



COMMISSION OF THE EUROPEAN COMMUNITIES

Brussels, 20.07.1995

COM(95)354 final

**VAT Collection and Control Procedures  
Applied in Member States**

**2nd Article 12 Report**

# VAT Collection and Control Procedures Applied in Member States

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### INTRODUCTION

#### 1. THE UNION SYSTEM OF OWN RESOURCES

The Community own resources Decision<sup>1</sup> stipulates that own resources are constituted by the revenue from

- i) agricultural and sugar levies;
- ii) customs duties;
- iii) "the application of a uniform rate[...]to the *VAT assessment base* which is determined in a uniform manner for Member States [not exceeding for any Member State 55% of its GNP]"
- iv) "the application of a rate to the sum of all Member States' GNP (Directive 89/130<sup>2</sup>).

The relative shares of each resource in Community finances is illustrated in Table 1).

Own resources arising from VAT remained the main own resource for the Community in the three-yearly period covered by this report. Table 2 shows the amounts of VAT resource paid by Member States to the Community budget.

#### 1.A. Traditional own Resources: Information on collection and control procedures and results

Traditional own resources (items i and ii above) are levied by Member States on behalf of the Community. The rules for determining the Community entitlements pursuant to these resources is laid down in Council Regulation 1552/89<sup>3</sup>. Regulation 1552/89 also defines the reports and information that Member States shall send to the Commission to enable it to exercise its powers and responsibilities in managing the own resources system.

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<sup>1</sup> Council Decision (88/376/EEC, Euratom) OJ L185/24 of 15 July 1988 on the system of the Communities' own resources. According to the new OR Decision of 31 October 1994 (Council Decision 94/728/EC, Euratom) the ceiling on the uniform rate will be reduced from 1.4% to 1% in equal steps between 1995 and 1999. Also for countries with a per capita GNP of less than 90% of the community average the assessment base for VAT would be limited to 50% of their GNP, rather than 55% as at present, as from 1995. For the other Member States this change would be phased in, in equal steps, over the period 1995-1999.

<sup>2</sup> Council Directive (89/130/EEC, Euratom, OJ No. L 49/26 of 21 February 1989) of 13 February 1989

<sup>3</sup> Council Regulation n° 1552/89 (EEC, Euratom, OJ No. L 155/9 of 7 June 1989) of 29 May 1989 implementing Decision 88/376/EEC, Euratom on the system of the Communities' own resources.

### **1.B. The VAT own resource: Information on VAT collection and control procedures and results**

As defined in Council Regulation 1553/89 of 29.5.1989 the VAT resources assessment base is calculated by dividing the *total net VAT revenue collected by a Member State during that year* by the [weighted average] rate at which VAT is levied during that same year<sup>4</sup>.

Regulation n° 1553/89 in its Article 12 also lays down that:

1. The Member States shall provide the Commission with information concerning the procedures which they apply for registering taxable persons and determining and collecting VAT and on the modalities and results of their VAT control systems.
2. The Commission shall consider, together with the Member State concerned, whether improvements to these procedures can be contemplated with a view to improving their effectiveness.
3. The Commission shall produce a report every three years on the procedures applied in the Member States and on any improvements contemplated.<sup>5</sup>

In adopting this Regulation, the Council made the following statement:

"The Council notes that the Commission intends, by the procedure proposed, to help overcome practical difficulties in the VAT collection and, through better circulation of information, to help the national authorities to combat cases, of fraud and irregularities involving VAT. The Council considers that this represents a constructive step in the strengthening of fraud prevention measures."

A first report was produced in February 1992. <sup>6</sup>

### **1.C. The GNP resource**

Directive 89/130 (the GNP Directive) lays down (Art. 3 par. 1) that Member States produce yearly their GNP according to the common definitions and rules contained in the same Directive (Arts. 1 and 2). Member States must also provide the Commission with the information necessary to show how GNP and its component elements have been derived (Art. 3 par. 2, Arts. 4 and 5).

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<sup>4</sup> Council Regulation (EEC, EURATOM) n° 1553/89 of 29 May 1989 on the definitive uniform arrangements for the collection of own resources accruing from VAT. Articles 3 and 4 of this Regulation (OJ N° L155/9-13 of 7.6.89) refer.

<sup>5</sup> Ibid., art. 12

<sup>6</sup> SEC(92)280 Final

The Commission is responsible for the verification of national GNP calculations, with the assistance of a management committee, chaired by a Commission representative. In this committee questions relating to the correct implementation of the Directive, statistical sources, GNP calculation methods and the measures for enhancing exhaustiveness and comparability are examined.

## 2. THE VAT RESOURCE

### 2.A. The VAT resource and Member States' VAT

Following the calculation method stipulated in Article 1 and specified in Articles 3 to 6 of Regulation 1553/89 Community revenue accruing from the VAT resource shall be calculated by applying a uniform rate to the VAT base determined in accordance with this Regulation.

Except for deviations arising from namely capping, certain derogations under art. 28 of the sixth Directive, and special schemes for small undertakings, the VAT base is proportional to VAT revenue where the factor of proportionality is determined for each Member State by the inverse WAR <sup>7</sup>.

### 2.B. Effectiveness of VAT procedures and Community finances

Member States have a clear incentive to enhance the effectiveness of their registration, collection and control procedures since such initiatives will lead to higher compliance levels, increased revenue, and to improvements in administrative cost effectiveness. Enhanced effectiveness influences revenue both directly through short term yield and longer term via the deterrent effect that efficient administrations have on potential frauds and irregularities.

As stated in the Commission's first report divergences in national VAT administrations' effectiveness in collecting the tax and preventing fraud can distort the burden sharing of financing the Community budget in a number of ways,

- For example low efficiency in registration, collection, and control procedures could result in a revenue shortfall and, therefore, in a shortfall of the VAT resource. The shortfall must be compensated for with an increased call on the GNP resource, thus altering the relative shares of the VAT and the GNP resources. The additional call on the GNP resource is financed by all Member States. **The consequences of low efficiency in one Member State are therefore partly shifted to the other Member States in the form of increased VAT and GNP payments.** The shifting proportions vary according to each Member State's share in the VAT base and in GNP.
- The efficiency of VAT collection and control on import transactions is also correlated with that of collection of traditional own resources. A

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<sup>7</sup> Weighted average rate is referred to in Art. 4 of Regulation 1553/89.

reduction in VAT frauds and irregularities for imports is likely to result in increased revenue from customs duties and agricultural levies.

- Where tax statistics are used in order to estimate GNP, inefficiencies in VAT collection and control might have an effect on the calculation of the GNP basis.
- As described above, VAT assessment bases are capped where they exceed 55% of the Member State's GNP. If a Member state's GNP is understated because underground activity is insufficiently taken into account, then its VAT base may wrongly be capped. These possible **capping distortions** could also induce shifts in the relative burden of Member States.

Delays in collection as well as overuse of arrangements that defer the payment of VAT debt might also introduce distortions. If a VAT debt accrued in one year is collected one or more years later, then VAT assessment bases might vary unpredictably. To the extent that VAT bases are close to the capping threshold, **late collection may also lead to unwarranted capping and hence to reduced VAT resource revenue.**

The Commission, which is entrusted with the monitoring of transposition of Community legislation into national provisions, must therefore see to it that equivalent, high levels of administrative effectiveness are achieved by all Member States so that the distortions in the burden sharing resulting from differences in performance are reduced to a minimum.

### 3. STRUCTURE AND CONTENTS OF THE REPORT

This report is organised as follows. Having examined above the relevance of the efficiency of VAT procedures for own resources **Chapter 1** reviews the conclusions and follow up plan of the first report, and compares the evolution of Member States' VAT procedures by reference to them.

The first report recognised the importance of the economic and institutional environment for the structure and operations of the various VAT procedures. **Chapter 2** examines the evolution of some major indicators of Member States' VAT populations and of their administrative structures over the period 1992-1994.

While recognising the importance of all VAT procedures, the present report focuses the attention on the planning and undertaking of two of them: control (**Chapter 3**) and debt management (**Chapter 4**). These activities represent the core of VAT administration, and in these areas important developments have been achieved in recent years.

In order to ascertain that the changes introduced in administrative procedures actually produce the expected efficiency improvements Member States are increasingly equipping themselves with evaluation and monitoring systems. **Chapter 5** reviews these systems as they are applied to VAT control and debt management.

**Chapter 6** concludes with a brief overview of the possible evolution of the legal and institutional framework, advances a series of suggestions and, outlines a work plan for the next three years.

## CHAPTER 1

### FOLLOW UP TO THE FIRST REPORT

#### 1.1. SUMMARY OF THE COMMISSION'S WORK PROGRAMME

In the first report the Commission proposed a five point workplan. It was proposed that:

- i) Member States would regularly advise the Commission of changes to and results of their collection and control procedures (including specific measures against fraud);
- ii) similar to point (i) the Commission would make regular reports to the Member States;
- iii) the Commission would with the relevant Member States' agreement, distribute specific documentation and information received that could in its opinion contribute to improvements in other Member States;
- iv) the Commission would hold regular meetings with Member States to consider jointly the measures implemented following point (iii) above; and
- v) the Commission would organise seminars where considered appropriate to foster closer co-operation between Member States' Administrations and to promote a complete understanding of their respective procedures and practices

#### 1.2 SUMMARY OF SUGGESTIONS FROM THE FIRST REPORT

The report identified a number of suggestions that were summarised as follows:

One Objective: Enhance voluntary compliance

- Four ways:
- Reduce compliance costs (in particular through simplification)
  - Strengthen information and service to the taxpayer
  - Diversify audit programmes with both risk-led and broad visit plans
  - Further develop flexible, agile debt collection procedures

- Three rules:
- Comprehensive, balanced computerisation plans
  - Reinforced staff training programmes
  - Geographical and functional co-ordination between tax services within and across Member States

Detailed suggestions were made in the following five main areas:

- a) measures to promote taxpayer's voluntary compliance by minimising their compliance costs and giving them an image of commitment to a fair and efficient service;
- b) that the various enforcement measures should be oriented towards re-establishing voluntary compliance;
- c) that computerisation should gradually be applied to all procedures along the chain from registration to payment collection;
- d) that there should be re-organisation and rationalisation of registration and audit procedures by co-ordination with other fiscal administrations, government departments and public enterprises; and
- e) staff training programmes should be oriented towards enabling officials to keep abreast of changes in the legal and business environment.

### **1.3. IMPLEMENTATION OF THE WORK PROGRAMME**

The Commission implemented the work programme by means of seminars, bi-lateral meetings and videoconferences. It also produced a questionnaire to assist in the collection of information for preparation and inclusion in this report.

The Commission organised four VAT own resources seminars. The first was held in Brussels on VAT Debt Management and Enforcement (April 1993). The second was held in Bonn on Planning, undertaking and evaluating VAT Control (November 93). The third in Brussels was a review of the impact of the 1st VAT report (July 1994); and the fourth held in London (October 1994) dealt mainly with delayed payment arrangements and with the evaluation of procedures in terms of administrative and compliance costs.

The view of the Commission and Member States is that these seminars have provided a useful forum to foster closer co-operation and have presented the opportunity for all parties to discuss and exchange ideas and initiatives on good practice. Knowledge about practices and procedures has contributed to overall improvements in the collection and control of VAT and enhanced the fight against fraud.

Apart from these seminars, other initiatives also contributed to the achievement of the aims set out in this Report: the Matthaueus Tax Seminars in the field of VAT, the regular meetings of the Advisory Committee on Own Resources and the Standing Committee for Administrative Co-operation as well as an experiment in the control of multinational enterprises can be cited in the respect.

### **1.4. OVERVIEW OF DEVELOPMENTS IN MEMBER STATES SINCE THE FIRST REPORT**

Developments in Member States have been in general consistent with the orientations identified in the First Report, and even fully consistent for some of them (F, UK).

A good example is the dynamic area of computerisation where many large networks with modern audit software and sophisticated control programmes have been installed. The use of personal computers has sharply increased in the last two years with several Member States (D, DK, E, F, I, UK) equipping a large number of inspectors and audit staff with them. Luxembourg is actively planning their introduction for 1995.

The field of measures to promote voluntary compliance (see 1.2.(a) above) and in particular with regard to the simplification of procedures is one area where less improvement has been achieved. Two Member States (D, E) stressed the difficulties to minimise the number of changes to legislation given the need to adjust to changes in Community law. For the same reason Portugal stated it would find it difficult to group amendments. Reluctance was expressed by the United Kingdom and Ireland about establishing co-operation arrangements with professional associations concerning VAT registration formalities. They did not wish to delegate the right to refuse registration to an authority outwith their administrations. Such delegation was not provided in P, either. Germany stated that multi purpose forms, in order to be acceptable, should be clear to avoid confusing tax payers.

Portugal reported that revenue collection by financial institutions or post offices was not possible within its current legislation, Luxembourg pointed out that no competence has been attributed to such bodies.

The suggestions on enforcement methods (see 1.2.(b) above) were generally found by Member States to be in line with their current practices. The delegation of minor arrears collection to private collection companies was considered inappropriate by several Member States (E, DK, F, GR, P). Spain reported that while it did so in the past that it had recently taken over collection from private firms. By contrast those Member States who have adopted this suggestion find the arrangement satisfactory (I, IRL).

In the area of computerisation (see 1.2.(c) above) the Commission's orientations were fully in line with Member States' developments or plans. The United Kingdom reported that whilst it had no specific plans regarding a single identification code for traders it was creating a unique number for all those under Customs & Excise responsibility.

Member States reported that they were in line with the orientations in the areas of re-organisation and rationalisation of procedures and staff training.

## 1.5. EXAMPLES OF SIGNIFICANT INITIATIVES OR PRACTICES

Several Member States reported initiatives or practices which are worthy of note some of which will be presented in more detail in the following chapters.

### Legal data bases

Legal data bases have been developed which contain a wide range of advice and legal precedents. They operate on a subscriber basis and are used extensively by practitioners who tend to be the main interface between the tax payer and the Administration (D, F).

### **Multi-tax control**

It is widely recognised that problems in one tax area often have implications for another. Joint control of taxes enables inspectors to have a global picture when auditing or inspecting businesses and this has been reported to improve allocation of control staff resources (DK, D, F, IRL, NL). A joint tax approach has also been reported useful in offsetting debts from one tax area against repayments in another. Belgium is currently planning to merge the administration of VAT and direct taxation; this should facilitate the development of multitax control.

### **Enforcement**

Two very proactive control practices were reported:

- i) Administration staff will often contact businesses by telephone when a payment of tax is not received timeously. If the explanation given is not sufficient recovery action is initiated immediately (DK, UK).
- ii) For certain types of businesses where there are persistent enforcement problems the administration may consider instructing public bodies to withdraw their special authorisations without which they may not trade (D, DK). (See chapter 4).

### **Simplified collection methods**

A system to facilitate tax payments either directly to the central bank (F) or through financial institutions which in turn forward the tax directly to the central bank is operating in several Member States (E, IRL, I, L) in order to simplify the collection procedures and to ensure that taxes are brought to account more swiftly. (See chapter 5).

### **Payment by credit card**

The acceptance of payments of tax liabilities by credit card to foster prompt payment is currently being considered by Italy.

### **Computerisation**

France has a national real time system (MEDOC) for the control and management of taxes thus ensuring that information concerning traders is as up-to-date as possible and is available to staff at a local level.

Computer software which is capable of measuring costs of control and thus influencing the use of resources in the most effective manner is used by several Member States (E, P, UK). In most cases there is a range of performance measures and indicators in use. (See chapter 5).

## CHAPTER 2

### CHANGES IN VAT ADMINISTRATION IN MEMBER STATES SINCE THE FIRST REPORT

#### 2.1. VAT IN MEMBER STATES' FINANCES

A review of the relative proportion of national tax revenues contributed by VAT indicated that VAT's share in national tax revenue was in 1992<sup>8</sup> highest in Greece (26%), Ireland, United Kingdom (over 20%) and lowest in Italy (under 15%). Given that the level of fiscal effort (taxes and social charges as percentage of GNP) ranged from 34% in the United Kingdom to 48% in Denmark and Luxembourg, VAT collection as percentage of GNP was highest in Greece and Denmark (10,7% and 9,3%), whereas in all other Member States it remained below the 8% level. [Table 3]

#### 2.2. TAXPAYER CHARACTERISTICS

The First Report recognised that the structure and effectiveness of VAT administration are greatly influenced by the characteristics of the taxpayer population. This is why the main characteristics rendering administrations' performance easier or more difficult are taken up again, notably the number of taxpayers, their size, their business activities and their geographical distribution.

The number of traders registered for VAT purposes has increased in all Member States since the first report (Table 16). Consequently, tax administrations have to face a continuous process of adaptation to optimise the use of their resources.

Compared to the situation reviewed in the First Report the size distribution of firms has most significantly changed in Belgium, Italy and the United Kingdom as well as in Germany due to the reunification. Belgium has increased its relative shares of both micro-sized firms and large firms. Italy has had a reduction in the number of small enterprises. In Italy the number of micro-sized firms has reduced as well, relatively easing the administration of VAT. The United Kingdom has significantly increased its relative share of micro-sized firms; the number of taxable persons has been low. (See Table 4).

The proportion of businesses in "sensitive"<sup>9</sup> sectors which are difficult to administer although diminishing in most Member States (most remarkably in NL, but also significantly in D and L), has slightly increased in the United Kingdom. The percentage of "sensitive" firms remains highest in Italy (82%) with Belgium, Spain, Luxembourg, Portugal, and United Kingdom showing levels around 75%. On the

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<sup>8</sup> 1991 for DK, GR, IRL, L, P

<sup>9</sup> Categories 5, 6, 7 and 9 of NACE have been considered "sensitive" sectors. These include buildings and civil engineering; distributive trades, hotels, catering, repairs; transport and communication; other services. See Tables 4,5.

contrary, both the Netherlands (60%) and Germany (66%) have a relatively large "non-sensitive" taxpayer population (see Table 5). The turnover breakdown between "sensitive" and "non-sensitive" sectors may have still more relevance. Amongst those Member States where data are available (B, DK, D, F, I, P), Denmark shows the highest concentration of turnover in "sensitive" sectors (64%) followed by Belgium and Italy, the remaining three showing ratios of 50% or less.

### 2.3. FUNCTIONAL STRUCTURE

As already stressed in the first report, there remain differences in tax administrations' functional structure. However, there seems to be a tendency in Member States to unify direct tax and VAT tasks in one department (D, DK, E, IRL, I, NL, planned in B).

In relation to the apportionment of responsibilities for transactions depending on their origin (domestic, intra-Community or third countries) the same administrations and departments are competent for administering registration of taxpayers, tax assessment and control. However, certain Member States have provided the intervention of special services and units for VAT on imports (E, F, IRL, I, NL, P). The Netherlands have also created a central unit supporting the control of intra-Community transactions.

Concerning recovery and enforcement, the use of specialised services and departments has been increased in Member States. In Italy arrears enforcement is now delegated to factoring companies ("concessionarii").

### 2.4. THE RESPECTIVE RESPONSIBILITIES OF CENTRAL AND LOCAL OFFICES

The trend to apportion more responsibility from headquarters to local VAT offices these being nearest to the trader and his socio-economic field of activities, is indicated in Table 6.

Most Member States centrally formulate their annual statements of priorities, establish national objectives, and provide technical guidelines and computer support to local managers. However, increasingly debt enforcement decisions and the choice of those taxable persons to be controlled and the duration and depth of the control is being left to regional or local managers.

#### 2.4.1. Central responsibilities

A number of key roles are centrally administered in most Member States which include

- The determination of the national control resource available (e.g. an assessment of the available working capacity) and the manner in which it will be allocated to different regions (e.g. number of taxpayers per region).
- Making available general methodology guidelines, e.g. highlighting developments such as the opening of fiscal frontiers on 1.1.93 (F), and other economic or legal developments.

- Monitoring the quality and effectiveness of the regionally undertaken tax collection and control procedures (see chapter 5).
- Determining the broad sectors and activities that control should concentrate on (E, I). Trade sectors particularly susceptible to fraud or that have a strategic economic importance (e.g. banks in D) are identified. Identified trade sectors are also closely monitored regarding debt collection (see chapter 4).
- Planning nationally a proportion of the control resource to be used to check taxable persons undertaking intracommunity transactions (B, I), or to give central advice for local controls (F).
- Setting up teams with expertise in areas such as monitoring and combating tax fraud. This role might involve
  - gathering all documentary evidence on fraud
  - co-ordinating measures for investigating and following up cases
  - taking direct action in serious cases of persistent fraud
  - and co-ordinating and establishing the criteria that might be used in inspection measures regionally or locally to uncover fraud.

In this regard France produces annually a comprehensive overview of the various types of fraud coming to the attention of the departments responsible for control. Each year about 100 entries on fraud techniques, most relevant to VAT, are produced. In Greece special attention is given to taxable persons who have established false invoices. Once detected they are centrally listed and communicated to all regional control services.

