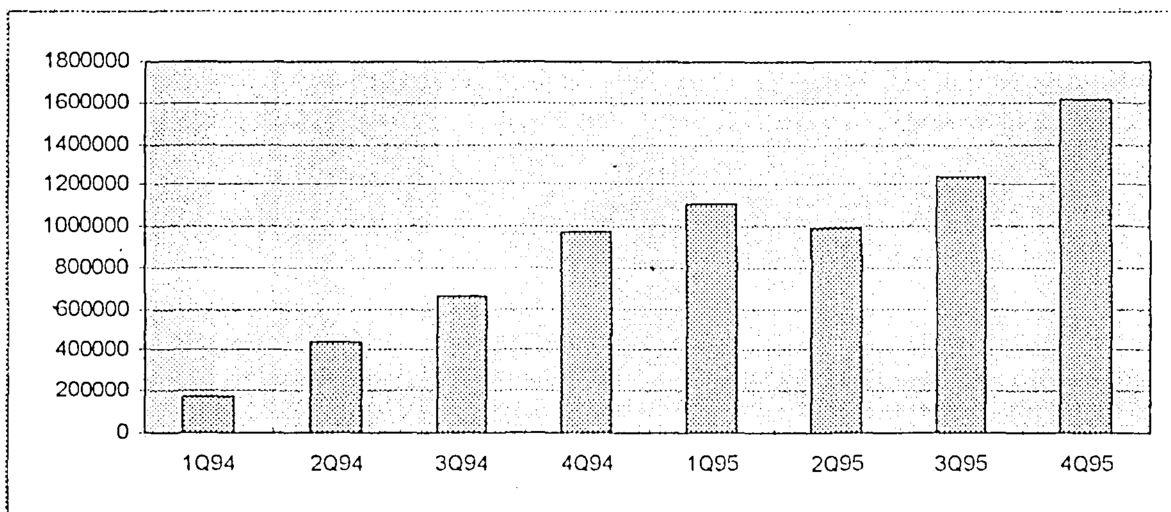
Figure 2 below analyses the number of requests made by each Member State.

Figure 2: Number of requests per Member State made during 1994 and 1995 under Article 5 of the Regulation and Article 2 of the Directive



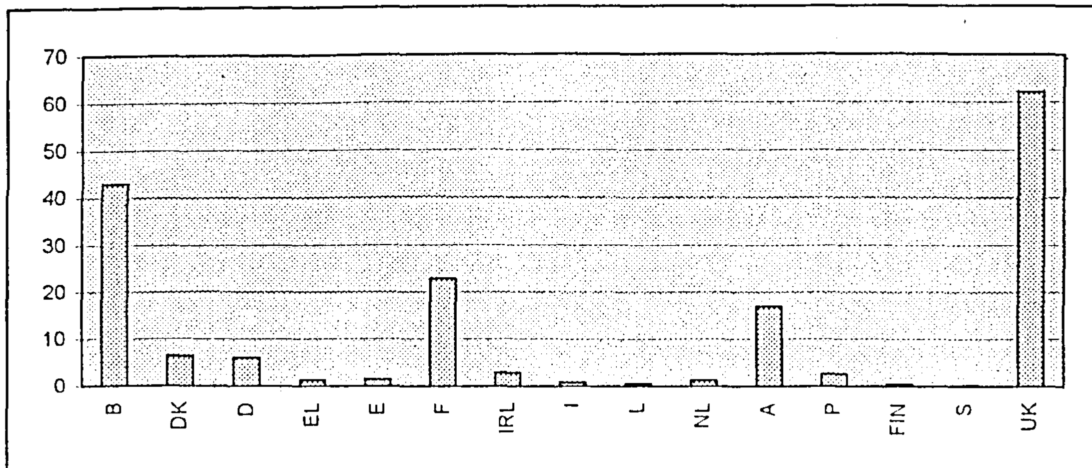
The overall growth in the number of Article 5 requests with marked differences between Member States is mirrored in the increase in enquiries under Article 4, as can be seen from figure 3 below. As a prerequisite to making a request under Article 5 of the Regulation, Member States must first use the possibilities provided by Article 4.

Figure 3: Overall growth during 1994 and 1995 in the number of enquiries made under Articles 4(2) and 4(3) of the Regulation.