#### **2.4.2. Local responsibilities**

The key responsibilities exercised by the centre in the Member States are nevertheless being increasingly matched by the responsibilities at the regional or local level. The increased delegation of responsibilities has arisen as Member States recognise the value of planning and undertaking control and enforcement tasks closer to the taxpayer. In doing so they have capitalised on the opportunities offered by the many recent technical advancements in computerisation, which make co-ordination easier.

Even in those Member States where the degree of centralised planning is the most significant there is always an important role for the regional offices such as:

- The selection regionally or locally of local programmes or taxable persons using local research and the knowledge of the local officials. Such programmes are intended to reflect the specific characteristics of taxpayers in respective areas. Local and regional selection programmes are often be joined with any central programmes prior to the issuing of an agreed 'national plan' (E).
- in circumstances where a list of taxpayers is provided to local managers for control (either on the basis of statistical/economic reviews or returns

checking) or for enforcement most local offices retain a considerable degree of autonomy in determining cases to be pursued (B, GR).

- Decisions on arrangements to delay payments up to a certain level (see chapter 4).
- In some Member States (D, DK, F, NL, UK) there exists a greater responsibility at a local level to select those traders for control and to follow up recovery of VAT debt on the basis of locally determined criteria. This is done within centrally agreed budgetary and staffing allocations (UK). Furthermore Denmark and the United Kingdom set revenue and results targets for each regional/local office.

## 2.5. HUMAN RESOURCES, TRAINING AND COMPUTERISATION

Organisational differences and particularly the trend towards multi-tax administrations in Member States make it difficult to assess and compare the staff and resources allocated to VAT administration tasks and are an obstacle to the comparison of resources in Member States' administrations (see Table 7). When comparing the evolution of staff since the First Report it can be noted that:

- the number of controllers has increased in Ireland and Luxembourg;
- the general staff resources have remained stable in Greece, France (DGI), Italy and the United Kingdom;

The controls at internal frontiers and the transitional VAT regime have not resulted in significant changes in staff levels.

The increase in the number of registered taxable persons and the increased complexity of the tasks entrusted to the VAT administration including the transitional VAT arrangements, together with limited increases in human resources has led all Member States to attach increasing importance to improving productivity by training and computerisation.

As concerns training all Member States run training programs for new recruits and continued programmes on new legislation and other relevant issues for more senior staff. The duration and coverage of those programs, as well as the mix of courses and on-the-job training continue to vary widely across Member States (see Table 8,9). General and specific VAT training is organised by administrations on central and/or local level.

Increasingly, the importance of Community issues and anti-fraud training (F, NL) is recognised and reflected in special training programs.

In all Member States computerisation has been further developed as shown in Table 10. Procedures of registration and of control of missing declarations have been computerised, the other procedures enjoy full automatisisation in most Member States.

Use of expert systems for control and selection of taxpayers to be controlled is made or contemplated in the majority of Member States. (Annex 7)

## 2.6. COST-EFFECTIVENESS AND EQUALITY OF TREATMENT

All Member States pursue as general objectives of VAT administration the maximisation of the collection of (short-term and longer-term) VAT revenue. All aim at maximising levels of voluntary compliance, and minimising and deterring avoidance and evasion, particularly by detecting and repressing the most complex fraud cases.

**Revenue maximisation** or efficiency is best served by allocating resources to detect and correct the groups of traders for which the expected increase in tax liability is highest. Risk analysis techniques are increasingly used by all Member States to help attain this objective. Revenue maximisation may also help the administration to project an image of efficiency and hence deter avoidance and induce voluntary compliance.

Administrations that emphasise the efficiency objective tend to establish high registration thresholds, and produce targeted, risk-based control and debt recovery plans.

**Extensive coverage** implies ensuring that all taxpayers regardless of their size, activity or location have a similar probability of being audited and enforced by the administration. Low registration thresholds, broad control programmes based on the "control cycle" (the average frequency of controls for a typical firm) and systematic pursuit of all debts, are meant to serve this objective and help deter taxable persons from future non compliance.

Member States' registration, assessment, collection and control plans are influenced by a trade-off between these two major, more specific objectives. While all Member States pay attention to both objectives, Denmark, the Netherlands and the United Kingdom place emphasis on the maximisation of results while Belgium emphasises more exhaustive treatment of all taxpayers.

## CHAPTER 3

### PLANNING AND UNDERTAKING VAT CONTROL

#### 3.1. INTRODUCTION

VAT is self-assessed by taxable persons in their returns. Control procedures aim at checking the level of voluntary compliance, that is, at checking the reported tax debt for completeness and accuracy. This involves:

1. analysing the information submitted by taxable persons in their returns and checking it against other relevant information available to the VAT administration from various sources,
2. selecting those taxable persons to be controlled,
3. for the taxable persons to be controlled, checking the information reported against a number of relevant trader specific indicators or general ratios singled out by the administration which can be inferred from the accounting or other information available from the inspected trader or third parties.

The general objectives of control do not differ from those of the other VAT functions, referred to in chapter 2 above, namely to maximise the collection of (short-term and longer-term) VAT revenue by the cost-effective use of resources, and to do so by maximising levels of voluntary compliance, and minimising and deterring avoidance and evasion, particularly by detecting and repressing the most complex fraud cases.

The range of performance indicators and targets typically used in Member States along with a review of the operational procedures to monitor and evaluate performance will be discussed in chapter 5.

This chapter will identify the challenges that are facing Member States in undertaking their controls and outline the planning and operational methodologies that they have adopted to meet their respective control objectives.

#### 3.2. GATHERING INTELLIGENCE

The information enabling Member States to check the completeness and accuracy of tax returns is largely held by taxable persons. Hence Member States, in addition to tackling their planning also gather intelligence on trader's activities in a systematic manner.

This intelligence when allied with an analysis of the trader population to identify those most likely to evade or underreport their tax liability contributes to an approach that is both cost effective in the discovery of additional tax liability and can

have a deterrent effect on that proportion of the taxable persons not actively controlled.

The information available to respective Member States on the individual taxable persons and their taxable operations, does vary. All Member States have access to accounting records of the trader, whereas access to banking records may be limited to certain specific information requests. Most VAT administrations have also access to the records and files of other tax services (particularly if VAT is controlled jointly with direct taxes); and sometimes to relevant social security records.

In addition to the recapitulative statement of intracommunity transactions to other Member States provided for in Article 22.6 (b) of the Sixth VAT Directive, some Member States (E, P) additionally require the preparation by taxable persons of listings detailing all traders to whom even domestic supplies have been made. Denmark, Italy and Spain are also able to monitor other key transactions by taxable persons such as real estate or vehicle purchases which are fed into comprehensive data systems managed by the tax administration.

Some Member States have found it particularly useful in gathering intelligence on the operations of specific trade sectors to actually organise their control activities so as to maximise the knowledge of particular trade sectors or categories (D, DK, I, IRL, NL).

Denmark and Ireland place emphasis on early visits to traders. Such an approach whilst serving to assist the future compliance of the taxable person also is an effective registration control that limits the potential risk of future evasion.

In most Member States research and empirical studies are carried out reviewing the previous years experience of tax controls and other external information to supplement their intelligence gathering noted above.

### **3.3. ANALYSING TRADER POPULATION FOR CONTROL SELECTION**

In selecting the taxable persons to be controlled as part of their control programmes, Member States in general allocate available resources to control those groups of taxable persons most likely to evade or avoid their tax liability or those for which the potential for tax recovery is the greatest relative to the cost of control.

Most Member States also ensure that controls are organised so as to have a broad impact in terms of encouraging improved compliance in the trader population as a whole.

The large number of taxable persons in Member States and the volume of statistics and intelligence available has required the development of increasingly sophisticated computer systems that act as an aid to control selection. Such developments have improved the quality and effectiveness of desk audit procedures. These developments have allowed some Member States to more carefully select, or even reduce the numbers of control visits undertaken. France, with about 2,5 million taxable persons uses such techniques to assist it in undertaking more than half a million documentary controls each year. Based on the results of these some 37,000 control visits might be

undertaken. In comparison the United Kingdom, with 1.6 million taxable persons, places emphasis on control visits, selected on the basis of a twice yearly automatic risk analysis, rather than on desk audit. Some 378.000 traders are visited annually. (See Table 16).

### 3.4. CRITERIA AND DECISION RULES

Most Member States apply a range of criteria listed below in selecting the homogeneous group, sector, activity, and of individual taxable persons most likely to be inspected. The use of these criteria alongwith the appropriate decision rules allows Member States to broadly determine a number of aspects:

- a) the type of investigation e.g. VAT refund control, intracommunity transaction check, large business, or risk trader;
- b) the breath and depth of the control to be carried out e.g. a broad inspection for all taxes covering all periods, or short inspection covering only the present tax period, or to check compliance with invoice or other VAT legal requirements (e.g. intermediate controls in Greece in cases of the irregular presentation of returns);
- c) the level and experience of the staff to be used that will ensure that cases are assigned to the most appropriately trained controllers.

Some decision rules are based on a consistency check of individual traders' returns with either his own previous returns or with reference levels and averages based on the returns of traders in comparable trade sectors or geographical areas. These reference levels are regularly updated and amended.

For those taxable persons whose risk assessment does not warrant immediate control, some Member States set targets that would ensure that as many traders as possible are controlled within a time limit, normally 5 years, that will allow legal recovery of under-declarations. However other Member States recognise given the vast numbers of SME's that it is unlikely with limited resources available that all entities might be covered in that period. One Member State anticipates that very small firms will be controlled on average once every 57 years. Other Member States whilst not seeking to determine any control cycle for the majority of firms would nevertheless consider it important in tackling very large firms that a cyclical approach should be taken so as to determine the specific trading areas of risk to be examined (DK, GR, IRL, NL, UK, etc.).

The practical impact of such decisions in Member States can be seen in Tables 13 and 14 and Annex 6. With reference to large, medium and small enterprises, these tables note the average duration of a control, the number of inspectors participating and how often controls on the respective enterprises might be carried out.

### 3.5. RISK CRITERIA

The criteria most widely reported by Member States in selecting groups or individual traders for control are the following:

### 3.5.1. Financial Risk Criteria

- Size and structure of the business
  - Turnover and number of employees
  - For groups of companies, the number of branches and their national and international spread
- Revenue activities
  - Turnover
  - Tax throughput levels (level of input tax plus level of output tax)
  - Turnover / total input tax ratio
  - Turnover / number of employees (perhaps cross-checked to social security records)
  - Profit margin percentages
  - Level of partial exemptions
- The complexity of traders accounts
  - Number of accounting documents processed and record systems.
- The quality of taxable persons internal controls
  - review of work and quality of trader staff, internal and external auditors
- Sectors whose customers are end consumers
  - cash trading
- Sectors with difficulties in providing justification of purchases e.g. from individuals
- Firms entitled to repayment of VAT or compensation
- Firms undertaking intracommunity transactions
  - discrepancies between declared inputs and inputs identified using the VIES system
  - the use of non existent or incorrect VAT registration number
- Newly registered firms.

### 3.5.2. Compliance record criteria

- Failures to submit compulsory documentation
- Failures to submit VAT returns
- Incidences of late, partial or non payment
- Previous under-declarations discovered or voluntarily disclosed
- Reputation of proprietors/directors (e.g. previous involvements with bankrupt or insolvent traders with VAT debts)

It should be stressed that complementing the use of such models most Member States rely on the professional training of controllers themselves at a regional or local level to make the final control selection.

Some Member States (DK, NL, UK) combine the use of financial risk indicators with indicators of compliance record in determining the type, breadth and depth of control that they will undertake. In other Member States (E, I, P) such criteria are used both by the centre to define the trader profiles for control and by local officers to select individual taxable persons within the profiles selected for inspection.

Other Member States (I, IRL, UK) selecting traders for control on such criteria will also undertake information visits that will supplement existing control statistics and enhance the quality of future selection exercises.

### 3.6. UNDERTAKING VAT CONTROL - SOME SELECTED EXAMPLES

The realisation by a number of Member States (B, DK, E, F, IRL, UK) that the risks of VAT avoidance and evasion are linked to the specific practices of different trade sectors has led them to identify a number of high risk industries such as hotels, restaurants, bars; professional trades e.g. lawyers, dentists, hairdressers; garages and vehicle repairs; goldsmiths and jewellers; construction, cleaning and related industries. (See Annex 18)

The improved ability to identify such sectors allows Member States to focus on particular areas so as to improve their knowledge of the operations involved.

The Netherlands have structured its tax offices on a team basis, with each team responsible for the control of individual tax entities identified on the basis of their financial and / or fiscal interests and relationships (e.g. farming, construction, bars / restaurants, new companies etc.).

Ireland has adopted a similar approach and has reorganised its control administration into ten sectors e.g. investment and rental companies, group and public limited companies. Each sector deals with the requirements of trader categories that have been structured around the major sectors of the economy.

For both of these Member States this approach has been supplemented by the use of team audits (for joint tax audits) and has been based on the development of extensive trade profile manuals. Such manuals provide a guide to assist the control work. Their contents typically include background audit experience, case selection notes, pre-audit preparatory work and standardised audit programmes tailored to the identified risks of each sector. Such standardised programmes are also used in D, I, UK.

The VAT control methodologies used by Member States when undertaking a control involve the systematic application of a range of VAT control procedures which if carried out satisfactorily will assist in ensuring that the control work is consistently completed to a high standard. Tables 11 and 12 outline for all Member States the range of control procedures used at the various stages of the audit from the preliminary checks through to the procedures applied in undertaking a control visit.

### 3.7. VAT CONTROL IN A RISK SECTOR

The actual range of controls undertaken on risk sectors such as a sector whose customers are end consumers paying cash e.g. restaurants, might include some or all of the following checks.

The identification and selection of such traders can initially include exercises to detect the deliberate or non deliberate failure of a trader to notify their liability to register for VAT. The United Kingdom which undertakes a "policing" of the trader base undertakes extensive research including reviewing trade and commercial telephone directories. Otherwise if the traders are known, Italy for example selects a taxable person whose reported profitability is inadequate or for whom the level of consumption and expenditure on purchases or services is high in comparison with the amount of income.

The control of such a trader can include an inspection of registers and checks on compliance with formal obligations, supplemented by a check on the consistency of the VAT revenue with the firms activities. Such checks can be based on the administration's own background knowledge of the specific sector; trends in the balance sheet; the location of accounting records and of other business or storage areas; knowledge of the firms inputs which do not generate deductible VAT e.g. staff costs.

Using the example of the restaurant trade, careful detailing and checking of labour used to compulsory documentation records can identify undeclared labour. For restaurants, regular visits, to evaluate the average number of customers and acquiring a copy of the menu can allow a calculation of the average amounts charged to be compared with tax receipt counterfoils issued and cash till readings.

The use of till interrogation techniques on modern cash tills by Member States (UK, F) allows an analysis of the traders cash activities on an audit roll. Efforts by traders to conceal or alter these records have been countered by an increase in visits without appointments.

Where the taxable person, to maintain acceptable profit levels, suppresses purchases so as to disguise undeclared sales (whose inputs are mainly zero rated or have a high labour charge) there is a need to check suppliers' records of sales against the purchase records of customers. Some Member States (E, P) require all traders to provide lists of domestic suppliers. Belgium uses taxpayers' declarations to establish similar lists. These listings are effectively applied in targeting those traders who seek to misstate their VAT liability and are also an effective tool in tackling fraud using false invoices. The United Kingdom is in the process of developing a computer programme which will analyse the declared purchases of a business with a view to correlating them with an estimate of the actual purchases that would be 'needed' to service both the customer base and the product or service range.

### 3.8. VAT CONTROL OF LARGE TRADERS

As regards size, analysis of traders by Member States has shown that some 4 to 10% of the largest taxable persons may account for some 70 to 80% of tax revenues

whilst some 70% of the population of registered taxable persons, normally the smallest businesses, may contribute only a very small percentage of resource.

The control of large traders is increasingly becoming an exercise that is planned and undertaken separately from that of small and medium firms. The relative size of such companies, their considerable revenue contribution, the complexity of their accounting and book-keeping systems, and their dealing with often intranational or international subsidiaries has been recognised. These controls aim at covering all tax periods (e.g. D). They require training control officers with particularly advanced audit and tax skills, and the use of more complex auditing packages.

The control of large traders normally requires a different approach from that of other traders in terms of the cycle of coverage, the duration and depth of the control, and the level of training for staff involved.

Member States recognise this and have adopted specific control strategies for large firms often using a systems based approach (F, NL, UK). The systems approach is designed to ensure that all aspects of the traders business are looked at systematically according to perceived risks. The approach requires the documentation and awareness of the revenue significance of the traders structure, organisation and accounting systems. The geographical spread and the business diversity of subsidiaries can require the co-ordinated assistance of regional or local teams in some Member States.

When undertaking control of a large trader on a cyclical basis a specific trader system will be targeted e.g. purchase ledger. The specific risk areas are identified and documented using flowcharts, narrative descriptions alongwith responses to questionnaires designed to identify the key controls.

Some Member States (F, UK) would consult with the organisations concerned department of the internal audit who may have already undertaken part of this work. The key control systems are then evaluated so as to determine whether the traders system will provide accurate and timely information to allow him to meet his fiscal responsibilities. Evaluation is done using a combination of compliance tests (that confirm if the control has worked consistently and correctly) and tests that substantiate the value and correctness of the transactions themselves. The necessary extent of physical checking of transactions, statistically sampled, will depend on the degree of effectiveness of the operation of the internal controls.

In undertaking controls, particularly of large traders, Member States' administrations (D, DK, E, F, NL, UK) will maximise the use of computer assisted audit techniques that assist in the extraction and analysis of trader data that is downloaded onto the controllers PC. Such software facilities are widely used in Member States to allow the flexible file analysis and sampling across the range of trader files e.g. inventory, payroll, general and sales ledgers. The facilities of the software are extensive and include file comparisons, consistency checks, sampling (random, statistical etc.), record stratification, and flexible reporting formats and graphics. Member States (B, DK, F, NL, UK) are finding the use of such file interrogation software to be a cost effective method of facilitating the analysis of the traders appropriate financial files on their own PCs. These techniques are being used currently in the control of large

firms undertaking intracommunity operations. The use of expert systems highlighted in the first report has also been significantly extended (see Annex 7).

### **3.9. CONTROLLING SPECIFIC VAT RISKS**

For those taxable persons whose circumstances in themselves present a separate risk (e.g. new registration traders, VAT refunds), Member States have developed specific criteria and parameters along with associated objectives that determine the selections for control. Annex 8 describes the range of procedures used by Member States in controlling VAT refunds.

### **3.10 CO-OPERATION WITH OTHER MEMBER STATES IN PLANNING AND UNDERTAKING CONTROL**

Most Member States (see annex 10) have developed some forms of co-operation in planning controls particularly on a bilateral basis.

One of the most developed links is that between the United Kingdom and Ireland. A Memorandum of Understanding provides for operational co-operation regarding the risk to tax revenues in trade between the Republic of Ireland and Northern Ireland. A programme of audit and control visits is agreed each year whereby traders involved in cross-border trade are selected for control action. The results of these controls are exchanged. The selection of traders is usually focused on sectors perceived as having a particular risk notably market/mobile traders, cash and carry outlets.

A number of Member States are currently participating in an experiment on Multinational trader control organised by the Commission<sup>10</sup>. This experiment will be completed in 1995. Annex 5 summarises the guidelines currently used by Denmark in implementing simultaneous audits with Sweden, Finland and Norway.

### **3.11. IMPROVING TAXABLE PERSONS RIGHTS AND ACCESS TO INFORMATION**

In most Member States unless fraud is suspected taxable persons are advised in advance of the date of a control and may in some (DK, D, E, F, NL) be advised of the business area to be examined. Similarly in most Member States the control findings can be discussed with the trader prior to the preparation of the control report. Also traders can be advised in advance of the likely imposition of a severe penalty and given an opportunity to present their case. In all Member States a taxable person can appeal on the conclusions of a control (see Table 15).

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<sup>10</sup> Council Conclusion of 11 July 1994 concerning the fight against fraud 94/C 292/01 (OJ C 292/1 of 20.10.94).

## CHAPTER 4

### VAT DEBT MANAGEMENT

#### 4.1. OBJECTIVES

The overall objectives of VAT administration, i.e. revenue maximisation, maximising voluntary compliance and minimising and deterring avoidance and evasion are translated in the debt management area into the following more specific objectives:

- a) promoting prompt payment
- b) preventing new arrears from getting older and clearing outstanding arrears.

#### 4.2. PROMOTING PROMPT PAYMENT

In order to avoid VAT arrears from occurring all Member States promote voluntary prompt payment by reducing compliance costs (see chapter 5), more closely monitoring traders to analyse their risk of default and by applying, where necessary, preventive measures (e.g. requesting guarantees)

Close monitoring of traders, their payment position and their solvency requires gathering information in a way similar to that required in planning and undertaking control. In addition data on the taxable person's assets position is gathered.

Such intelligence is obtained from the data base of taxpayer's global fiscal situation (B, D, E, F, I, L, P) or from a general debtor's registry (DK), registers held by government bodies (e.g. concerning land mortgage, vehicles) or chambers of commerce (see Annex 11). Other Member States emphasise the usefulness of monitoring taxable persons ("clients") through regular contacts between the staff and the trader (NL).

The information gathered is used to analyse trader's population solvency risk using risk criteria namely the size of the debt (DK, D, GR, E, F, IRL, L, P, UK), age of debt (B, D, GR, F, IRL, I, L, UK) the trader's compliance record (D, L, NL, UK) as well as the business's condition (B, D, E, F, IRL, I, UK) and enforceable assets.

On the basis of risk analysis' results categories of traders are selected for special preventive action, like the issue of advanced reminders that are increasingly produced by computers automatically or telephone reminders (DK, UK) or preventive visits to advise new traders of their paying obligations and the consequences of non compliance (IRL). Depending on the results of such contacts, guarantees or advance payments are requested (e.g. by setting up a monthly advance payment scheme), or recovery measures prepared in advance (UK).

### **4.3. CLEARING OUTSTANDING DEBT AND PREVENTING NEW ARREARS FROM GETTING OLDER AND CUMULATING**

#### **4.3.1. Recovery maximisation and Equal Treatment**

An old debt is a bad debt - the older, the more difficult to recover. Therefore all Member States take care to detect VAT debt as early as possible, progressively with the assistance of computerisation.

The way in which Member States' administrations approach the task of clearing outstanding arrears depends, as was the case with control, on the relative weights they attach to revenue maximisation and to exhaustive treatment.

Belgium and Germany are legally required to pursue all arrears with the same level of priority regardless of the amount at stake. In practice, nevertheless, the competent local officer exercises regularly immediate action in the case of high risk and large debts (e.g. fraud, cases close to statutory time limitations). Also specific branches of activity (e.g. construction, market-traders etc.), are closely monitored.

Other Member States recognising that VAT arrears have piled up due to the recent economic recession and with limited resources, have approached outstanding arrears by applying risk analysis and selecting specific categories for priority recovery according to risk criteria. Increasingly Member States also set and monitor performance indicators and targets (e.g. NL, UK, to be introduced in IRL) which are discussed in Chapter 5.

The similarities with the process of risk analysis and categorisation of taxable persons and the interrelationships between control and debt management has led some Member States to set up specialised units for specific categories of debts or traders which combine control and collection functions. Such special recovery units exist already for large business (E, NL), for large debts (IRL), for specific categories of business (NL) and specific payment schemes (UK).

Most countries using developed risk analysis techniques whilst pursuing all debts give special priority to enforcing larger ones (DK, E, F, GR, IRL, P, UK) and some do the same with difficult debts (e.g. B, D, GR, F, IRL). Such debt selection can be undertaken centrally (e.g. IRL) or locally, the competent officer's selection being assisted by central guidance (e.g. UK).

In order to reconcile the objectives of cost-effectiveness and equal treatment some Member States have tried to reduce the costs of collecting small debts. Spain for instance has introduced simplified mass seizure measures for bank accounts whereby the tax administration electronically sends to banks the files of small tax debts which are to be debited in their clients' current accounts.

Finally, farming out arrangements with outside agents is practised (I, IRL) in order to concentrate efforts on a cost-effective and equitable tax collection.

#### 4.3.2. Obtaining detailed information on the debtors financial situation

In order to effect successful debt enforcement it is essential, as for preventing defaults (see above), to obtain information on the debtor's financial situation. However, unlike with the prevention stage where most information is obtained from standard sources, the enforcement stage may require a deeper level of information that can only be obtained with ad-hoc searches and is therefore more resource consuming.

Tax administrations in all Member States are empowered to request information from the taxpayer to inspect his premises and records. However, these sources may not be sufficient so that tax administrations might wish to contact third parties (e.g. banks, insurance companies, fiscal advisors or clients).

Nevertheless, procedural law in Member States does not permit unlimited investigation. Third parties may only be contacted in some Member States if the required information cannot be obtained from the taxpayer himself (e.g. D).

Banking secrecy may be an obstacle in some Member States which cannot (L) be eliminated or only in exceptional cases, e.g. fraud (D, E,) on the basis of special court warrants (IRL, P), whereas others (DK, E, F, GR, I, NL) may have easier access to financial institutions' information. Furthermore, fiscal advisors or clients may have a right to refuse to supply information if thereby jeopardising their duty of professional or other confidentiality (D, E)

Further difficulties stem from the procedure of order of attachment following to which certain administrations are obliged to attach the assets and rights of the debtor in a particular order (E, P) thus making it necessary to investigate the financial position in detail. E.g. in Portugal movable assets have to be attached before seizure of immovable assets may be undertaken.

The processing of information may lead the administration to classify debts into three main categories

- a) Debts which are recoverable by direct enforcement
- b) Debts which are immediately irrecoverable, partially or totally, but that are recoverable if delays of payment provisions are granted
- c) Irrecoverable debts

#### 4.4. ENFORCING DEBTS

In general, Member States may levy distress upon all goods and chattels of a defaulter without restrictions on the nature of the goods (movable, immovable property, claims against and goods held by third parties). The seized objects serve to cover the VAT debt. In one Member State (NL) even assets belonging to third parties furnishing or equipping the debtor's property may be seized.

However, legal or practical restrictions exist in seizing assets (L for immovable property, E for assets not belonging exclusively to the defaulter, e.g. spouses joint bank accounts).

Furthermore, seizure is restricted by law as far as goods are needed by the defaulter for his basic domestic necessities (all MS) or for his activity (B, DK, UK). Restrictions may also result from the principle of proportionality, i.e. the value of the sizeable asset must be consistent with the value of the debt (I, P).

A further difficulty stems from the fact, that in principle, fiscal administrations are creditors like all the other creditors of the taxpayer, and his property is the common pledge of his creditors. This means that administrations have to act quickly, notably in case of ranking orders determined by the date of seizure. However, in some Member States the Treasury has a general preference on his movable property (B, F, L, NL, P) and a legal mortgage on his immovable property (B, F, L).

Member States try to overcome the ranking obstacle by realising their tax claim at the earliest possible stage, e.g. by compensating the debtor's refund claims with the VAT debt (e.g. B, DK, D, E, IRL) or by simplified recovery of arrears by seizure of bank credits. Belgium can undertake action to set aside the ranking order by its power to attach agreements made by the debtor to deceive his creditors.

Member States complement the deterrent effect of enforcement of VAT debts with the application of pecuniary penalties in case of serious infractions to tax obligations as discussed in the First Report. Some Member States extend the range of penalties also to the withdrawal of authorisations and professional licenses (DK, P in case of repetitive serious infractions) or even the withdrawal of the right to leave the country (GR for large debts).

#### 4.5. ARRANGEMENTS FOR DELAYING PAYMENTS

Instant enforcement measures may be not appropriate and might even endanger future tax payments. Taking into account the rule of prompt VAT debt payment stated in Art. 22 par. 5 of the 6th VAT directive, deferred payment is not granted in Portugal and only in exceptional circumstances in most Member States (see Annex 13), where and as long as the trader needs it to meet temporary financial difficulties. It is thus refused unless the administration can satisfy itself that the taxable person will be able to service the rescheduled debt.

In order to prevent deferred payment schemes to become competitive alternative sources of finance for the taxable person, some Member States (e.g. D) require the presentation of a statement of the debtor's assets.

In order to assure that it is considered by taxpayers to be an unattractive source of finance the following steps are undertaken:

- guarantees covering the debt are requested (all Member States except UK, GR),
- interest is charged (all Member States except UK) at rates higher than commercial (all Member States except D, E, I, NL),
- is granted for the shortest possible time span, usually not longer than 6 - to 12 months

- is revoked if the debtor's financial situation improves.

Apart from the aspect of whether the measure is needed, Member States make its granting dependent on the circumstances having led to the trader's financial distress, notably whether it is due to external or debtor-induced causes as well as on his payment record.

Decisions are taken by the local officer (DK, F, UK) or centrally (e.g. GR, IRL, L). In other Member States the decision-making level depends on the amount deferred (e.g. D). Agents in IRL may accept payment on an instalment basis, however, agents in I have no power to agree flexible dates for payment.

#### 4.6. IRRECOVERABLE CASES

Irrecoverable cases are normally written-off but it is sometimes possible to revive the debt if circumstances change within the recovery delays.

Remissions are limited to insignificant amounts and are either not provided in several Member States (B, GR, E, F, I, IRL, P) or have not been applied in recent years (L). In some Member States a right to remit is retained in cases where VAT collection would be inequitable or give rise to exceptional hardship for the taxable person and where no prospect of payment in the foreseeable future exists (DK, D, NL, UK).

Existing practices for remissions used in Member States have effects on their uncapped VAT own resource bases.

In several Member States (e.g. B, D, IRL, L) debt not recovered in a bankruptcy procedure and written off is revived if the debtor has started a new beneficial activity.

In Italy tax agents are made financially responsible for unrecovered amounts unless proof is given of their diligence. Another Member State (F) makes its officials financially responsible for the successful collection of all debts referred to them.

## CHAPTER 5

### MONITORING AND EVALUATING VAT CONTROL AND DEBT MANAGEMENT

#### 5.1 INTRODUCTION

The performance of VAT procedures can be evaluated by using indicators of both levels of achievement of objectives and of the costs used in operating them.

The general objectives of VAT administrations were outlined in Chapter 2 and include the maximisation of voluntary compliance, and of forced compliance and deterrence of avoidance and evasion. The more specific objectives of control and debt management, referred to in Chapter 3 and 4 included the maximisation of additional liability detected and of debts recovered, promoting prompt payment and the minimisation of outstanding debt. A summary of the national objectives and key performance indicators used by Member States is at Annex 14.

The costs of VAT procedures are shared between the administration and taxable persons. Administrative costs can be classified as those costs borne by the tax administrations in operating, collecting and enforcing VAT. Compliance costs are those borne by the traders in complying with the rules and regulations related to VAT procedures including for example, bank and record keeping and return filing. Administrative and compliance costs are often inter-related in so far as services to taxable persons reduce compliance costs but increase the costs of the tax administration. Similarly the levels of taxpayer compliance can also be related to the respective levels of costs for the administration and taxpayers.

Member States are increasingly recognising these aspects and are generally implementing measures with a view to balancing a reduction in both administrative costs and compliance costs with an improvement in compliance levels.

#### 5.2 MEASURING AND MONITORING GENERAL VAT COMPLIANCE AND COSTS

The measurement of overall compliance by reference to the extent of the "compliance gap" or tax evasion, has been undertaken by way of large macro-economic reviews (E, I, GR) or by reviewing the results of tax controls and regularly analysing the results of fiscal receipts with results achieved. The United Kingdom maintains statistics on evasion from which a national profile is prepared annually. (See Annex 17).

The use of tax data to estimate the scale of tax fraud in various sectors has been undertaken in Spain and is being considered in Luxembourg (see Annex 17). The United Kingdom is in the process of developing a range of tax yield indicators that will attempt to explain variations in tax yield.

Most Member States (B, D, GR, E, F, IRL, NL, UK) are able, if only occasionally, to identify their global costs of administering VAT. These are normally expressed as

a percentage of total annual revenue and generally vary from 0,8% to about 2% (See Annex 15). It should be noted that the methods of calculation and respective periods are not uniform between Member States.

### 5.3 SPECIFIC PERFORMANCE INDICATORS AND TARGETS

In relation to the more specific objectives that they set, most Member States have identified a range of performance indicators and targets that can be used at both a central and local level to monitor the operational or strategic success of their plan for controls or debt management.

Most of the targets and performance indicators typically used by Member States compare the number of controls undertaken, the volume of debts resolved or outstanding and the resources applied in achieving those results.

The United Kingdom uses the level of underdeclarations voluntarily disclosed as a positive indicator of the success of its control policy in encouraging improved compliance. However, most of these measures in all Member States relate to analysing the administrations performance in relation to its own costs and to the actual results achieved i.e. 'forced' compliance.

Thus national administrations can monitor for example: additional liability detected; average debt arrears; the number of controls undertaken or debts recovered per officer; the average additional yield per officer or per control; the number and value of debts recovered as a % of either total debt outstanding or revenue; the level of debt outstanding as a proportion of 12 months liability or revenue. Additionally a range of unit costs are produced to indicate for example the cost per debt collected and visits made.

There exist, however, relatively few indicators that either routinely measure the costs to the trader in meeting their tax responsibilities or that allow a clear assessment of the improvements in overall voluntary compliance across the population of taxable persons.

### 5.4 RECORDING AND MONITORING VAT CONTROL WORK AND DEBT RECOVERY

Effective performance indicators rely upon the quality and the accuracy of the data upon which they are based.

In most Member States basic information on controls is prepared on the conclusion of visits to traders. Such reports, the information from which is subsequently computer verified and analysed, contain statistics on the number of controls completed, the category of traders controlled, the additional liability detected, the time taken to complete the control, and the number and grade of inspectors participating.

In the field of debt recovery information on amounts outstanding, key dates, actions taken and the type of trader is typically recorded on an individual case basis.

Reflecting the important relationship between VAT control and recovery, certain Member States (E, F, DK) have developed completely integrated computer systems that permit the monitoring of cases from the inclusion in the control plan through the subsequent and successive stages recording control results and monitoring the recovery as it is made.

This basic information that originates at an individual trader or control level is normally dealt with in a broadly similar way in all Member States.

Firstly, the individual files of the taxable person are either updated with the results of the control and/or monitored during recovery.

Secondly, individual activity reports are analysed at a local or regional level to calculate basic statistics that indicate, for example in relation to control work, the staff time spent on a task and the cost of the work compared with pre-set or expected averages.

Thirdly, the overall results of controls undertaken for a specific office or region are aggregated and analysed in a manner and format that allows both local and central managers to evaluate performance. This is done by both reviewing overall control and debt management results against the corresponding indicators or targets referred to above and by comparing the results between different regional and local offices.

As indicated in chapters 3 and 4, the responsibilities for control and debt management are increasingly found at regional levels. This has necessitated the development of standardised recording and monitoring systems which allow the quick and flexible production of key performance statistics for managers at all levels in the administration. Subsequent use of the information as regards central or local trend analysis, budgeting exercises or revenue projections depends on the effective functioning and consistent quality of the reports prepared by local inspectors in completing their work.

Using such information the centre can monitor that nationally taxpayers are receiving equitable treatment as regards their selection for control and that the treatment of debt is consistent for all categories of traders (B, D, DK, F, I, NL, UK).

Most administrations do not rely solely on such figures but have teams that review the work of regions so as to ensure both the quality and effectiveness of administration staff and the equitable treatment of taxable persons (B, D, DK, E, F, I, P, UK).

## **5.5 MEASURING THE IMPACT OF CHANGES IN PROCEDURES ON COMPLIANCE AND COSTS**

The impact of specific changes in legislation or procedures on costs and compliance has been estimated either in a quantitative or a qualitative way by some Member States (E, UK). The following examples of procedures in Member States indicate the close relationship between administrative and compliance costs, and compliance levels:

- 1) Member States having introduced or increased their registration thresholds (F, IRL, L, UK) reported positive impacts on both costs and compliance (F found a negligible impact on compliance).
- 2) Reducing the frequency with which returns are required from taxpayers; simplifying the level of details to be completed and analysed on returns; improved payment methods (B, IRL, P). Some Member States (F, IRL, L) recognised a positive impact on costs to the administration, taxable persons and compliance levels. Belgium however has recently cancelled its annual returns scheme as a result of serious concern regarding the risk of an increase in VAT carousel fraud using identification numbers of traders who disappear after registering for VAT.
- 3) Providing a range of measures that allow taxable persons to familiarise themselves regularly with changes in VAT and their responsibilities. These include making regular visits to traders (DK, UK), the provision of free phones (E, F, I), Minitel (F) and contacts with professional associations etc. Member States recognised most of these initiatives have had a positive impact on compliance, except France for the use of local office advisers. Member States (IRL, L, UK) considered that these measures reduced compliance costs.
- 4) Variations in the number, depth and length of visit controls can have a significant impact not only on the costs to all administrations (F, UK) but also on compliance levels (F).
- 5) The development of controls based upon specific trader sectors and the use of audit agreements with firms can also serve to reduce costs to the administration (DK, IRL, NL, UK). France and Luxembourg both identified a positive impact of simplified estimation of tax on inputs on compliance costs. They differed however in their views on the impact on compliance levels (F negative, L positive).
- 6) Making VAT refunds more quickly (B, DK, IRL, I, UK), and allowing taxable persons with a small turnover to make flexible payments within a budgetary scheme (F, I, L, UK). Member States recognised a reduction in compliance costs and a slight or negative impact on administrative costs. France, Luxembourg did not observe any positive impact on compliance levels.
- 7) Allowing new payment facilities for taxpayers such as electronic transfer (e.g. DK, F) was found to have a positive impact on both costs and compliance (F).
- 8) Increasing the number of payment points for example in Italy by introducing the "conto fiscale", allowing payments to agents and at post offices, and electronic VAT payment by big traders (F, contemplated in IRL) was deemed positive by these countries.

Although the quantification of the actual compliance costs that fall upon traders, particularly small and medium sized, was found very difficult to gauge, the Netherlands has estimated that those taxable persons undertaking intracommunity transactions for VAT have compliance costs, due to these operations 20% greater

than those undertaking only domestic transactions. Denmark reported that it gives small companies a cash amount to offset book-keeping costs.

Compliance costs for taxable persons carrying out intra-Community transactions must be compared to their compliance costs before the abolition of fiscal controls at internal borders. For the Netherlands, a study - carried out by the Economic Institute for Small and Medium-Sized Enterprises in the Netherlands - reports the introduction of the transitional VAT arrangements as having resulted in a structural reduction in the costs incurred by firms (See paragraph (74) of 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 - COM(94)515final of 23.1.94).

The United Kingdom so as to allow it to measure the likely impact of a change in legislation or procedures on compliance levels, now gets information on costs from visiting and interviewing a representative sample of companies.

## CHAPTER 6

### CONCLUSIONS

#### 6.1. MAIN FINDINGS AND ASSESSMENT

The analysis of measures recently taken or envisaged by Member States in order to improve the effectiveness of their VAT has led to the identification of the following findings:

##### a) General objectives

The general objectives identified in the first report (to maximise *voluntary and forced collection, with an emphasis on voluntary compliance*) appear now to be widely accepted and generally applied by Member States.

The volume and type of work faced by administrations shows other common features, namely an *increasing number of taxable persons* to be managed by *stable or decreasing staff resources*, and an *increased volume of intracommunity transactions*.

##### b) Organisation

Administrations have reacted to this challenge by *continued, improved training* of their staff and by trying to improve the productivity of resources, through extensive *computerisation*, reallocation of resources and reorganisation of procedures to ensure cost-effectiveness. In this respect it is worth underlining the change towards *client approach (covering multi-tax, multi-procedure)* as opposed to functional approach (covering single tax, single procedure), and the shift towards a *preventive approach to non-compliance* in some Member States.

As regards organisation clear trend also emerges towards *decentralisation*.

There is particularly a trend towards an *increased role of local offices in selection of traders for control*, and in debt management decisions. Decentralisation capitalises on local officers' better knowledge, experience of taxable persons' characteristics in their respective areas. Decentralisation requires an improvement in co-ordination and feedback. This has been supported by computerisation, which enables information supplied at any one level to be accessed by several locations and levels, and thus improved coordination. Computerisation also enables quick evaluation of results at various levels and the application of similar levels of effectiveness and equal treatment of taxable persons across all locations.

The increase in data handling capacity has made possible the trend towards *intelligence gathering* and *risk assessment*. This permits the systematic analysis and use of available information in dealing with specific cases. But it

also enables better identification of common risks and sorting of traders into categories.

Risk assessment and sorting of traders then permits more standardised, cost-effective *control and debt recovery programmes tailored to various types of traders*.

c) **Control**

Several trends also appear regarding control orientation. As a consequence of the increased capacity of analysis of the information available to VAT offices, there is a trend in Member States to *enhance the role of desk audit* both to increase the effectiveness of more targeted audit visits and to replace where possible resource intensive visits with lower cost standardised desk checks.

An increasing number of Member States have *integrated the control of all taxes* and for those keeping them separate co-ordination has nevertheless increased. This process, which was already more developed in the debt collection area, is consistent with the "client" approach and enables the best use of available information and avoid duplication of effort.

*Control and recovery are also increasingly approached in a joint way* by Member States. Successful collection implies tackling non-compliance both in the tax assessment and debt management areas. Evasion techniques identified by control departments (e.g. "phoenix" companies) have also become apparent at the Recovery stage of established debts. Furthermore, there is a tendency to broaden the range of control visit types, to enable Member States to apply to each trader the most appropriate combination of thorough (often multi-tax) controls with shorter, more flexible checks on specific issues (e.g. intracommunity transactions).

d) **Debt management**

As regards debt management a common feature is that the number and relevance of arrears has also increased.