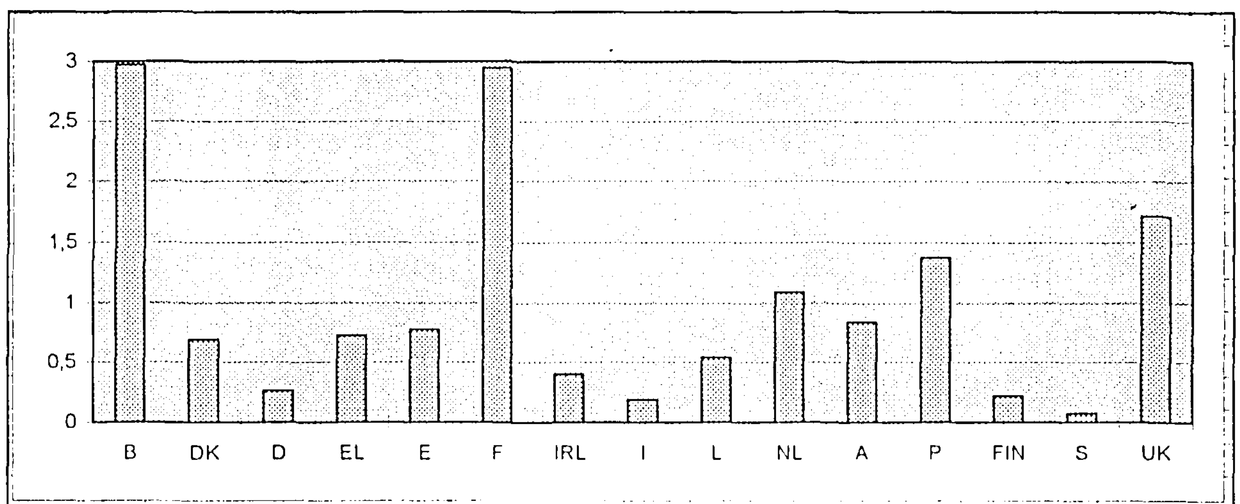
The overall picture for the steady development of administrative cooperation shown in figures 1 and 3 is to be welcomed. The steady growth in the use of the VIES facilities and the gradual increase in the number of Article 5 and Article 2 requests reflects the growing importance of administrative cooperation in the control of intra-Community trade. But, as figures 4 and 5 below demonstrate, this overall growth masks sharp differences between Member States in their use of the Article 4(2) and Article 4(3) instruments.

Figure 4: Number of enquiries made by each Member State during 1994 and 1995 under Articles 4(2) and 4(3) of the Regulation per trader in that Member State making intra-Community supplies.



Many of the requests made under Article 4 of the Regulation are made to confirm that the trader in the requesting Member State did not make any intra-Community acquisitions. This is also a valid method of exploiting the VIES data. Figure 5 below indicates Member States' use of Article 4(3) of the Regulation to control those traders making purchases from other Member States.

Figure 5: Number of enquiries made by each Member State during 1994 and 1995 under Article 4(3) of Regulation (EEC) No 218/92, per trader making intra-Community purchases in that Member State.



The conclusion that can be drawn from figures 1 to 5 above is that, while the use of the administrative cooperation arrangements is certainly increasing, its use is not sufficient to control intra-Community trade adequately in all Member States. The low use of the VIES facilities in some Member States may be attributed to a number of factors. Clearly the extent to which control officials have access to the system is important. Although the

VIES data is potentially accessible through more than 55.000 terminals within the Community, some Member States allow only limited access to their officials. This also tends to explain the corresponding low use of the facilities offered by Article 5 of the Regulation and Article 2 of the Directive.

Based on the evidence of the use of the VIES and the best practice that has emerged from the Matthaeus-Tax programme, the Commission believes that the most effective approach to VAT control is an integrated one, using the VIES data as one input among others. Firstly, by using the automatically exchanged data to inform risk analysis designed to identify the traders or categories of traders to be controlled. Secondly, by making enquiries under Article 4 of the Regulation as part of the information gathering effort prior to or following a control of a specific trader. And finally, to use the provisions of Article 5 to obtain information on specific transactions.