This trend is due mainly to the effects of recession. In view of these difficult recovery cases Member States have increased the use of *time-to-pay* arrangements. These arrangements may enable the eventual recovery of tax debts which would otherwise be unrecoverable. Attention must be paid however not to grant them to traders that will not be able to honour those arrangements or to those that can finance their tax debt on reasonable terms from other sources.

e) **Performance evaluation**

Increasing attention is devoted by Member States to performance evaluation. However improvements in this area are still needed. Performance indicators are developed and monitored in terms of *compliance levels and administrative and compliance costs*.

Evaluation has become more necessary because of decentralisation, the need for cost-effectiveness, and the prioritisation of objectives. It has also been made more cost-effective by computerisation and standardisation. The range of performance indicators must carefully be selected so as to avoid excessive priority being given to short-term financial objectives, which would lead to neglecting more difficult or financially less important groups of traders and hence to pockets of non-compliance.

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These common trends in the environment and working methods of VAT administrations are not present to the same extent in all Member States. The Commission considers that most of these are likely to result in enhanced, similar levels of effectiveness, and therefore suggests that administrations, recognising these trends, evaluate and take into account, where applicable and in the context of national specificities, the following orientations:

## **6.2. SUGGESTIONS FOR IMPROVEMENT**

### **1. General objectives**

- 1.1. Continue to improve services for taxpayers
  - the further development of measures that allow taxable persons to familiarise themselves regularly with changes in VAT legislation or their tax responsibilities;
  - by creating contact points for taxable persons;
  - and by making less burdensome the submission of returns and payment of tax
- 1.2. Develop preventive analysis/action plans to prevent or minimise taxpayer non compliance
  - telephone calls to prevent delays or defaults on payments, or by early visits to new enterprises
- 1.3. Pursue, develop computerisation, reorganisation/ rationalisation of procedures to ensure cost-effectiveness
  - ensure that information is supplied in an appropriate format to the most appropriate responsible officer to maximise the benefits of decision making
- 1.4. To improve the co-ordination and effectiveness of services in charge of complementary procedures or other taxes

1.5. To continue to improve administrative co-ordination, and co-operation in control and recovery.

- encourage the use of standardised procedures and techniques

1.6. To continue to develop and improve staff training programmes in a number of areas:

- procedures to be used in controlling large traders and those undertaking intracommunity transactions
- to ensure the most cost effective use of computer aids
- to maximise the benefit and use of risk analysis techniques

## **2. Computerisation**

2.1. Evaluate, on the basis of cost-benefit, the likely impact of the extension of computerisation to those areas in which not yet introduced and in particular, to

- a) resource allocation and monitoring
- b) networks linking central and local offices
- c) desk audit tools (information checks, trader selection)
- d) Audit visit tools (expert systems, file interrogation systems)

## **3. Decentralisation**

3.1. Disseminate available intelligence appropriately to staff responsible for decision making

3.2. Issue control/debt management manuals, specific audit programmes (expert systems) so as to ensure consistency in approach, equal levels of work efficiency, and the equitable treatment of taxpayers.

3.3. Ensure adequate feed-back of results to facilitate monitoring and evaluation

## **4. Intelligence gathering, risk assessment**

4.1. Ensure systematic thorough intelligence gathering on operations of traders and risks of certain categories of traders (e.g. trade sectors)

4.2. Analyse information gathered on specific trade categories so as to produce:

- comprehensive information on each group

- an awareness of the operational environment and specific control risks
- manuals and audit programmes that allow staff to tailor more general control programmes to specific requirements

4.3. Ensure risk criteria are broadly based assessing both financial risks and general compliance (evasion) risks

## 5. Control orientation

5.1. Undertake the analysis and selection of groups of or individual traders by categories using clear and standardised transparent trader selection rules that appropriately incorporate an awareness of risk criteria.

5.2. Set up special programmes to tackle the most relevant risks:  
a) risks which require prompt control/debt management action (e.g. phoenix companies, imminent bankruptcy)  
b) risks requiring specific specialised techniques (e.g. specific trade sectors, systems-based audit).

5.3. Maximise the use of both standardised audit programmes and modern accounting and auditing computer software to facilitate the monitoring and evaluation of results.

5.4. Integrate/closely control the administration of VAT with that of other taxes

5.5. To effectively combine the use of control instruments (or techniques) available

- in-depth controls to monitor all taxes of a trader over a certain period
- frequent controls targeted on an individual tax or control area (e.g. new traders, VAT refunds)

## 6. Debt management orientations

6.1. To co-ordinate control and recovery responsibilities and ensure regular contacts between the administration and taxable persons to obtain better intelligence on taxable persons at risk of default, to allow improved monitoring, and assist quicker preventive action:

- use of advanced reminders
- enforcement action without delay

6.2. To reduce the costs of recovery of low value debts using simplified procedures such as the recovery of amounts owed from the bank accounts of taxable persons.

6.3. Make sure delayed-payment arrangements

- are granted only in cases where the (rescheduled) debt is recoverable
- are not competitive sources of financing for taxable persons (through guarantees, higher than commercial interest rates, short periods)
- are granted so to shortest possible length of time.

6.4. Revive debt written off in case of renewed trading while taking care not to discourage new ventures

7. Evaluation, performance indicators

- 7.1. To pursue the development of clear objectives for the administration of VAT covering a range of cost and compliance matters.
- 7.2. To develop broad range of targets and indicators of performance that measure not only aspects of administrative cost efficiency but also the taxable persons costs and overall compliance levels.
- 7.3. To establish the use of standardised evaluation and reporting of results that allows a consistent and accurate information base for the review of performance.
- 7.4. Develop the overall monitoring and management of quality and efficiency of work performed and the equity of treatment of taxable persons in the national territory.

**6.3. FOLLOW UP**

The Commission intends to promote these improvements through measures both on a regulatory level and an operational one:

1. On a regulatory level the Commission has already put forward such a proposal as an *amendment to paras 2. and 3. of Article 12 of Regulation 1553.*<sup>11</sup>

The Commission proposal would imply that its current activity under Article 12 would be complemented with visits to Member States administrations in the context of systems audits of VAT procedures. Audit plans would be concerted with national administrations. The potential improvements identified would be discussed, as presently, with the administration concerned.

In case systems audits results showed important differences in effectiveness, the Commission could consider the issue of recommendations to the Member States concerned.

Such amendment recognises the generally coincident interests of the Union and Member States in effective VAT administration, and the potential for co-operation between the Commission and Member States' administrations in this area.

2. On an operational level the Commission intends to contribute towards enhancing effectiveness by:

1. *holding regular meetings with Member States' administrations* to consider, together with the Member States concerned, the measures implemented and those that could contribute to further improvements;
2. *continuing the programme of seminars* for VAT officials on issues relevant to the improvement of the above mentioned procedures, and support similar initiatives taken by Member States themselves. Particular attention will be given in these seminars to the analysis of actual and potential improvements in specific procedures.
3. *promoting the collaboration between Member States administrations in the development of common projects* aimed namely at the analysis of specific trader populations, specific forms of non-compliance, and

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<sup>11</sup> The amended text as proposed by the Commission now reads:

"1. The Member States shall provide the Commission with information concerning the procedures which they apply for registering taxable persons and determining and collecting VAT and on the modalities and results of their VAT control systems.

2. The Commission may carry out spot checks on the national authorities to verify the procedures, modalities and results referred to in paragraph 1.

The Commission shall consider, together with the Member State concerned, whether improvements to these procedures can be contemplated with a view to increase their effectiveness. To this end, the Commission shall, where appropriate, submit recommendations to the Member States concerned.

3. The Commission shall produce a report every three years on the procedures applied in Member States and on any improvements that are contemplated, accompanied, where appropriate, by recommendations from the Commission with a view to increasing their effectiveness."

developing common evaluation indicators expressed as far as possible in a quantitative manner.

Table 1

**VAT in the Community and in the Member States**  
**Community Own Resources by source of revenue 1991-1994**

	1991	1992	1993	1994 (1)
<b>Community revenue</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>
Agricultural levies	4,4	3,3	2,9	2,9
Custom duties	20,4	18,9	16,8	18,0
VAT own resources	53,8	58,0	52,5	51,3
4th resource (GNP)	13,2	13,9	25,2	27,0
Miscellaneous	8,1	5,8	2,6	0,7

(1) Budget 1994.

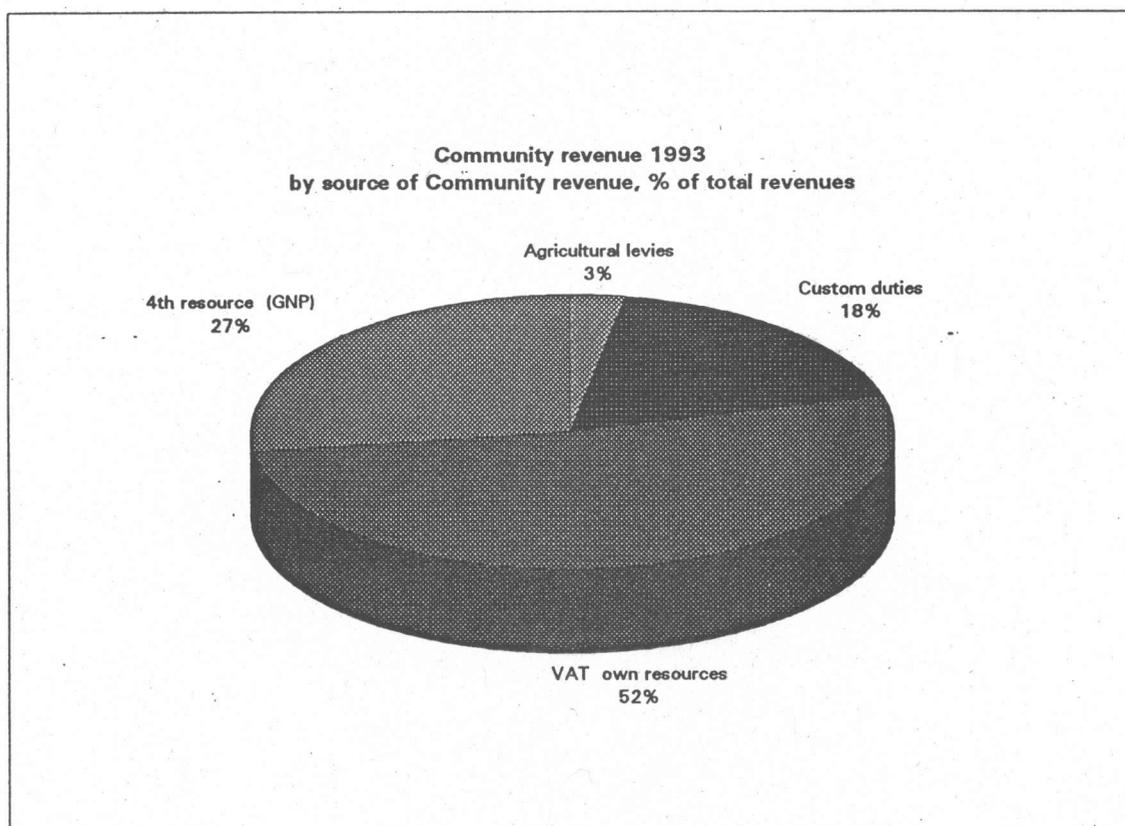


Table 2

**Amount of VAT own resources paid by Member States to the Community Budget (1991 - 1993), Mio. ECU**

Member State	1991		1992		1993	
B	1022,6	3,4%	1108,1	3,2%	1029,3	3,0%
DK	608,9	2,0%	618,0	1,8%	626,4	1,8%
D	8736,8	28,9%	10183,2	29,2%	10565,2	30,6%
GR	469,1	1,6%	508,8	1,5%	616,7	1,8%
E	2977,3	9,8%	3533,3	10,1%	3304,7	9,6%
F	7083,3	23,4%	7508,1	21,6%	6812,9	19,8%
IRL	231,2	0,8%	248,3	0,7%	282,4	0,8%
I	5215,0	17,2%	5278,0	15,2%	6247,2	18,1%
L	68,9	0,2%	79,3	0,2%	114,3	0,3%
NL	1609,1	5,3%	1700,7	4,9%	1813,5	5,3%
P	392,0	1,3%	469,9	1,3%	527,7	1,5%
UK	1841,8	6,1%	3600,9	10,3%	2549,4	7,4%
<b>Total EUR 12</b>	<b>30255,9</b>	<b>100,0%</b>	<b>34836,6</b>	<b>100,0%</b>	<b>34489,9</b>	<b>100,0%</b>

Source: Compte de gestion de la C.E.

Note: The figures include the balances and the UK correction

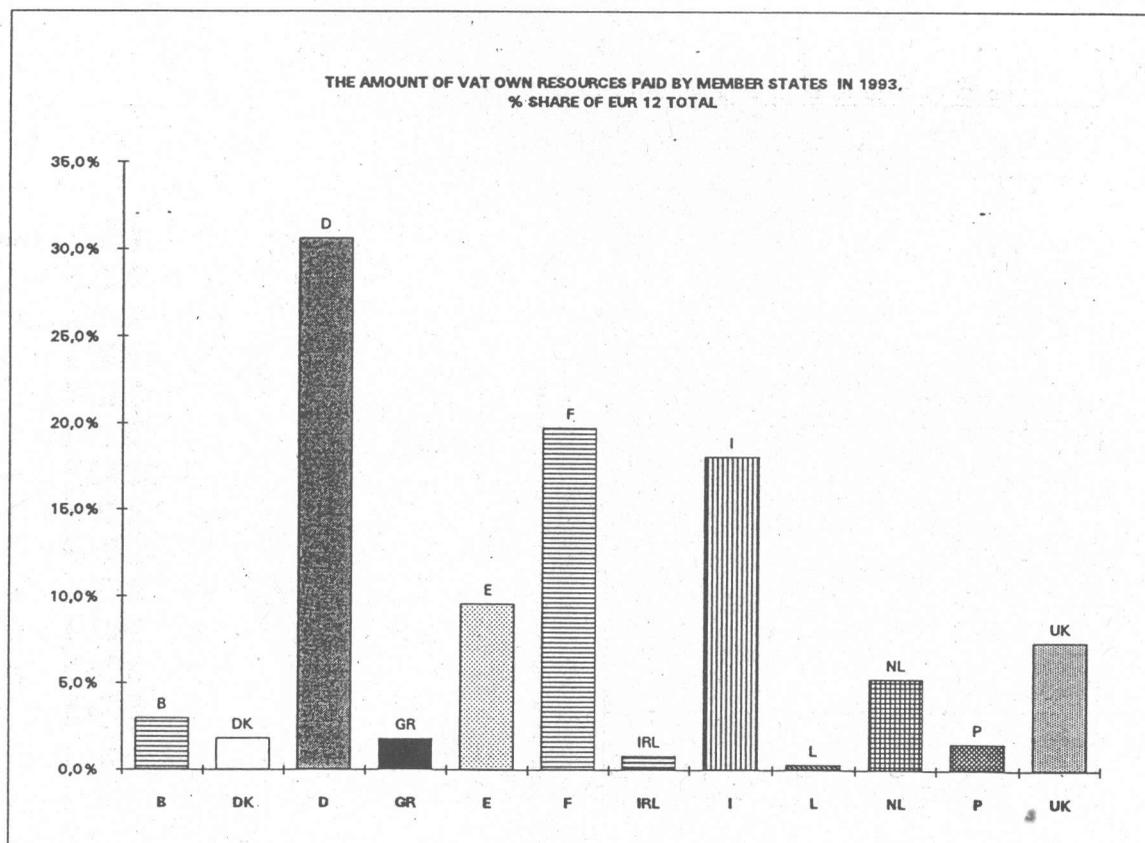


Table 3  
VAT Revenue collected in Member States

VAT revenue as % of total tax revenue (1) 1991/1992			Total tax revenue as % of GNP 1991/1992			VAT revenue as % of GNP 1991/1992		
	VAT revenue bn. ECU	Total tax rev. bn. ECU	VAT as % of total tax revenue		Total tax revenue as % of GNP		VAT revenue bn. ECU	VAT as % of GNP
B	13,0	77,3	16,8	B	45,7	B	13,0	7,7
DK *	9,8	50,6	19,4	DK *	48,0	DK *	9,8	9,3
D	103,4	636,9	16,2	D	42,5	D	103,4	6,9
GR *	6,1	23,5	26,0	GR *	41,1	GR *	6,1	10,7
E	28,0	163,4	17,1	E	36,8	E	28,0	6,3
F	77,7	446,6	17,4	F	43,7	F	77,7	7,6
IRL *	2,8	13,5	20,7	IRL *	37,1	IRL *	2,8	7,7
I	55,7	395,8	14,1	I	41,9	I	55,7	5,9
L *	0,6	3,7	15,2	L *	48,8	L *	0,6	7,4
NL	19,6	118,4	16,5	NL	47,8	NL	19,6	7,9
P *	3,7	19,8	18,8	P *	35,7	P *	3,7	6,7
UK	56,4	273,9	20,6	UK	34,0	UK	56,4	7,0
EUR 12	376,7	2223,3	16,9	EUR 12	41,2	EUR 12	376,7	7,0

\* = 1991

(1) Total tax revenue is represented by: taxes linked to production and imports; taxes on income and wealth; actual social contributions; capital taxes.

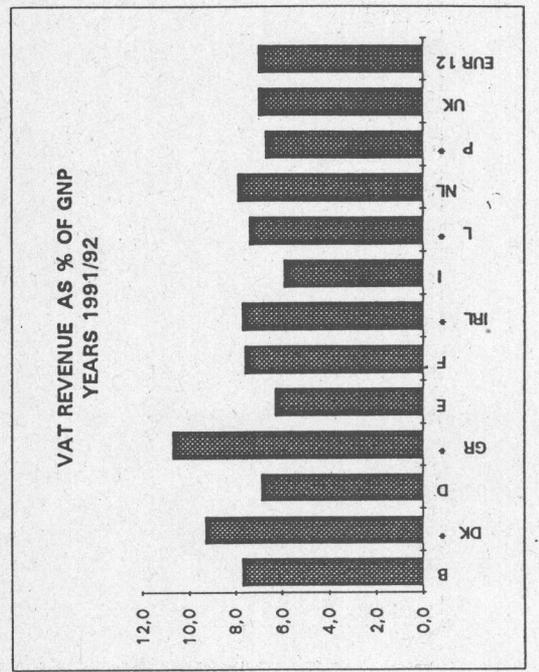
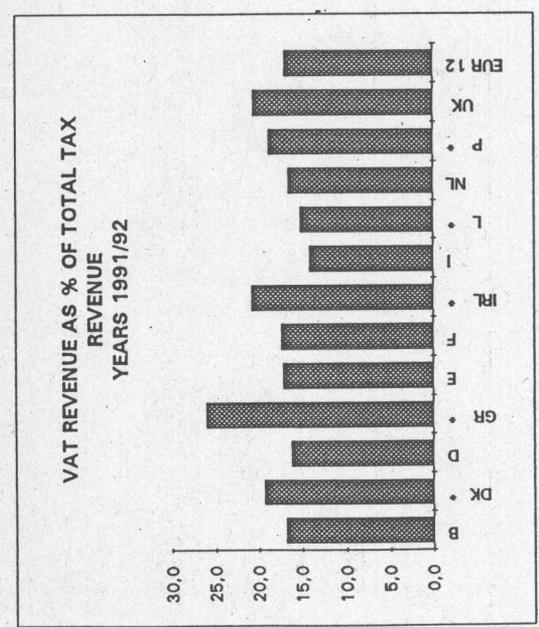


Table 4

Micro, small, medium-sized and large businesses in each country as % of total micro, small, medium-sized and large businesses in the entire European Union  
(industrial sector construction included)

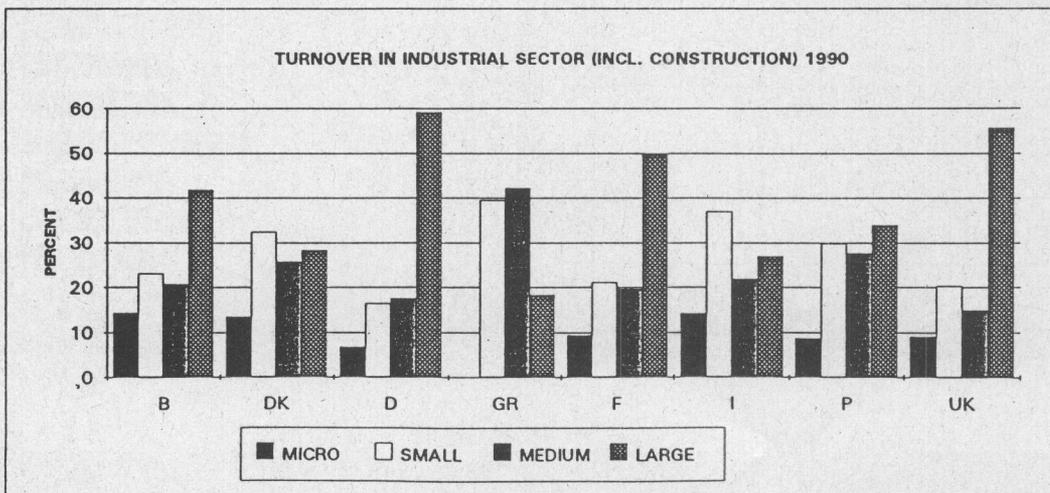
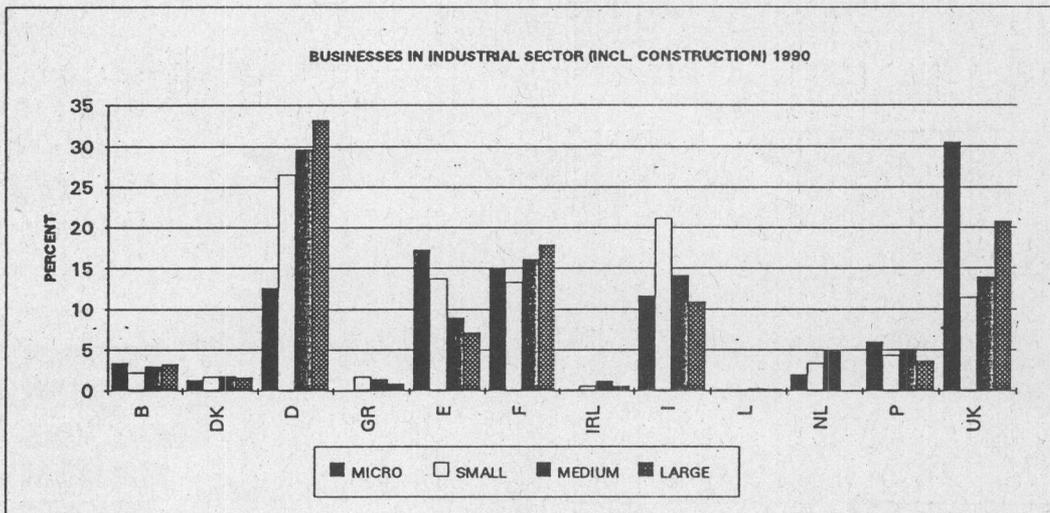
1990	Micro		Small		Medium-size		Large		Total
	No of units	% of turnover							
B	94067	14	9919	23	1081	21	219	42	105286
DK	37240	13	7408	32	641	26	110	28	45399
D	347605	7	117719	16	10678	18	2239	59	478241
GR	N.A.	...	7587	39	507	42	60	18	8154
E	477631	...	61024	...	3227	...	481	...	542363
F	416882	9	59124	21	5807	20	1210	50	483023
IRL	1636	...	2569	...	404	...	38	...	4647
I (1989)	320233	14	93972	37	5104	22	734	27	420043
L	1449	...	627	...	83	...	11	...	2170
NL	55503	...	14883,05	...	1734	...	0	...	72120
P	165803	9	19217	30	1830	28	245	34	187095
UK	839855	9	50713	20	5016	15	1404	56	896988
Total	2757904		444762		36112		6751		3245529

Note: Enterprises for GR and IRL only include NACE 1-4. Enterprises for NL only include NACE 2-4.

Note: Turnover for DK and I only include NACE 2-5. Turnover for GR only include NACE 1-4.

Note: For GR the turnover for medium enterprises includes turnover from large enterprises within NACE 1.

Note: The figures for D include only WestGermany and WestBerlin.



**Table 5**  
**THE PROPORTION OF THE NUMBER OF BUSINESSES IN SENSITIVE SECTORS AND THEIR TURNOVER, 1990**

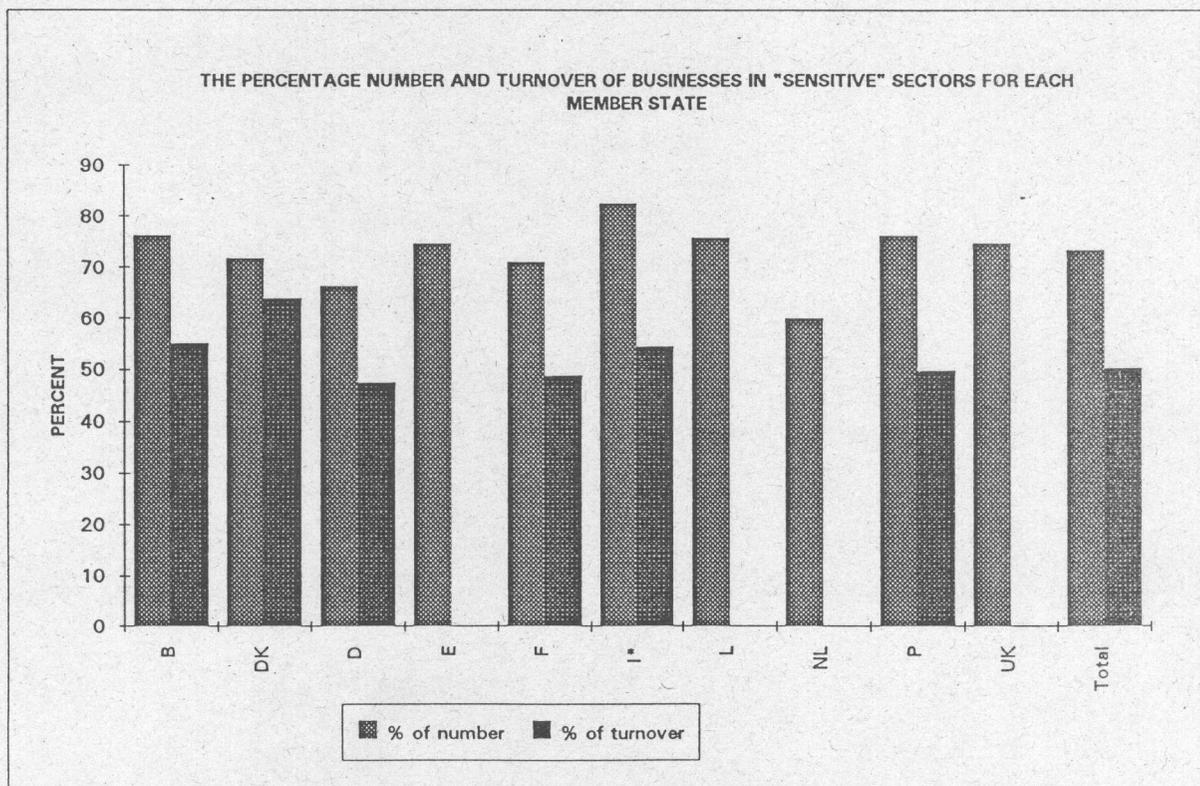
Member State	Number of businesses	Turnover of businesses	Number in "sensitive" sectors	Turnover in "sensitive" sectors	Pct. of total "sensitive" sectors	Pct. of turnover "sensitive" sectors
B	487.654	354.174	371.419	195.052	76	55
DK	154.090	163.961	110.594	104.760	72	64
D	2.045.435	2.501.439	1.355.477	1.187.416	66	47
GR	8.364	22.091	n.a.	n.a.	n.a.	n.a.
E	2.258.172	n.a.	1.683.833	n.a.	75	n.a.
F	1.975.747	1.770.877	1.401.651	864.083	71	49
IRL	4.804	n.a.	n.a.	n.a.	n.a.	n.a.
I*	1.590.811	1.294.222	1.310.664	705.368	82	55
L	15.321	n.a.	11.604	n.a.	76	n.a.
NL	397.864	n.a.	238.136	n.a.	60	n.a.
P	603.285	133.426	459.093	66.411	76	50
UK	2.659.952	n.a.	1.985.668	n.a.	75	n.a.
<b>Total</b>	<b>12.188.331</b>	<b>6.218.099</b>	<b>8.928.139</b>	<b>3.123.090</b>	<b>73</b>	<b>50</b>

Note: Figures for Italy are from 1989.

Note: The member states use the following units:  
 Enterprises D, E, F, I, L, P and UK  
 VAT-units B  
 Legal units DK  
 Economic units NL

Note: It is not possible to generate figures for "sensitive sector" for GR and IRL.

Note: The figures for D include only WestGermany and WestBerlin. According to Finanznachrichten no. 57/93 from Bundesministerium der Finanzen there existed 3.998.371 businesses in the whole of Germany in 1990.



## KEY TO TABLES 4 and 5

*Source:* European Commission: Enterprises in Europe - Third Report, vol. I and II, 1994

*Definitions:*

*Industry:* NACE 1-4

- Energy and water
- Extraction and processing of non-energy-producing minerals and derived products; chemical industry
- Metal manufacture; mechanical, electrical and instrument engineering
- Other manufacturing industries

*Construction:* NACE 5

- Building and civil engineering

*"Sensitive" sectors:* NACE 5, 6, 7, 9

- Building and civil engineering
- Distributive trades, hotels, catering, repairs
- Transport and communication
- Other services

<i>Size:</i>	Micro:	0-9	employees
	Small:	10-99	employees
	Medium:	100-499	employees
	Large:	Over 500	employees

*Figures:* The statistics in this report relate to the year 1990.

TABLE 6

VAT ADMINISTRATION IN MEMBER STATES - ANALYSIS OF DEPARTMENTAL RESPONSIBILITIES BY FUNCTION.

Functions	B	Note 1	DK	Note 1	D	Note 1	GR	Note 1
Registration	1. the 241 VAT control offices 2. the central VAT office for taxable persons resident abroad (BCAE) (1)	A), B), C) A), B), C)	1. Administration department	A), B), C) A), B), C)	1. Finanzämter	A), B), C)	1. Ministry of Finance Information Technology Service (MFITC)	A), B), C)
Note 2	1. S L 2. S L		1. J L		1. J L		1. J C	
Assessment	1. the 241 VAT control offices 2. BCAA 3. Customs and Excise Department (C&E dept.) (2)	A), B), C) A), B), C) A), B)	1. Administration department 2. Legal department	A), B), C) A), B), C)	1. Finanzämter (1)	A), B), C)	1. Competent Head of Public Finance Department (PFD) 2. Customs Offices	A), B), C) C)
Note 2	1. S L 2. S L 3. J L		1. J B 2. J B		1. J L		1. C, L 2. C, L	
Recovery + Enforcement	1. the collection offices 2. the 2 regional information processing centres (CTRI) 3. the information processing centre (CTI) 4. C&E dept.	A), B), C) A), B), C) A), B), C) A), B)	1. Administration department 2. Control and Enforcement Department	A), B), C) A), B), C)	1. Finanzämter	A), B), C)	1. State Revenue Offices (PFD) 2. Customs Offices	A), B), C) C)
Note 2	1. S L 3. S C 4. J L		1. J B 2. J B		1. J L		1. C, L 2. C, L	
Control	1. the 241 VAT control offices 2. BCAA 3. the 11 VAT investigation and documentation departments (SRD) 4. the Special Inspectorate of Taxes Department 5. C&E dept. 6. the 233 registration offices (3)	A), B), C) A), B), C) A), B), C) A), B), C) A), B) A)	1. Control and Enforcement Department	A), B), C)	1. Finanzämter (2)	A), B), C)	1. PFD 2. Dept. of Precautionary Control of the Movement of Goods 3. Customs Offices	A), B), C) A) B), C)
Note 2	1. S L 3. S L 5. J L		1. J B		1. J L		1. C, L 2. C, B	

Note 1:

- A) Taxable persons performing domestic transactions
- B) Taxable persons performing Intra-community transactions
- C) Taxable persons performing transactions with 3rd countries

Note 2:

- S VAT Administrated singly
- J VAT Administrated jointly with other taxes
- C VAT Administrated centrally
- L VAT Administrated locally
- B VAT Administrated both centrally and locally

TABLE 6

VAT ADMINISTRATION IN MEMBER STATES- ANALYSIS OF DEPARTMENTAL RESPONSIBILITIES BY FUNCTION.

Functions	E	Note 1	F	Note 1	IRL	Note 1	I	Note 1
Registration	1. Tax Administration Department (1) 2. Customs & Excise Department (1)	A), B) C)	1. Directorate-General for Taxation (DGI) 2. Directorate-General for Customs and Indirect Duties (DGDDI) (1)	A), B), C) C)	1 Office of Chief Inspector of Taxes	A), B), C)	1 VAT Offices 2 Customs	Note 1 A), B) C)
Note 2	1. J B 2. J C, L		1. J L 2. J L		1 J B		1 S L 2.	
Assessment	1. Tax Administration Department 2. Customs & Excise Department (1)	A), B), C) C)	1. DGI 2. DGDDI	A), B), C) C)	1 Office of Chief Inspector of Taxes	A), B), C)	1 VAT Offices 2 Customs	A), B) C)
Note 2	1. J C, L 2. C, L		1. J L 2. J L		1 J B		1 S L 2.	
Recovery + Enforcement	1. Collection Department 2. Customs & Excise Department (1)	A), B), C) C)	1. DGI 2. DGDDI	A), B), C) C)	1 Collector -Generals office 2 Customs and Excise for VAT on Imports	A), B), C) C)	1. VAT Offices 2. Agents Enforcement dept. 3. Customs	A), B) A), B), C) C)
Note 2	1. J C, L 2. C, L		1. J L 2. J L		1 J B 2. S B		1. S L 2. J L 3.	
Control	1. Financial and Tax Inspection Department (2) 2. Customs & Excise Department	A), B), C) C)	1. DGI 2. DGDDI	A), B), C) B), C)	1 Office of Chief Inspector of Taxes	A), B), C)	1. VAT Offices 2. Guardia Finanza (1) 3. SECIT 4. Revenue Department 5. Regional Directorates 6. Customs	A), B), C) A), B), C) A), B), C) A), B), C) C) B), C)
Note 2	1. J C, B 2. C, B		1. J L 2. J L		1 J B		1. S L 2. J L 3. J C 4. S C 5. S L 6.	

Note 1:

- A) Taxable persons performing domestic transactions
- B) Taxable persons performing Intra-community transactions
- C) Taxable persons performing transactions with 3rd countries

Note 2:

- S VAT Administrated singly
- J VAT Administrated jointly with other taxes
- C VAT Administrated centrally
- L VAT Administrated locally
- B VAT Administrated both centrally and locally

**TABLE 6**  
**VAT ADMINISTRATION IN MEMBER STATES- ANALYSIS OF DEPARTMENTAL RESPONSIBILITIES BY FUNCTION.**

Functions	L	Note 1	NL	Note 1	P (1)	Note 1	UK	Note 1
Registration	1. Tax offices 2. State Computer Centre (C.I.E.)	A), B), C)	1. Business units 2. Units for large business 3. District Customs Offices	A), B), C) A), B), C) C)	1. Finance Division	A), B), C)	1. HM CUSTOMS AND EXCISE, VAT Practice Directorate (HM C&E, Pract. Dir.) (1)	A), B), C)
Note 2	1. S L		1. J L 3. J L 2. J L		1. J B		1. S B	
Assessment	1. Tax offices	A), B), C)	1. Business units 2. Units for large business 3. District Customs Offices	A), B), C) A), B), C) C)	1. Finance Division 2. Registration Dept. Directorate	A), B), C) A), B), C)	1. HM C&E, Pract. Dir.	A), B), C)
Note 2	1. S L		1. J L 3. J L 2. J L		1. J B 2. S B		1. S B	
Recovery + Enforcement	1. Central Revenue Office	A), B), C)	1. Business units 2. Units for large business 3. District Customs Offices	A), B), C) A), B), C) C)	1. Finance Division 2. VAT Recovery Dept. Directorate 3. Directorate General for Customs for imports	A), B) A), B) C)	1. HM C&E, Pract. Dir. (2)	A), B), C)
Note 2	1. S C		1. J L 3. J L 2. J L		1. J B 3. J L 2. J B		1. S B	
Control	1. Tax offices 2. External Inspection	A), B), C)	1. Business units 2. Units for large business 3. Central unit for intra-community transactions	A), B), C) A), B), C) B)	1. Directorate for Tax Inspection and Protection Depts. 2. District Finance Directorates by TAX Inspection Division 3. Directorate General for Customs for imports	A), B) A), B) C)	1. HM C&E 2. 90 Offices controlling 1,6M traders and 22 Large Traders Units controlling 167 traders. 3. 90 Offices controlling 185 000 traders and 22 Large Traders Units controlling 150 traders	A), B), C) A
Note 2	1. S B 2. S B		1. J L 3. S C 2. J L		1. J B 3. J L 2. J B		1. S B 2. S B	

Note 1:

- A) Taxable persons performing domestic transactions
- B) Taxable persons performing Intra-community transactions
- C) Taxable persons performing transactions with 3rd countries

Note 2:

- S VAT Administrated singly
- J VAT Administrated jointly with other taxes
- C VAT Administrated centrally
- L VAT Administrated locally
- B VAT Administrated both centrally and locally

TABLE 6  
VAT ADMINISTRATION IN MEMBER STATES- ANALYSIS OF  
DEPARTMENTAL RESPONSIBILITIES BY FUNCTION.

Notes

B

- (1) The central VAT office for taxable persons resident abroad is responsible for the registration of taxable persons established outside Belgium and not possessing a permanent establishment there. It is also responsible for the approval of competent representatives. Registration involves: a) figures being gathered at local level.; b) database run at national level.
- (2) The Customs and Excise Department is involved in establishing the VAT on imports, tobacco manufactured within the country and mineral oils.
- (3) The registration offices are involved in the case of the sale of a new building with application of VAT.

DK

The regional customs and tax offices are free to choose local organisation and structures. However, the structure chosen must always be adapted to the tasks entrusted to the offices and should contain at least a collection office and a controls and inspection department.

To some extent, the administration delegates specific duties of a central nature to one or more regional offices which will carry out these tasks at a national level.

All controls of intra-Community trade are conducted by the individual regional office. CLO is delegated to one of the regional customs and tax offices in Copenhagen and consists merely of passing on information between the countries and producing statistics.

Some training for Administration staff is provided by eight regional training offices which are also responsible for training the staff of the regional offices covered by the appropriate training office.

D

- (1) Where tax offices have a provisional returns unit, they only deal with VAT cases.
- (2) Where tax offices have a special inspection unit, they only deal with VAT cases.

E

- There is no distinct structure dealing with Value Added Tax.
  - The Regional Finance Offices, Provincial Finance Offices and Local Finance Offices form part of the peripheral organisation of the State Tax Administration Agency (A.E.A.T.). Each Regional Finance Office covers the territory of an Autonomous Community, the Provincial Finance Offices, correspond to the provincial structure of the State and the Local Finance Offices exercise their functions at the level below the provincial.
  - These peripheral bodies perform the functions of tax administration, control and collection in a decentralised way.
- (1) Taxable persons who come under special schemes for farming, stock-farming and fishing and retailers under special schemes are excluded, since they no longer submit periodical VAT returns-assessments.
  - (2) There are units covering the whole of the national territory which are responsible for actions relating to large tax-payers (inspection) and to actions for recovery of major sums (collection).

F

- (1) DGDDI, The customs authority receives VAT on goods imported either commercially or by travellers, and on imported petroleum products. An accounting network of 292 offices through the country (both border posts and offices in the interior), oversees the collection of the tax.

I

Structure and composition of the Guardia di Finanza

The total number of staff allocated to the Guardia di Finanza to perform its duties stood at 650348 on 1 January 1993. This was made up of 2 489 officers, 25 950 non-commissioned officers, 37 807 lance corporals and customs officers.

It is structured as follows: central headquarters, branch operational units and training units.

More particularly: a) Central headquarters, which is the controlling authority of the organisation is made up of divisions, offices and units responsible for the running of the organisation.

- b) Branch operational units are made up of: (1) 15 Area Commands under a Brigadier, usually covering the Regions or equivalent territorial area, and controlling: 20 legions, 1 central squad and 13 regional squads of the Polizia Tributaria (fiscal police), 1 special squad of the Polizia Valutaria (monetary police) covering the whole country, 1 central investigation service for organised crime, 1 anti-fraud centre; (2) 1 Air and Sea Unit with its headquarters in Rome, responsible for: the Pratica di Mare aviation centre, the Gaeta naval centre.

In the country, apart from the regional and central squads already mentioned, which are the units specialised in combating tax evasion, the organisation centres around the Legion headquarters which govern, at a lower level, the executive divisions of the service. Among these, a particularly important role is played by the provincial units of the Polizia Tributaria stationed in the administrative capital of each province.

P

Registration (c) Registration for VAT is done by submitting a declaration of commencement of business to the relevant Repartição de Finanças (finance division). It is computer-processed by the Direcção de Serviços do Cadastro (directorate for registration departments) - Divisão do Cadastro do IVA (VAT register division). The declaration of commencement of business serves for both VAT and income tax.