A high standard of VAT control requires the use of administrative cooperation to be more widespread in the Member States and thoroughly integrated into national control strategy. Administrative cooperation should not be a specialist function. Those Member States who do not allow their ordinary control officials access to the enquiries facilities of the VIES should do so. Information about the intra-Community purchases of a trader should be seen as another piece of the national control jigsaw, without which control is incomplete. This approach entails extensive use by ordinary VAT control officials of the specific enquiry and request opportunities provided by the Community. Figures 3 to 5 clearly show that certain Member States have followed this approach a great deal more than others. Those Member States which make little use of the opportunities provided by the tools of administrative cooperation can not have such a complete picture of their traders.

Member States still have much to do to make administrative cooperation more widely known within their administrations. Even in those Member States where use of the system is well established, it is still not uncommon to find national officials in Member States who are unaware of the opportunities to request information from other Member States, to help them deal with particular problems they encounter either during routine VAT control or in the course of anti-fraud activities. Extensive training is clearly needed in the use and exploitation of the VIES data and other cooperation opportunities.

The Community also has a role to play in making national officials aware of the Community dimension of their work, fostering mutual confidence between officials of different national administrations and making cooperation as user-friendly and low in opportunity cost as possible. This means equipping them with the skills and infrastructure needed to cooperate and encouraging a habit of doing so.

Low use of the instruments of cooperation raises serious questions about the overall credibility and effectiveness of some Member States' control of VAT on intra-Community trade. The establishment of the VIES and Regulation (EEC) No 218/92 (adopted by unanimity) were originally seen by all the Member States as essential to the effective control under the transitional VAT arrangements. The setting up and running of the infrastructure has required significant investment from the Community and the Member States in terms of human and financial resources and the obligations on traders to file quarterly recapitulative statements imposes a considerable burden on them.

2.2.2. *Member States' role in collecting data*

Under Article 4 of Regulation (EEC) No 218/92, Member States "shall ensure that their data bases are kept up to date, complete and accurate". The Commission has constantly pressed the Member States, in the SCAC and in the periodic meetings of the Heads of national Central Liaison Offices (CLOs), to improve the completeness and accuracy of the information which they collect and exchange.

During 1994 and 1995 the compliance rate for recapitulative statements reached 95 % (number of statements received from traders compared with the number of statements estimated by the tax administrations to be due). Over this period, 1,5 % of the reported information[8] could not be exchanged because it was regarded as incorrect, as the purchaser's VAT identification number declared by the supplier did not correspond to the rules governing construction of such numbers in the Member State of the purchaser.

Such rates of compliance and accuracy are a considerable and welcome improvement on performance in the early months of the system and reflect a real effort on the part of national administrations and intra-Community traders. Nevertheless, for as long as the data collected is not complete and accurate, Member States must do all in their power to improve quality by streamlining their own management of their databases, sustained trader education and, where necessary, the application of penalties.

2.2.3. *Central Liaison Offices and their role in meeting deadlines*

Regulation N° 218/92 EEC provides for the setting up in each Member State of a Central Liaison Office (CLO). The legislation does not lay down detailed requirements for the constitution of CLOs, but at a very early stage, the Commission and the Member States agreed a set of guidelines setting out their main functions and objectives. These were principally to act as the normal channel of communication between competent authorities; to manage the flow of cooperation and assistance between Member States; to monitor the quality and pertinence of requests for assistance and of the responses to them and to supervise the respect of deadlines. In short, the CLO should act as a single point of contact, through which other Member States can rely on obtaining effective and timely assistance with any matters relating to VAT control and cooperation. It is important that CLOs should have the resources, powers and the expertise needed to provide that service.