Assessment (c) Assessment is handled in its initial phase by the finance divisions which monitor taxable persons on the basis of the data on the declaration of commencement of business.

Recovery + Enforcement (c) Normal VAT recovery in respect of the monthly and quarterly periodic returns is centralised and computerised in Lisbon at the Direcção de Serviços de Cobrança do Imposto sobre o Valor Acrescentado (directorate for VAT collection departments) which receives the returns and the means of payment and processes them by computer. Tax due from persons covered by the simplified arrangements for small businesses (small retailers scheme provided for in Article 60 ff. of the VAT Code) is paid to the finance divisions. Enforcement is handled by the local divisions (finance divisions and public finance departments), such as recovery of additional amounts due following inspections, underpaid amounts and payments compulsorily deducted. VAT due on imports is collected by the various customs offices, which are also responsible for recovery of other taxes such as special taxes on consumption (excise).

U-K

(1) The registration function is carried out through a network of local VAT Offices, and two centralised processing units. Overseas traders who do not have a place of business, or a tax representative in the UK are dealt with by the local Office in Aberdeen.

(2) The VAT debt is mainly managed by through the network of 83 local VAT Offices. However some debts are managed centrally, e.g. insolvent debts of large payers.

HM Customs and Excise - VAT Practice Directorate. Roles and responsibilities

VAT Strategy and Planning Services (VSPPS): VAT business strategy, including image of the tax, quality issues, tax charter, deregulation; information systems strategy including IT; strategic initiatives including personnel policy and project management.

VAT Registration and Collection Policy (VRCP): Registration/deregistration policy, Agricultural Flat Rate scheme; special schemes and small businesses; tax structure, VAT tribunals; VAT policy on imports, exports, new means of transport; VAT insolvency, Bad Debt Relief policy.

VAT Management Division (VMD): Control policy, trade category exercise, multinationals, large traders, insolvent traders; Debt management policy, security, distress, civil recovery; Training policy for control, debt management and Local VAT Office Investigation Teams (LVOITs); IT developments to support staff in Local Offices, local visit selection, VATPACE and VIES (including European Sales Listings (statistics)); Assessment, penalty and offence policy, criminal offences casework; compliance; tax yield indicator, monitoring and development of performance indicators, credibility and risk analysis policy.

VAT Operations Division (VOPS)

Finance and resourcing; accounting adjustments, error return correction, annual accounting and repayment compensation cases, credibility processing; VAT Infrastructure Project, liaison with Departmental Information Technology Division; insolvency casework and helpdesk, Large Payers Unit, surcharge appeals, Insolvency Act Team (IAT); ESLs, Statistical Liaison.

TABLE 7

## VAT ADMINISTRATION IN MEMBER STATES- HUMAN RESOURCE UTILISATION

Member States	1. Total departmental staff	2. Number of / proportion of total staff (col 1) allocated to VAT	3. Analysis of staff employed on VAT (col 2)			4. Further analysis
			A. General administration duties	B. General control duties	C. VAT inspection	
B	4188	VAT Adm.: 3.883 Customs Adm.: 115 I.S.I. Adm.: 140	Central Adm.: 277 C.F.P.: 29 Regional Dir.: 265	External services: 1096 Inspections: 41 Customs: 115	Control staff: 1581 I.S.I. Adm.: 140 S.R.D.: 109	D. Recovery and enforcement duties Collection offices: 417 CTI and CIRI: 68
DK	4 583 (Regional Customs & Tax Offices) (1) + 581 (Central Customs and Tax Administration) (2)					
D	115 853 (Tax offices only as at 31.12.1992)	71 828,86 = 62% staff allocated to VAT 20 563,91 = 17,8% (estimate)	17 377,95 = 24,2% (est.) 4 344,49 = 21,1% (est.)	28 383,99 = 39,5% (est.) 8 833,79 = 43% (estimate)	12 743,83 = 17,7% (est.) 4 054,86 = 19,7% (est.)	13 323,10 = 19,6% (est., not contained in A, B or C) 3 330,77 = 16,2% (est., not contained in A, B or C)
GR	5 650	3 450	50	3 300	50	2 200
E	26 600	not applicable		4 500		3 800
F	80 283 ( DGI )	not applicable				10 347 (accounting network DGI in 1992)
IRL	6 011	651	31	329	291	108
I	66 256 (Guardia di Finanza)	6123 ( VAT Offices)	1 888 ( VAT Offices)	4234 ( VAT Offices) Guardia di Finanza: 2 489 officers, 25 950 non- commissioned officers, 37 0807 lance corporals and custom officers	2427	504 ( VAT Offices)
L	251	118	85 (jointly with B)	106 (jointly with A)	2	15
NL	4 656	not applicable				
P	515	432	69	363		78
UK	26725	12765 (of which 750=HQ staff)	2498 (not including HQ staff)	3827	5650	0,1%

## Notes

DK: (1) people working with VAT and other taxes  
(2) people working with all taxes

## Guide to table

Col 1: The staff number in this column represents the total strength of the administrative department (s) responsible for VAT matters (singly or jointly).

Col 2: This column states the total n° of staff directly involved in VAT work. If the department is responsible for more than one tax it indicates the proportion of the total (col 1) staff so employed.

Col 3: Analysis of the total of staff for col 2 by the duties upon which they are employed.

Col 4: Identifies the number or proportion of staff analysed for A, B, C involved primarily in recovery and enforcement of VAT debt.

Source: Member States Response to E.C. Questionnaire 1994

TABLE 8  
VAT ADMINISTRATION TRAINING IN MEMBER STATES - GENERAL TRAINING COURSES 1991 - 1993

	SPECIFIC INITIAL TRAINING			INTERMEDIATE GENERAL TRAINING			ADVANCED TRAINING		
	(i)	(ii)	(iii)	(i)	(ii)	(iii)	(i)	(ii)	(iii)
B (1)	1991	34d	150	2	30	205	1	15	170
	1992	34d	155	2	30	184	1	6	170
	1993	34d	400	2	30	542			
DK	1991	52	40	5	60	42	2	30	40
	1992	60	30	4	6	110			
	1993	60	24	4	60	26			
D			See Notes						
GR	1992	366	840	27	50min.	33			
	1993	126	200	135	50min.	164	288	50min.	362
	1991	25	658	85	5	3750	21	15	725
E	1992	23	577	105	6	3820	30	10	781
	1993	5	115	140	15	5187	32	12	1015
	1991	2	6	4	12	171	3	8	153
F DGI		S 80h cat.A	541 cat.A	38	6d	LS 694			
		J 18h	81	8d	8d	LJ 1615			
		J 70H cat.B	712 cat.B	32	18d	CJ 648			
F DGI	DGDDI	4	579	3	8	153	6	18	196
	1992	2	25	5	10	239	3	8	150
		S 76h cat.A	780 cat.A	3	3d	LS 861			
F DGI	DGDDI	4	630	3	8	150	7	16	264
	1993	5	86	11	16	796	9	16	147
		S 90h cat.A	786 cat.A	11	3d	LS 220			
IRL	1991	13 S,C&L	195	1	15	16			
	1992	6 S,C&L	87						
	1993	15 S,C&L	209						
I (1)	1991	2 S&J	6/6	1 S&J	36h	9			
	1992	2 S&J	10/9						
	1993	2 S&J	9/5	1 S&J	36h	14	1 S&J	18h (1)	
NL	1991: 27 stud. 1992: 75 stud. 1993: 69	18 months (MBO):	J training at the level of senior secondary vocational education						
NL	1991: 46 stud. 1992: 32 stud. 1993: 10 stud.	3 year (HBO):	J training at the level of higher vocational education						
NL	1991: 49 stud. 1992: 49 stud. 1993: 35 stud.	university level training							
P	1991	9	53	8	39	124	1	262	23
UK	1992	9	94	33	21	580			
	1993		185	154	11	3 489			
	1991/1992 1993	Figures not available (1) C 10	appr.100	(2) 13 C	5-15 d	appr.120.	(2)(3) 52 C	5 - 10 days	1 152

Source: Member States Response to E. C. Questionnaire 1994

**TABLE 8**  
**VAT ADMINISTRATION TRAINING IN MEMBER STATES - GENERAL TRAINING COURSES 1991 - 1993**

Notes

Column Guide

- i) the number of courses provided (VAT)
- ii) the average length of each course - eg d (day) min (minute).
- iii) the number of staff attending in each year (VAT)

indicating :

- a) whether the courses are provided singly for VAT or jointly with training for other taxes (S or J)
- b) at what location each course is provided centrally or locally (C or L)
- c) any third party used to provide training.

- B:** (1): a) All the courses listed are organised separately for VAT: S  
 b) All the courses are organised at local level by the regional vocational training centres: L, with supervision at central level  
 c) No recourse is had to third parties.

**- Specific initial training:**

- corresponds to the basic training given to all officials recruited at grade 2 or 3
- 1993 takes account of the integration of officials from the customs department

**- Intermediate general training:**

- corresponds to the training given to officials registered for the examinations for promotion to the grades of assistant auditor and auditor and to assistant inspectors and assistant auditors recruited at these grades

**- Advanced training:**

- corresponds to the training given to officials registered for an examination for promotion to the grade of senior inspector

**DK:** (i): all courses could be C/L; (ii) hours of lessons

**D:** initial training: Theoretical and practical training courses jointly with other taxes provided by experienced staff; 3 years for future officials in higher level of which 182 hours theoretical VAT courses; 2 years for future officials in lower level of which 73 hours theoretical VAT courses; 1 year for future officials in management level. Continuous advanced training on practical problems during activity.

**F:** DGI : Directorate General for taxation/DG DDI: Directorate General for customs and Indirect Duties

**I:** (1) Staff training on VAT:

The training of staff working at the Ministry of Finance is usually organised by the Scuola Centale Tributaria "Ezio Vanoni" (central tax college), which was set up by Law N° 310 of 10 January 1957 and comes directly under the Ministry.

The Tax College has its headquarters in Rome and branches throughout Italy. In-house staff training courses have also been launched at the initiative of the regional director for training.

The managing director of the College is a director from the Ministry of Finance, while the College's rector was elected from among the University's professors.

The teaching staff is made up of university professors, magistrates, administrators, state lawyers and civil servants.

The courses aimed at officials involved in preventing VAT fraud hold a particularly important place among the various courses and seminars held at the College.

All staff working in this area must take a basic course lasting between four and six months, in addition to which at individual offices the director or the heads of specific operational areas are responsible for continuing the training so as to keep their staff up to date on the various aspects of VAT.

The basic training course is followed up by specific courses dealing in greater depth with specific areas of the offices' control activities as well as courses held when there have been important legislative changes.

The training programmes also include courses on intracommunity VAT, study of fraud prevention techniques and computerised systems.

**L:** (1) training provided by a third party

**UK:** (1) Basic VAT Training (BVT) Courses are provided locally by each Executive Unit. No figures are available for the number of course run locally, or the number of staff attending. Courses run over a period of nine months and involve approximately 10 weeks classroom training interspersed with "on the job" training Centrally run course account for only a few of those carried out in any year

(2) Courses are provided locally by each Executive Unit. No figures are available for the number of courses run locally, or the number of staff attending

(3) Provided by, the Institute of Chartered Accountants of Scotland, for staff,

TABLE 2  
VAT ADMINISTRATION TRAINING IN MEMBER STATES - SPECIFIC TRAINING COURSES 1991-1993

	DEBT ENFORCEMENT			VAT CONTROL			USE OF COMPUTERS/RISK ANALYSIS (1)			* OTHER		
	(i)	(ii)	(iii)	(i)	(ii)	(iii)	(i)	(ii)	(iii)	(i)	(ii)	(iii)
	1991			1	9	22	30	5	340	1	5	1806
B	1992			1	9	64	69	5	698	1	5	1708
	1993						44	5	444	2	2	1666
	1991	8	30	13	60	67	18	30	33	5	60	48
DK	1992	17	30	32	60	48	28	24	145	8	60	31
	1993	11	30	63	60	68	7	25	112			
D				9 S,C	4d	210						
GR												
E	(1)(2)											
	1991	67	4d	LS 1337	18d	CJ 266	176	4d	CJ 2822			
F		2	14d	CS 32	5d	LJ 1 079						
DGI				4	2d	LS 81						
	DGDDI	4	24	579	8	153	6	18	196			
	1992	55	4d	LS 1103	21d	CJ 251	140	6d	CJ 2248			
F		6	14d	CS 115	6d	LJ 833	27	2d	LJ 439			
DGI				3	2d	LS 64						
	DGDDI	4	24	630	8	150	7	16	264			
	1993	51	4d	LS 1 018	10d	CJ 263	96	6g	CJ 1 539			
F		34	33d	CS 675	6d	LJ 618	27	2d	LJ 425			
DGI				2	2d	LS 28						
	DGDDI	5	35	472	28	191	16	28	882			
IRL	see table 8											
I	1991						5 S,J	24	15			
	1992						7 S,J	24h	20			
L	1993						11 S,J	24h	102			
	In-service training in addition to the general courses listed above											
NL	1991	197	16	3 761	34	536	121	29	1479	1	21	10
	1992	7	18	127	31	474	19	15	198	-	-	-
P	1993	37	11	721	4	70	7	18	101	-	-	-
	1991	Figures	not	available								
	1992	Figures	not	available								
UK	1993	Figures	not	available	See Table 8 for details		(1) 2 Centrally organised	courses of 5 days for 41 staff were	completed to 31 March 1993			

Source: Member States Response to E.C. Questionnaire 1994

TABLE 9

VAT ADMINISTRATION TRAINING IN MEMBER STATES - SPECIFIC TRAINING COURSESNotesColumn Guide

- i) the number of courses provided (VAT)
- ii) the average length of each course
- iii) the number of staff attending in each year (VAT)

## indicating :

- a) whether the courses are provided singly for VAT or jointly with training for other taxes (S or J)
- b) at what location each course is provided centrally or locally (C or L)
- c) use of a third party to provide training.

Source: Member States Response to E.C. Questionnaire 1994

**B:** Debt enforcement: these concepts are integrated into the other types of training.

VAT control: this training is reserved to the assistant inspectors recruited; the control of intra-community transactions required the organisation of special seminars dealing with these matters for 1994.

Use of computers: entails mainly learning about word-processing (WP and Works), MS DOS and DBase; essentially consists of special training on computerised accounting (Cubic), programming.

Other: this refers only to the special retraining courses given on the new VAT legislation of 1993.

**D:** Indications given concern special training for customs officials necessary for research activities required for answers to requests under Regulation 218/92/CEE.

**DK** a) all courses J / L; (ii) hours of lessons

**E:** (1) Although no specific courses in VAT debt enforcement and control have been provided, the public officials posted to the Collection and Inspection Divisions take part in the General Courses which relate to aspects of VAT recovery and control from a point of view of the total administration of the Tax.

(2) The School of Public Finance of the Institute of Tax Studies together with the Department of Tax Data Processing of the State Tax Administration Agency (A.E.A.T.) have produced a Data-Processing Guide for the New VAT (law 37/92) which can be consulted through the terminals which exist throughout the Tax Administration (approximately 16,000). There have been numerous accesses throughout the network.

**L:** (1) Training provided by IFA or CIE

**UK:** (1) Courses are provided locally by each Executive Unit. No figures are available for the number of course run locally, or the number of staff attending

**TABLE 10**  
**VAT ADMINISTRATION IN MEMBER STATES- EXTENT OF COMPUTERISATION**

PROCEDURES COMPUTERISED (see note 1)	YES	NO	DETAIL (References see note 2)
REGISTRATION OF TRADERS (a)	B, D, DK, GR, E, F, IRL, I, L, NL, P, UK		DK: VAT and other taxes E: see note point 1 I: complete registry records P: see table 6
COMPUTERISED PROCESSING OF RETURNS (b)	B, D, DK, GR, E, F, IRL, I, L, NL, P, UK		B: computerised treatment of paper returns E: see note point 2 IRL: Simplified bi-monthly return & annual trading details L: except calculation of amount due; study underway P: see table 6
PERSONALISATION OF RETURN FORMS (c)	B, DK, E, F, IRL, L, NL, P, UK	D, GR, , I	DK: use of branch code such as NACE standard D: see note point 1 E: Identifying labels are sent to taxable persons
LISTING OF TAX PAYMENTS BY BANK OR ELECTRONIC TRANSFER (d)	B, D, DK, E, F, IRL, I, L, NL, UK	GR, P	D: see note point 2 E: see note point 4
CONTROL OF BANK REMITTANCES TO TREASURY OR CENTRAL BANK	B, D, , E, F, I, L, NL, P, UK	DK, D, GR, IRL	D: see note point 3 E: see note point 4 L: accounts checked by Central Payments Office
COMPUTERISED CONTROL FOR MISSING RETURNS (e)	B, DK, GR, E, F, IRL, I, L, NL, P, UK, D		D: see note point 4 E: see note point 5 I: do not send reminders, but impose penalties
CONTROL OF VAT REPAYMENTS ( see also Annex.8)	B, D, DK, GR, E, F, IRL, I, NL, P, UK	L	DK: data-based division into categories prior to establishment of control priority D: see note point 5 E: see note point 6 I: partly L: study underway UK: but some manual processing is involved
CONTROL OF INPUT TAX CREDITS	B, D, DK, GR, F, IRL, I, NL,	E, L, P, UK	D: see note point 6 E: control by Inspection F: preliminary formal control I: but automated for tax purposes L: study underway
CONTROL OF PENALTY PAYMENTS	B, D, DK, GR, F, IRL, I, NL, UK	E, L, P	D: see note point 7 E: see note point 8 I: by the VAT Offices. For debts recently enforced on a tax list by the agents L: study underway
USE IN THE PREPARATION OF BACKGROUND NOTES FOR CONTROL VISITS	D, DK, E, F, IRL, NL, P	B, GR, I, L, UK	DK: automatic print-out of control memo (report containing all registered information for each firm) D: see note point 8 L: study underway (ESKORT project) NL: special programmes for particular target groups
USE OF EXPERT SYSTEMS TO ASSIST IN, ON THE SPOT CONTROLS	D, DK, IRL, I, NL	B, GR, E, F, L, P, UK	DK: ESKORT D: see note point 9 I: in preparation L: study underway (ESKORT project) NL: ESKORT system UK: a PC based application, "VATPACE" has however been designed to help control officers in their visits
INTERACTION WITH OTHER TAX DEPARTMENT FILES FOR COMPARATIVE/CONTROL PURPOSES	DK, E, IRL, I, P	B, D, GR, F, L, NL, UK	DK: integrated administration of all taxes D: see note point 10 NL: being developed P: using VIES
OTHER USES - PLEASE SPECIFY	D, DK, E, F, I, L, UK	B, NL	DK: computer audit of accounts E: see note point 9 F: software for selection and assistance to the desk audit L: statistics extracted from central DB2 files in State computing centre using SQL (Structured Query Language) UK: various prints are produced by the department's computer system for control purposes

Source: Member States Response to E.C. Questionnaire 1994

**TABLE 10**  
**VAT ADMINISTRATION IN MEMBER STATES- EXTENT OF COMPUTERISATION**  
**Notes**

Note 1

- (a) Identification of traders (personal particulars, name of firms), by economic category, etc.
- (b) Printouts of traders on the basis of particulars in the returns, with computerised calculation of the tax due.
- (c) Forms which are pre-printed or personalised with pre-printed adhesive labels bearing name, address, VAT number and economic sector and sent to traders.
- (d) Entry in the accounts of payments by bank or electronic transfer.
- (e) Identification of persons who have not presented an entry and automatic despatch of a reminder or demand.

Note 2

**DK**

The local edp-bookkeeping systems contains debt and account functions concerning matters that are not integrated in nationwide edp-systems.

**D**

- (1) In some Länder the basic relevant tax data are sent with returns on a separate sheet.
- (2) For a long time bank transfers have been handled "electronically" in cases involving the return of automatically generated (machine-readable) transfer orders sent to taxpayers by the authorities containing full details of the purpose, amount and tax number. These orders are then read by machine in an authorised bank, the amounts are credited to the tax cash office's bank account and the data are sent to the tax office on a storage medium. The payment data are then entered direct in the cash office's accounts.  
More recently all other bank transfers are increasingly being sent "electronically" on storage media by the banks, so that the effort previously involved in entering data is now largely unnecessary.
- (3) The banks give no details of the checks applied for VAT purposes (§ 30a of the Tax Code, "Protection of bank customers").
- (4) Under the automated procedure for processing provisional returns and advance payments (UVV procedure) this is done through monthly checks on provisional VAT returns and under the automated tax monitoring procedure for annual returns.
- (5) Under the UVV procedure and the automated procedure for calculating/assessing annual VAT (USt procedure), returns showing a tax credit undergo arithmetical plausibility checks and plausibility checks against data from earlier returns and from the basic data service (e.g. economic sector number).  
The automated tax collection and basic data service procedures involve machine checks on refunds to show up or prevent fraud. The procedure is in operation in ten Länder and will be introduced in the others by 1995.
- (6) Automated plausibility checks under the UVV and USt procedures.
- (7) Penalties and associated costs fixed under the penalty procedure for minor offences are credited to the computerised accounts. Receipt of payment is monitored by computer and reminders, final demands and notices of arrears are issued automatically.
- (8) Control information, no computerisation.
- (9) Pilot application currently under development.
- (10) In some Länder information on business relationships is stored or reference tax number for another establishment is filed. However, this does not amount to computerised co-operation with other tax authorities.

E

- (1) The registration returns submitted by taxable persons are processed. The returns can be for inclusion, removal or amendment. One of the items of information provided by the system is the register of taxable persons who have the obligation to submit periodic VAT returns-assessments, which makes it possible to investigate those who fail to comply with the said obligation.
- (2) The returns-assessments submitted by large firms (monthly returns) and taxable persons entered in the Register of exporters and intra-community traders (system of monthly refunds) are processed for accounting and tax purposes.  
The quarterly returns-assessments submitted by the remaining tax-payers with periodical obligations are processed solely for accounting purposes.  
Also processed for tax purposes are the summary returns of an informative character which are submitted annually by the periodic declarants of the tax together with the return-assessment of the last assessment period of the year.
- (3) There are no pre-printed or personalised forms. However, identifying labels *are* sent to taxable persons who must use them on the forms they submit to the Tax Administration.  
Different return forms are available depending on the type of tax-payer.
- (4) With regard to the list of payments of the tax by bank or electronic transfer and the checks on bank revenue in the Treasury or Central Bank, see answer to question 18 of the questionnaire which explains the role of the institutions of the Spanish banking system as associated institutions in the collection process of the Public Finance Department.
- (5) See previous note relating to point (1). Not all those failing to comply with the obligation to submit returns-assessments are investigated, for operational reasons.
- (6) The regularity of returns-assessments submitted by tax-payers requesting monthly refunds who are entered in the Register of exporters and intra-community traders is checked by computer.  
The remaining tax-payers request refunds for the balances in their favour annually. The said returns are processed by computer with the annual summary returns for checking purposes.
- (7) There is no specific data-processing application for control of input VAT credits. In Spain businesses and self-employed persons are required to submit an annual informative return of their third-party transactions, both customers and suppliers (Its operation is very similar to the recapitulative statement of intra-community transactions). The data processing of this informative return of third-party transactions makes it possible to some extent to check on the transactions declared by traders in their returns-assessments, comparing these with the allocations made by their customers and suppliers in their informative returns.
- (8) There is no specific computer check on payments corresponding to fines, since in the administration assessments and in the inspection certificates no distinction is made for the treatment given to fines in relation to tax debt.
- (9) Other uses.  
See point (7) relating to the informative return of transactions with third parties.  
Other specific applications are:
  - INFORMA Program: computerised system for inquiries about the implementation of legislation for use by the decentralised services.
  - Electronic mail: system for inquiries about applicable procedures.
  - Computerised VAT course run by the School of Public Finance for its Distance Learning Service.

TABLE 11

## MEMBER STATES VAT CONTROL - ANALYSIS OF THE RANGE OF CONTROL PROCEDURES USED BY MEMBER STATE ADMINISTRATIONS IN CONTROL EXERCISES

NAME OF CONTROL	SELECTION OF POSSIBLE CONTROL PROCEDURES AVAILABLE		TAXABLE PERSONS PERFORMING DOMESTIC TRANSACTIONS		TAXABLE PERSONS PERFORMING INTRA-COMMUNITY TRANSACTIONS		TAXABLE PERSONS PERFORMING INTRA-DETAIL
	YES	NO	YES	NO	YES	NO	
Control of returns (preliminary checks)	- check listings of returns to registered data	B, DK, D, GR, E, F, IRL, I, L	B, DK, D, GR, E, F, IRL, I, L	B, DK, D, GR, E, F, IRL, I, L	B, DK, D, GR, E, F, IRL, I, L	B, DK, D, GR, E, F, IRL, I, L	F: search for defaulters
	- check on arithmetic accuracy of returns	P					
(preliminary checks)	- matching check between payments and returns	B, DK, D, GR, E, F, IRL, I, L			B, DK, D, GR, E, F, IRL, I, L		
	- use of pre-set parameters to check for low payment / high refund returns for subsequent control	P					
Subsequent / Desk controls	- use of more developed risk analysis parameters	DK, GR, E, F, IRL, I, L	B		DK, GR, E, F, IRL, I	B	IRL: high refund only L: 1st refund, refund for standard sector
	- others - please specify especially for taxable persons performing intra-community transactions	I, UK I, L	B, GR, E, F	I, UK F, I, P		B, GR, E, F	B: specific listing of intracommunity deliveries and acquisitions IRL: repayment side only F: control of certain specific lines UK: specific analysis trade class
Subsequent / Desk controls	- check comparison with previous returns - credibility	B, DK, D, GR, E, F, IRL, I, L			B, DK, D, GR, E, F, IRL, I, L		I: art. 21 of Decree on control programme
	- review of previous control reports on trader	P, UK			P, UK		
Subsequent / Desk controls	- comparison with payment / receipt profiles of traders of similar size and/or class of trader	B, DK, GR, E, F, IRL, I, L, P, UK			B, DK, GR, E, F, IRL, I, L, P, UK		
	- request for supporting documentation from trader	B, DK, GR, E, F, IRL, UK	I, L, P		B, DK, GR, E, F, IRL, UK	I, L, P	F: reference ratios to the exclusion of accounting documents
Subsequent / Desk controls	- accounting / statistical checks on documentation received	B, DK, GR, E, F, IRL, I, L, P, UK			B, DK, GR, E, F, IRL, I, L, P, UK		
	- contacts with : other tax or customs departments suppliers	B, DK, GR, F, IRL, I, L, P, UK			B, DK, GR, F, IRL, I, L, P, UK		
Subsequent / Desk controls	- review of trade journals etc.	B, DK, E, F, L, UK	P		B, E, F, L, UK	P	
	- others - please specify	F, I			F, I		F: study of margin, equivalence direct taxes/VAT I: matching checks, bank investigations, in the case of general checks
VAT inspection	- preparation of background / briefing notes	DK, D, GR, E, IRL, I, L, P, UK	B		D, GR, E, IRL, I, L, P, UK	B	
	- preparation of an audit plan for each trader control :	IRL, P, UK	I		IRL, P, UK	I	
on the spot (full, partial, cyclical)	- timetable	B, DK, D, GR, E, F, IRL	L, P		B, DK, D, GR, E, F, IRL	L, P	
	- areas to be examined	DK, D, GR, E, F, IRL, L, P	B		DK, D, GR, E, F, IRL, L, P	B	
on the spot (full, partial, cyclical)	- audit programme set up	B, DK, D, GR, F, IRL, P	L		B, DK, D, GR, F, IRL, P		B: except I.S.I.
	- sampling and testing of transactions	B, DK, D, GR, E, F, IRL, L, P, UK			B, DK, D, GR, E, F, IRL, L, P, UK		D: for large traders all exercises examined
on the spot (full, partial, cyclical)	- review of systems and compliance testing	B, DK, D, GR, E, F, IRL, L, UK	P		B, DK, D, GR, E, F, IRL, L, UK	P	
	- interrogation of trader computers : electronic tills etc.	B, DK, D, GR, E, F, IRL, P, UK	L		B, DK, D, GR, E, F, IRL, P, UK	L	F: data processing used D: cyclical, exam for years before

Source: Member States Response to E.C. Questionnaire 1994

Note

DK:

The answer in the paragraph of VAT-inspection-areas to be examined should be both "yes" and "no".

TABLE 12  
MEMBER STATES VAT CONTROL - ANALYSIS OF THE RANGE OF CONTROL PROCEDURES USED BY MEMBER STATE  
ADMINISTRATIONS IN CONTROL EXERCISES

STAGE OF CONTROL	SELECTION OF POSSIBLE CONTROL PROCEDURES AVAILABLE	TAXABLE PERSONS PERFORMING DOMESTIC TRANSACTIONS		TAXABLE PERSONS PERFORMING INTRACOMMUNITY TRANSACTIONS		DETAIL
		YES	NO	YES	NO	
VAT inspection - on the spot	- stock checks	B DK, D, E, GR, F, IRL, I, L, P, UK		B DK, D, E, GR, F, IRL, I, L, P, UK		GR: Regular I: for general checks NL: May be included in check
(full, cyclical)	- confirmation of cash/bank balances	DK, D, E, GR, F, IRL, I, L, UK	B	DK, D, E, GR, F, IRL, I, L, UK	B	B: if necessary D: cyclical I: for general checks NL: May be included in check
continued	- simultaneous controls at local branches of large companies	DK, D, E, GR, F, IRL, I, P, UK	B, L	DK, D, E, GR, F, IRL, I, L, P, UK	B, L	B: I.S.I. excepted I: for general checks NL: Possible if deemed appropriate
	- contacts with - other tax or customs departments	B DK, D, E, F, IRL, I, L, P, UK		B, DK, D, E, GR, F, IRL, I, L, P, UK		D: with Customs F: Research departments I: for general checks L: Direct Taxes, Customs, private individual, Gendarmerie
	- suppliers	DK, D, E, F, IRL, I, L, NL, P	B	DK, D, E, F, IRL, I, L, P	B	B: if necessary; D: in case of doubt
	- other (please specify) third parties	DK, D, E, F, IRL, I, L, P, UK	B	DK, D, E, F, IRL, I, P	B	B: if necessary DK: bank, auditor, local tax authorities, D: in case of doubt; F: Other authorities
	- contacts with other Member States	DK F, IRL, P, UK		DK IRL, P, UK		I: when necessary UK using the Vies system direct to local offices
	- administrative co-operation requests under Regulation 218/92	B DK E, F, IRL, I, L, NL, P	UK	B DK E, F, IRL, I, L, NL, P, UK		I: when necessary UK experimental stages only
	- mutual assistance requests Directive 77/799	B DK E, F, IRL, I, L, P, UK		B DK E, F, IRL, I, L, P, UK		I: when necessary UK if necessary
	- simultaneous audit of multinational trader	B DK, E, GR, F, IRL, I, L, P, UK	NL	B DK, E, GR, F, IRL, I, L, P, UK	NL	I: when necessary UK experimental stages only
	- other controls - please specify	DK F, IRL, I, L, UK		DK F, IRL, I, UK	L	B: physical control DK: ESKORT, computer audit; F: Reconstruction of receipts I: when necessary L: checks on wealth UK: Investigation/observation visits, unannounced visits for intra-community traders

Source: Member States Response to E.C. Questionnaire 1994

TABLE 13  
MEMBER STATES VAT CONTROL - AVERAGE DURATION OF CONTROL

CONTROL TYPE	AVERAGE DURATION												
	B	DK	D	GR	E	F	IRL	I	L	NL	P	UK	
Control of returns (preliminary checks)	company size	see note (1)	see note (2)	ID		1 D	on-going	ID	1/4 1/3 1+D	see note (3)	not available	see note (4)	
Desk control	small medium large	see note	see note	+D		1 D / +D	ID ID +D	ID	ID +D 1 W		not available	none	
Full general control	small medium large	see note	see note	+W	+D 1 W +W	+D / +W	ID +D +W	ID	+D +W +W		not available	) + D ) + D )	
Partial / cyclical control	small medium large	see note	see note	1 W	1 D +D +D	+D	ID +D +D		ID +D 1 W		not available	) + D )	
Special control of companies undertaking intracommunity trade	small medium large	see note	see note	+W	+D 1 W +W	+D	ID ID ID	ID +D +D	ID +D 1 W		not available	see note	

Source: Member States Response to E.C. Questionnaire 1994

KEY AVERAGE DURATION

- 1 D = one day
- + D = several days
- 1 W = one week
- + W = several weeks
- Permanent Control

Notes

DK (1) : the use of resources and planning of controls have been delegated to the regional offices. The central administration does not keep statistics on the length of individual control visit and the resources used.  
D (2): The Federal Ministry of Finance has no information on duration. As a general guide, however, inspectors are expected to cover annually: 9 - 12 large firms, 20 - 25 medium firms, 40 - 50 small firms.  
In the case of groups and other major companies inspections may extend over several years including all exercises not yet examined. Number of inspectors taking part (1992): 8 636. It's not possible to give a breakdown of inspectors by large, medium and small firms.

Special VAT inspections

Duration of inspections. Each specialised VAT inspector carries out an average of some 76 inspections per year (1992).  
Number of inspectors taking part (1992): 1048. It is not possible to give a breakdown of inspectors by large, medium and small firms.

NL (3): The inspections of the 200 largest companies in the Netherlands take over a week on average. They are conducted by several people, including specialist in the case of other undertakings the control takes a day or more and is usually carried out by a single officer. These figures apply to both full and partial inspections. Checks on firms involved in intra-Community transactions are as far as possible incorporated in the normal control programme.

UK (4): No specialised control. Control is carried out as a part of the normal control function

TABLE 14  
MEMBER STATES VAT CONTROL - NUMBER OF INSPECTORS TAKING PART IN CONTROLS

CONTROL TYPE	NUMBER OF INSPECTORS													UK
	B	DK	D	GR	E	F	IRL	I	L	NL	P			
Control of returns (preliminary checks)	1	see note (1)	see note (2)	1		1	see note (3)	1D	1	see note (4)	not available	not applicable		
Desk control	1	see note	see note	1 or 2		1	1	1D	1		not available	not applicable		
Full general control	1	see note	see note	1 or 2	1	1	1		2		not available	3		
	1	see note	see note	2	2	2	2	1W			not available			
	2	see note	see note	3	3	3	3				not available			
Partial / cyclical control	1	see note	see note	1 or 2	1	1	1		1		not available	1		
		see note	see note		1	1	2	+D			not available			
Special control of companies undertaking intracommunity trade	1	see note	see note	1 or 2	1	1	1	1D	1		not available	As above for normal control function		
		see note	see note		1	1	1	+D			not available			
		see note	see note		1	1	1	+D			not available			

Source: Member States Response to E. C. Questionnaire 1994

KEY

NUMBER OF INSPECTORS

- 1 = one inspector
- 2 = up to two inspectors
- 3 = up to three inspectors
- 3+ = more than three inspectors

Notes

- (1) DK: the use of resources and planning of controls have been delegated to the regional offices. the central administration does not keep statistics on the length of individual control visit and the resources used.
- (2) D: see table 7; a split as to size of controlled entities is not possible
- (3) IRL: by Collector General's Office
- (4) NL: see table 13

**TABLE 15**  
MEMBER STATES VAT CONTROL - IMPROVING TAXABLE PERSONS RIGHTS AND ACCESS TO INFORMATION

PROCEDURE	YES	NO	COMMENT
1. Are taxable persons advised in advance of the i) date ii) length of the control?	B, DK, D, GR, E, F, IRL, L, NL, P, UK  D, UK	B, F, IRL, I, L, NL, P  I	B: only for full controls D: obligatory GR: The large companies one day before (belonging to Category C) E: 10 days F: the length is variable IRL: dependant on co-operation L: no, if fraud is suspected UK: in certain circumstances (eg suspicion of suppression) notice may not be given
2. If the administration is undertaking a partial or cyclical control is the chosen subject or area for examination advised to the trader i) in advance? ii) at the start of the control?	DK, D, E, F, NL  DK, GR, E, IRL, I, P	B, IRL, L, I, P, UK B, F, L, UK	IRL: trader normally notified of period to be examined
3. Are control findings discussed with the trader prior to the preparation of the control report?	DK, D, GR, E, F, IRL, I, L, NL, UK	B, P	B: if the occasion arises; the view of the taxable person is taken into account in the control report F: in an oral discussion between the parties before communication of the adjustments
4. Are control conclusions discussed with the trader after completion of the control report?	DK, D, F, IRL, I	B, DK, GR, E, L, NL, P	B: if the occasion arises; the view of the taxable person is taken into account in the control report D: in case of trader's disagreement with conclusions F: possibility to present written observations I: the trader may make counterstatements which are recorded in the report
5. Once completed can the 'agreed' conclusions of a report be changed i) by the administration on reflection? ii) by re-examination of the controlled documents? ii) by appeal from the trader on reflection?	B, DK, D, GR, E, F, IRL, I, L, UK B, DK, D, GR, E, F, IRL, I, L, UK B, DK, D, GR, E, F, IRL, I, L, UK	P  P  P	GR: Only after an objection to the Public Finance Department in the taxation courts F: modification of the tax base or substitution of legal base, only under certain conditions IRL: (i) formal review procedure I: principle of self - defence L: if new facts come to light NL: a trader has 14 days to react after receiving the control report. The tax authorities may revise the conclusions cf. new facts emerge.
6. Are written warnings used to deter taxable persons from future non-compliance?	B, DK, GR, E, F, NL, UK	D, I, L, P	B: yes for example if a declaration is not submitted L: yes from 1995 F: demand for payment

Source: Member States Response to E.C. Questionnaire 1994

**TABLE 15**  
**MEMBER STATES VAT CONTROL - IMPROVING TAXABLE PERSONS RIGHTS AND ACCESS TO INFORMATION**

<p>7. Are traders advised in advance of the likely imposition of a severe penalty and given an opportunity to present their case?</p>	<p>B, DK, GR, E, F, IRL, L, NL, UK</p>	<p>E, I, P</p>	<p>B: informed by written warnings sent to them. This also allows the taxable person to be able to defend himself. GR: When the penalty has been imposed it is discussed. With the head of the Public Finance Department D: always right to be consulted IRL: option of voluntary disclosure prior to commencement of the audit</p>
<p>8. Has the taxpayer the right to appeal on i) the conduct of the control? ii) the conclusions</p>	<p>B, DK, D, E, F, IRL, I, L, NL, UK B, DK, D, GR, E, F, IRL, I, L, NL, P, UK</p>	<p>P</p>	<p>DK: To Customs and Tax Administration, VAT board or the courts. IRL: (i) formal review procedure/ (ii) see attached note L: after tax bill has been sent</p>
<p>9. Once the control is completed, is there a minimum time period that must elapse before which the taxpayer can be controlled again?</p>		<p>B, DK, D, GR, E, F, IRL, I, L, NL, UK</p>	<p>B: physical controls or controls on refunds can always take place. D: yes, but note obligation to avoid overcharge of the taxpayer. GR: it may be controlled next time by the department of control or by extraordinary control teams.</p>
<p>10. Are taxable persons advised of the above (1-9) procedures, perhaps using a charter, or other method? (please specify)</p>	<p>D, GR, E, F, P, UK</p>	<p>B, DK, IRL, I, L</p>	<p>B: they are not specifically advised; they can be by publications GR: In summary form F: taxpayer's charter</p>
<p>11. Are there any other procedures that your administration uses as to improve taxable persons rights and their access to information? - details please</p>	<p>B, DK, F, IRL, P, UK</p>	<p>GR, I, L</p>	<p>B: press notices, circulars, preparation of explanatory notes, all new taxable persons receive an explanatory file for taxpayers, possibility to have classes provided by the administration F: departmental contact person, independent mediating bodies IRL: "Charter of Rights" is available to all taxable persons (copy attached) I: 1) setting up of taxpayers information office 2) law 241/90, chapter V. and the regulation on transparency in public administration UK: traders rights are published in a variety of leaflets</p>

Source: Member States Response to E.C. Questionnaire 1994

**TABLE 15**

**MEMBER STATES VAT CONTROL - IMPROVING TAXABLE PERSONS RIGHTS AND ACCESS TO INFORMATION**

Notes

**DK**

1. Firms are advised of the control either in writing or by telephone. The control is not announced if considerable irregularities are suspected or if there is special control information.  
The duration of the visit is estimated at the start of the control when the auditor has gained a full picture of the quality of the accounts, etc.
2. The firm is normally advised which annual accounts or accounting documents the auditor wishes to have at his disposal during the control visit. Depending on the situation, the auditor may wait until the start of the control to provide the firm with more detailed information.
3. The firm is advised of any demands for payment, repayments or infringements of the relevant legislation at the end of the control.
4. Control conclusions are always discussed with the traders if the result is an infringement. If the control shows that books are all right, the trader is just informed about the result without any discussions.
5. The results or conclusions may be altered if the firm objects; the case may be reopened if the firm can produce any missing documents or wishes to provide new information on a specific matter.  
The firm may appeal to the regional customs and tax office and, if this appeal is rejected, to the administration. In a number of cases the firm may submit its case to the VAT Board which will take the administrative decision. Finally, the firm may take the case to court.
7. The firms/traders explanation is contained in a report. Afterwards the firms/traders may provide written information/objections to get conclusions and penalties changed.
10. Taxpayers are informed/advised during the control visit- but not in advance.
11. When a firm registers, it is sent a guideline on the rights and obligations applying both to it and to the control authorities.

Whenever there is any new legislation or changes to existing legislation, guidelines containing the new rules are issued.

Virtually all regional offices have an information department where firms may obtain information about legislation. Firms are invited to information meetings at the regional offices when legislation, etc., is amended.