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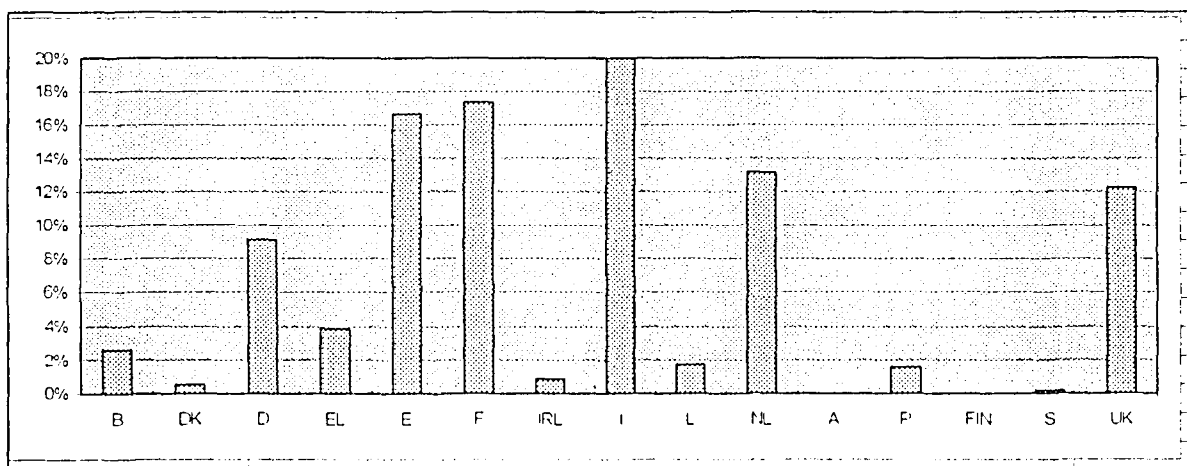
[8] 35.000.000 lines of data were reported by intra-Community suppliers.

Article 5 of Regulation (EEC) No 218/92 states that "The requested authority shall provide the information [requested by another Member State] as quickly as possible and in any event no more than three months after receipt of the request." No such deadline exists for requests under Directive 77/799/EEC, but in 1994 the SCAC decided that requests made under Article 2 of the Directive would be subject to the same time limit of three months which applies to requests made under Article 5 of the Regulation. This decision provided for a streamlining of procedures applying in Member States to the management of requests and replies under the two legal bases.

There has been a steady increase in the number of requests made under these legal bases, as can be seen from figure 1 above. This increase in the number of requests made has unfortunately been matched by a similar increase in the number of requests outstanding for which the **maximum** 3 months deadline has expired. The Commission and the member States have been keeping a close watch on these developments, both in the SCAC and in meetings of the Heads of CLO; there is clearly a danger that an unmanageable backlog could build up, to the detriment of effective VAT control, if corrective action is not taken in time.

Figure 6: Proportion of overdue replies to requests under Article 5 of the Regulation and Article 2 of the Directive outstanding as at 31 December 1995 per requested Member State



The problem of overdue replies is partly due to the fact that requests are becoming ever more complex and accordingly take longer to answer. However, that tendency is unlikely to change and Member States must take account of it in their planning. In practice, differences in the organisation and staffing levels of CLOs between Member States have led to a variation in the level of service they are able to provide which can create difficulties for the smooth operation of administrative cooperation. There are strong indications that, rather than acting as a conduit, some CLOs at least appear to be causing bottlenecks in communication as can be seen from figure 6 above. A further problem is created in certain Member States by the fact that different parts of the administration are competent in respect of VAT, and while the CLO may be competent for dealing with

requests under the Regulation, it may not be competent to deal with similar requests made under Directive 77/799/EEC. In the Commission's view, this division of tasks undermines the complementarity which is explicitly intended in the Community legislation. It also undermines the advantages that result from having a single contact point.

CLOs will only be able to provide their colleagues in other Member States with the service which they expect and are entitled to receive, if they can secure an adequate response, in terms of allocation of resources and priorities, from their own control administration at the appropriate level. Member States which do not reply to requests in time must empathise with the control official in the requesting Member State who may be depending on the reply to resolve a problem which he has encountered. Missed deadlines can lead to missed opportunities for effective control and recovery of the tax.

Despite the potential improvements identified at meetings of the heads of CLOs, held under the Matthaeus-Tax programme, these organisational and staffing differences are continuing to hamper the development of administrative cooperation and need to be addressed by the Member States.

In particular, therefore, administrations need to consider the adequacy of resources within CLOs; the degree of priority given at local level to requests for information from other Member States; the level of human resources assigned to such work at local office level; the requirements for training in the use of the system and for an understanding of the needs of other Member States; and language training to overcome communication difficulties.

3. CONCLUSIONS AND RECOMMENDATIONS

3.1. Conclusions

A substantial effort has been made at Community level, in the SCAC and in periodic meetings of heads of national CLOs, to monitor closely and stimulate the development of administrative cooperation. These efforts have yielded valuable benefits. Administrative cooperation is gradually becoming more commonly used; a number of Member States have begun to integrate it into their national control strategy. In some cases, Member States have also reinforced their administrative structures to meet the increase in demand which has taken place.

The completeness and accuracy of the VIES data have significantly improved since 1993. Technically, the VIES has continued to function to a very high standard. It offers fast and secure access to large quantities of data regularly collected from intra-Community traders. The information made available fulfils a real control need. The expansion of the arrangements to implement the enlargement of the Community in 1995 was a success from the technical and organisational point of view. A start has also been made in promoting multilateral VAT control.

However, in spite of these improvements, the situation is clearly not satisfactory, even if that is to a large extent due to the taxation system itself and to the shortcomings of the 6th VAT Directive. The differences in its transposition and application by the Member States and the complexity of its rules are causing problems for administrations and traders alike and the experience gained during the multilateral VAT control experiments indicates that traders are exploiting these differences. To provide a solution to such fundamental problems, the Commission has proposed a complete overhaul of the Community VAT legislation[9].

Such a move will not, however, happen overnight. And in a number of important respects, there is still a great deal more that Member States could and should do to enable the fullest possible benefit to be drawn from the existing Community framework. As administrative co-operation becomes an increasingly vital link in the VAT control chain, failure to make the fullest possible use of it would pose an unacceptable threat to the integrity of the VAT system itself. There is a need not only to make better use of the possibilities offered by the existing framework but also to construct a new infrastructure for the further development of the tools and activities needed to make administrative cooperation a daily reality throughout national administrations. As a first stage the Commission will shortly be putting forward a proposal for an action programme to reinforce the functioning of the indirect taxation systems of the internal market. This programme will also provide a new legal and budgetary basis for Community funding from 1998 of the VIES, and other information exchange and communication systems necessary for administrative cooperation.

3.2. Recommendations

- Member States must do more to ensure the fullest possible integration of the control of the taxation of intra-Community trade into their national VAT control strategies and the methodology of all their control staff, rather than treating it as a specialist expertise. This entails giving a greater priority to the use of administrative cooperation.

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9 A Common system of VAT - A programme for the Single Market (COM(96) 328 final).

- To this end, the use of the specific enquiry and request opportunities provided (at substantial cost to traders and national administrations) should be more widespread. Similarly multilateral VAT controls - not just experiments, which have already proved their worth, but real operational controls should become a common part of national control strategies.

- The Community, in partnership with the Member States, also has a duty to encourage the development of administrative cooperation. More must be done on a Community level and in the Member States to make national officials aware of the Community dimension of their work; to foster mutual confidence between officials of different national administrations; to make cooperation as user-friendly and low in opportunity costs as possible.

- Member States must make greater efforts to ensure that all their traders making intra-Community supplies make timely and correct declarations, and must reconsider the adequacy of their enforcement and penalty policies for non-compliant traders.

- Member States must invest more resources to enable them to answer requests for assistance as soon as possible after they have been received from other Member States. Organisational and staffing difficulties in certain CLOs need to be urgently and vigorously addressed.

- Member States must commit themselves to pool information on concrete investigations of fraud at Community level. Only this will permit the development of a Community strategy against fraud of any real substance.

- The Commission and Member States must make a greater effort to increase cooperative activity in the detection and prevention of fraud. The lack of complete information at Community level allied to the limitations of the existing framework for dealing with complex transnational fraud represents an area of risk that must be faced up to.

- The Community will need to take the necessary legislative and administrative measures to improve the arrangements for administrative cooperation on recovery. These will need to be sustained with a greater effort from the Member States to use the arrangements and fulfil their responsibilities under them.

Cooperation is a positive sum game. Effective action by all Member States in each of these areas would greatly enhance the ability of the Community as a whole to meet the challenges facing administrative cooperation, both now and in the years ahead. With the introduction of the new common VAT system for the single market, administrative cooperation will become even more central to VAT control. A level of cooperation between all the Member States will be required, at least equivalent to that currently achieved within each Member State. It is vital that the new tools and methodologies that will be needed should meet with a readiness on the part of all Member States to use them together and to integrate the Community dimension into their national strategies. The experience and achievements to date provide a firm foundation to build on.

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