Newly-registered firms can attend information meetings. If the firm wishes, a trial control visit may be conducted on its premises.

**IRL**

An appeals procedure whereby the Appeal Commissioners, who are independent of the tax authority are empowered to adjudicate in disputes between the tax authority and the taxpayer.

The taxpayer may appeal against estimates of tax due made against him, against a decision that he is a taxable person, against a decision on the rate of tax applicable to particular goods or services, and against a refusal of or reduction in repayment of tax.

Decisions of the Appeal Commissioners may be appealed to the ordinary judicial courts by either the tax authority or the taxpayer.

The procedure for bringing disputes to the Appeal Commissioners is utilised effectively. Further appeals to the judicial courts are less frequent.

Although there is no statutory right to do so, the taxpayer may ask for an extension of time to pay arrears of tax. The tax authority may, at its discretion, allow an extension.

When an appeal has been submitted to the Appeal Commissioners the tax involved is not payable until the appeal is determined. Where an estimate is confirmed by the Appeal Commissioners, the tax must be paid before a further appeal may proceed to the judicial courts.

The administration cannot prevent an appeal being brought where they suspect that the primary purpose of that appeal is to defer payment.

**P**

Procedure 1: In accordance with Article 75(3) of the tax procedure code, the order for the examination of documents to be carried out is communicated to the taxable person in advance.

Procedure 2: In accordance with Article 75(3) of the tax procedure code, the departmental schedule determines the area and scope of the examination of documents.

Procedures 3 and 4: Control conclusions are not discussed with traders. However, in accordance with Articles 4 and 5 of the tax procedure code, within 30 days of the completion of the examination of the documents, a report must be drawn up with a brief explanation of where the taxable person may not be in compliance with the law. Taxable persons are notified of the conclusions of the report within 8 days.

Procedure 5: This type of procedure does not exist in Portugal.

Procedure 8(ii): Taxable persons may appeal on the conclusions of the control either administratively or through the courts. Article 90 of the tax Code, inserted in the chapter on taxpayers' guarantees, states that taxable persons and persons who are jointly and severally liable for payment of the tax may appeal against the tax assessment or contest it on the grounds and terms laid down in the tax procedure code.

As a rule, appeals do not have suspensory effect. However, where the tax was calculated on the basis of estimates owing to the non-availability of the data needed to assess the tax properly, there is a compulsory assessment procedure which is suspensory and is laid down in Article 84 of the tax Code.

In addition to this procedure, in accordance with Article 84 of the tax procedure code taxable persons may appeal to the review committee against the decision establishing the taxable base on the grounds that it was incorrectly calculated as a result of indicator-based methods. Such appeals also have suspensory effect. This procedure is outside the structure of the departments.

The guarantees contained in the tax administration procedures include administrative claims as governed by Article 95 ff. of the tax procedure code. These claims are also eligible for appeals through the official channels in accordance with Article 100(1) of the tax procedure code, the appeals being governed by Article 91 ff. of the same code.

Appeals procedures are excluded only in the case of decisions of the revision committees referred to in Article 84(1) of the tax procedure code on appeals against the calculation of the taxable base using indicator-based methods.

Claims for refund of tax governed by Article 120 ff. are provided for in judicial procedures on taxation which are intended to provide judicial protection for legally protected rights and interests in respect of tax. The scope of these procedures is laid down in Article 118 of the tax procedure code.

Procedure 9: There is no minimum time period fixed.

Procedure 10: Taxable persons are informed by official communications of the means of redress at their disposal.

Procedure 11: Taxable persons' rights are also protected in the following ways:

Right to information (Article 20 of the tax procedure code)

The right to information covers, in particular:

- (a) clarification's on interpretation of tax laws and the most convenient and sound means of complying with them;
- (b) information on how taxpayers' requests or appeals are progressing and when they are likely to be finalised;
- (c) binding prior information;
- (d) informing accused persons of the existence, nature and source of malicious unconfirmed accusations against them;
- (e) allowing taxpayers or their representatives access to individual files properly organised and kept by the tax authorities.

The right to explanation (Article 21 of the tax procedure code):

- (a) decisions on tax matters affecting the legally protected rights or interests of taxable persons must state the factual and legal grounds on which they were reached;
- (b) Taxable persons are entitled to an explanatory statement accompanying decisions.

In addition, whenever amendments are made by the VAT administration departments, information leaflets for taxpayers are produced containing the necessary instructions on how to comply with the legislative changes or new procedural rules sent along with the periodic returns to all taxable persons under the normal arrangements.

TABLE 16  
MEMBER STATES VAT CONTROL STATISTICS FOR THE YEARS 1992 AND 1993

CATEGORY OF INFORMATION	NUMBER OF TAXABLE PERSONS / OR CONTROLS ON TAXABLE PERSONS											
	B	DK	D	GR	E	F	IRL	I	L	NL	P	UK
a) The total number of registered taxable persons analysed by periodicity of their returns as follows :1992 1993	643.412 658.717	404.000 404.941	1988:2.021.824 1990:2.103.974	750.000 820.000	ca 2100000	2.506.699 2.527.939	126.754 133.117	ca 5.200.000 ca 5.200.000	23.148 25.261	593.188 637.069	503.868 569.604	1.555.527 1.593.770
i) monthly 1992 1993	76.629 76.952	7000 7071	1988 1.357.263 1990:1.449.508	60.000 70.000		1.248.307 1.249.826	1.199 1.066		3298 3221	192687 206853	83060 88143	
ii) quarterly 1992 1993	411.359 458.068	290.000 290.675	1988: 664.561 1990: 645.466	130.000 150.000		1.209.988 1.121.977	nil		16.034 16.492	350.109 380.713	420.808 481.461	
iii) annual 1992 1993	64520			560.000 600.000 (bimonthly)		30.055 29.877	32.112 35.296	5.200.000 5.200.000	3.816 5.548	50.392 49.503		
iv) other 1992 1993	90.904 123697	104.000 104.618				18.349 126.259	93.443 96.755			none none	a) 34.517 a) 36.609	
b) Number of controls undertaken involving visit to trader 1992 1993	82731 81410	33.000 27.000	79.407 82.752	30.000	26.911 23.373	38.858 39.413	19.373 13.158	44.332 46.185	243 130	65.000 66.000	b) 12.795 b) 47.188	426.000 378.000
c) Number of desk controls undertaken not involving visit to trader 1992 1993	(1) (1)	included in b) included in b)	not available			450.0000	not available	142.070 148.426	1.350 1.200	534.000 470.000	8.945 b) 40.850	not applicable not applicable
d) Number of taxable persons who failed to make a return 1992 1993	(2) (2)	20.000 20.365	not available	30.000			not available	50.000 not available	3.000 3.000	not available	97.000 106.000	not applicable not applicable

Source: Member States Responses to E.C. Questionnaire 1994

**TABLE 16**  
MEMBER STATES VAT CONTROL STATISTICS FOR THE YEARS 1992 AND 1993

CATEGORY OF INFORMATION	NUMBER OF TAXABLE PERSONS / OR CONTROLS ON TAXABLE PERSONS											
	B	DK	D	GR	E	F	IRL	I	L	NL	P	UK
e) Number of adjustments made to taxable persons' returns following your administrations checks and controls 1992 1993	194.383 200.255	20 000		15 000	31 838 28 942	129.942 127.628	not available	291.475 370.682	6.527 7.581	494.000 591.000		266.000
f) Number of trader appeals going to independent administrative arbitration / court 1992 1993	100 (3)961 (4) 174 (3)915 (4)	not determined statistically	not available for VAT alone	approx 12 000		4.848 2.997			13 7	468 401		2463

Notes

- B (1) A control is legal if there is not a change in the principal point for the control of the taxable person. except: controls on the value of buildings (22.468 in 1992 and 22.353 in 1993)
- (2) In Belgium, the administration has two ways of dealing with this problem:  
- a control that allows the reconstruction of the contents of the declaration  
- automatic taxation on the basis of previous declarations.
- (3) Number of cases remaining open at 31st December 1992 and 1993 comprising cases not yet resolved in previous years.
- (4) Number of cases recorded in 1992 and 1993.

Source: Member States Responses to E.C. Questionnaire 1994

**TABLE 17**  
**MEMBER STATES VAT CONTROL STATISTICS FOR THE YEARS 1992 AND 1993**

CATEGORY OF INFORMATION	NUMBER OF RETURNS RECEIVED												
	B (1)	DK	D (1)	GR (1)	E	F (1)	IRL	I	L	NL	P	UK	
i) monthly	1992 919,548	84,000	1988:16,287,156 1990:17,394,096	720,000		14,979,684	not available not available		23,398	2,312,244	886,020		
	1993 923,424	84,000		840,000					23,503	2,842,336	931,622		
ii) quarterly	1992 1,645,436	1,082,000	1988:2,658,244	520,000		4,839,952	nil		26,089	1,400,436	1,415,406		
	1993 1,832,272	1,082,000	1990:2,581,864	600,000			nil		27,024	1,522,852	1,557,516		
iii) annual	1992 64,520			3,360,000		30,055	13,913	5,200,000	3,816	50,392			
	1993 0			3,600,000			16,106	5,200,000	5,548	49,503			
iv) other	1992 (1) 90,904	259,000					386,726			none			
	1993 (1) 123,697	259,864					382,843			none			
Total													
1992	2,720,408	1,425,000	1988:18,945,400	4,600,000		15,009,739	400,639	5,200,000	53,303	3,763,072	2,301,426	7,129,400	
1993	2,879,393	1,425,864	1990:19,975,960	5,040,000	ca 9,500,000	(2)	398,949	5,200,000	56,075	4,414,691	2,489,138	6,938,900	

Source: Member States Responses to E. C. Questionnaire 1994

**Notes**

- (1) Estimate number of taxable persons registered for monthly, quarterly returns etc. (x 12, or 3 as appropriate)
- (2) Source: First VAT Report



**Annex 1**

**Checks on registration and VAT identification number <sup>1</sup>**

1. Entitlement to register: All Member States check based on declaration filed
2. Failure to register:
  - cross-check with other tax data: F, I, NL
  - information obtained from other government departments, e.g. commercial court register, trading lists: B, D, F, L
  - active investigation and controls: B, F, NL, P, UK, IRL, DK
  - information received from other traders, e.g. by control visits: B, D, E, NL, UK, DK
  - examination of professional association publications: L
  - press advertisements: D, L, NL, UK
3. Entitlement to keep an attributed VAT identification number:
  - no checks: D
  - check, if no returns, repeated nil returns: B, GR, E, IRL, L, UK
  - control visits: B, UK

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<sup>1</sup> Source: Member States Responses to E.C. Questionnaire 1994

**Annex 2**

**Sanctions in case of invoice without VAT identification number <sup>1</sup>**

Provided for in: B, DK, GR, E, IRL, I, L, NL, P  
UK (if repeatedly not mentioned)

No provision in : D, F (except in fraud cases)

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<sup>1</sup> Source: Member States Responses to E.C. Questionnaire 1994

## Annex 3

**Means of checking the volume of supplies effected by non-established taxable persons <sup>1</sup>**

- Information exchange between Member States:	B, DK, D, GR, E, IRL, NL
- Control of tax representatives:	B, DK
- Information from third parties:	D, F, L, DK
- Press advertisements:	D, F, L
- Planned: mandatory information obligations for non established taxable persons:	P
- Active investigation:	D, UK, IRL

**Control of intra-community acquisition of new means of transport by final consumers <sup>1</sup>**

- Tax payment condition for registration or registration cross-check:	B, DK, D, F, IRL, I, L, NL, P, UK
- Customs controls	GR
- Automatic exchange of information:	B, DK, IRL, UK

**Means of control of intra-community supplies transported by the buyer <sup>1</sup>**

1. Check of trade documents (invoices, written orders, bank statements etc.):	B, DK, F, I, L, NL, P
2. Active investigation if grounds for suspicion:	
- common interest of persons taking part in the transaction, e.g. associated enterprises:	DK, NL
- type and nature of sold goods (e.g. pleasure boats, camping cars):	DK, NL
3. For cases where purchaser collected goods: Control of VAT number:	DK
4. Exchange of information with other Member States:	all Member States

<sup>1</sup> Source: Member States Responses to E.C. Questionnaire 1994

Annex 4

Member States experiences in the Application of Council Directive 76/308/EEC <sup>1</sup>

On mutual assistance for the recovery of claims resulting from operations forming part of the system of financing the European Agricultural Guidance and Guarantee Fund, and of agricultural levies and customs duties <sup>2</sup>

1. No problems identified : DK, L, P, UK

2. Contact and information problems :

- complicated procedure : D
- difficulties to contact competent authorities : E, NL
- language problems, e.g. due to non standardised accompanying documentation : E
- no reply in certain cases : F
- lack of regular consultations : NL
- co-ordination problems if more than 2 MS concerned : NL
- insufficient supply of information needed to trace debtor : IRL
- lack of information about time limits for claims recovery : F

3. Problems due to insufficient harmonisation :

- unharmonised legislation : GR, I
- diverging degree of liability : F
- MS with significant control and enforcement power disadvantaged compared to other MS : F

4. Slow procedure, insufficient outcome : D, F, NL

- no preference of tax debt in the requested MS : B
- no possibility of precautionary measures : E

5. Cost of proceedings : E



<sup>1</sup> Source: Member States Responses to E.C. Questionnaire 1994

<sup>2</sup> Ref. Council Directive 79/1071/EEC of 6 December 1979 amending Directive 76/308

ANNEX 5

THE INTER-NORDIC AGREEMENTS ON GUIDELINES FOR IMPLEMENTING SIMULTANEOUS AUDITS

AN EXAMPLE

The Nordic countries (Denmark, Finland, Norway, Sweden) have prepared guidelines to make their work in undertaking simultaneous audits of large companies, who carry out their activities in several countries, more efficient.

A simultaneous audit means an arrangement between two or more parties to examine simultaneously and independently, each on its own territory, the tax affairs of taxable persons in whom they have a common or related interest, with a view to exchanging any relevant information which they might obtain.

The main purposes of such simultaneous audits are to determine a taxable person's correct liability where e.g. costs are shared and profits allocated between taxpayers in different tax jurisdictions, or to tackle apparent tax avoidance techniques or in cases of unreported income, illegal payments, etc.

Below the Commission summarises aspects covered by Guidelines for Implementing Inter-Nordic Simultaneous Audits which themselves refer to the OECD' Model Agreement for the undertaking of simultaneous tax examinations <sup>1</sup>.

a) Responsibility and Management

Overall responsibility for simultaneous control lies with the heads of the tax control departments of the individual countries.

A project group, consisting of one member from each country involved, is set up to plan and undertake the controls. This group would appoint the country that will be responsible for co-ordination. This would normally be the country proposing a company for simultaneous audit, or where the company has its main office. The co-ordinator has a list of responsibilities covering the convening of joint meetings, the selection of joint tax control areas, ensuring that general tax control information is collected and distributed, monitoring progress and preparing the final analyses, etc.

b) Selection of companies

The Nordic agreement does not use objective criteria like risk analysis in the selection of companies for control. Rather companies are appointed on the basis of their suitability for simultaneous tax control. The choice of tax control subjects could

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<sup>1</sup> OECD C(92)81/Final

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be based on the examples given by the OECD. e.g. if there is an indication of tax avoidance and evasion; substantial non-compliance of tax law: if forms of international tax planning which if tackled might generate additional tax yield in participating states.

c) Planning of tax control

Detailed guidelines for the implementation of the control are agreed at a joint meeting for each selected company. Prior to this an initial investigation of the company is undertaken e.g. of their financial and accounting systems. The selected company may be invited to attend the planning meeting.

d) Co-ordination of tax control procedures

At the planning meeting tax control areas of mutual interest and conditions of assistance alongwith the time schedule for implementation will be determined. The discussions will agree the extent to which tax control information should be exchanged. This can include agreements that auditors from one country participate in investigations in other countries.

e) Communication between auditors

To ensure that participating auditors are fully and continuously informed on control progression and results information sheets and newsletters, are used.

f) Consultations

For participating auditors so as to allow the exchange of experience and to discuss further initiatives regular meetings are held. Such meetings are always held before the conclusion of an investigation at a firm.

g) Completion of the case and final report

A meeting is held to discuss conclusions and to agree on a common attitude by the individual countries to the company for the problems found in the areas covered by the tax control. The meeting will allow an overall evaluation of the project. The progress on all projects are reported to the heads of the tax control departments of the Nordic countries on a regular basis.

THE CYCLE OF CONTROL FOR DIFFERENT TRADER CATEGORIES AND THE DEFINITIONS OF SIZE USED <sup>1</sup>

## Member State

Trader category classification	B	DK	D	E	F	GR	I	IRL	L	NL	P	UK
Large	5 years	} Firms classified by risk and not size	4.7. years (control of all exercises - "Anschlussprüfung")	5 years > 4.000 m. pesetas	6-8 years > FRF 100 millions	5 years > 180 m. dra.	3 yearly ---	not available	not available	Annually	not available	continuous > £ 100 m.
Medium	5 years	} } } }	11.5 years	not reported 1.000 - 4.000 m. pesetas	---	--- > 180 m. dra.	3 years < 20 mecus < 250 staff	not available	not available	6/7 years	not available	} by risk } Med. - 2.5 - } 6 years } Low 7 } years + } over
Small	5 years	} } }	19.48 years	not reported < 1.000 m. pesetas	---	--- < 15 m. dra.	3 years < 5 mecus < 50 staff	not available	not available	6/7 years	not available	} } }
Micro-sized	---	} }	57 years	not reported	---	---	---	not available	not available	---	not available	} } }

The table indicates: i) the frequency of control visits by trader size.  
ii) the definition of size

N.B : some MS (DK) classify traders by risk rather than size and as such do not have a control cycle by trader size.

<sup>1</sup> Source: Member States Responses to E.C. Questionnaire 1994

Annex 7

COMPUTER-GUIDED AUDIT EXPERT SYSTEMS IN MEMBER STATES

BELGIUM:

None

DENMARK:

ESKORT -an information based specialist assistance system- was introduced in 1989 for use in VAT controls. Since then the system has been constantly improved and extended.

The system is now used at all stages of controls of VAT, employers and payroll tax and on 1st October 1994 will be extended to tax controls and EAGGF controls.

The system will then contain instruments which can be used to back up all stages of the co-ordinated controls. Before a control visit starts, all relevant information about firms in the central system will be downloaded to ESKORT. On the bases of this information the system will be able to help the user draw up an audit plan.

GERMANY:

No expert system is currently in use. Computerised aids for on-the-spot inspections mainly take the form of programs developed for this purpose inside the tax administration.

GREECE:

The administration are examining the feasibility of introducing expert systems in Greece, initially for the control of large companies.

FRANCE:

At the end of 1993, the Directorate-General for Taxation made available to its departments a software programme called OSIRIS to assist in desk control. It is based on the technique of expert systems.

The application allows:

- consultation of the direct tax and VAT returns of industrial and commercial companies. Automatic data collection is planned. Missing information can be collected by the user where necessary;
- control of the consistency from the accounting point of view of tax files;
- detailed analysis of the data present in the database on the bases of a group of 62 possible areas for investigation. Some of these relate more specifically to VAT (concordance direct taxes/VAT, study of the assets-side and liabilities-side of the balance sheet...);
- documents to be made available (analysis report, ratio tables) intended to facilitate diagnostics which must be drawn up by the inspector.

This software is used in the inspections administering taxpayers' files. It may, for example, allow greater depth in the desk control relating to a taxpayer who has previously been selected on the basis of information from other Member States concerning intra-Community VAT.

IRELAND:

None

ITALY:

In Italy an expert system assisting tax inspection is currently being tested at the tax authorities and the Guardia Finanza. The system provides users with two types of quite distinct functions. The first function provides operational support for computerising inspection activities. The second function is a decision-making one and provides indications and suggestion for identifying tax evasion using control functions. The expected advantages from using the system are that inspection activities will be speeded up and standardised and know-how can be shared for the purpose of training less experienced users.

LUXEMBOURG:

The Luxembourg tax authorities are currently studying expert systems similar to ESKORT to find out the minimum amount of information required to make a computer system economically viable and whether such systems can be rapidly adapted to suit the authorities requirements.

NETHERLANDS:

An expert program ESCORT has been developed to assist the preparation and supervision of controls. Data from central systems can be downloaded onto ESCORT and then compared with data from the trader's own accounts. The program also provides technical back-up for the various taxes and assistance in the design of the control programme. It is also used for processing the results of controls and producing the inspection report. Officers carrying out controls are supplied with portable personal computers so that they can use the program in the course of inspections.

PORTUGAL:

None.

SPAIN:

None

UNITED KINGDOM:

VATPACE (VAT portable applications in a control environment) used in VAT Collections.

DOS based and containing a suite of applications and utilities, it enables visiting officers to concentrate more on matters of judgement rather than routine.

Currently Windows based systems (for even greater flexibility) are being developed, also added will be options for accessing a trader's historic return submission date, and an EC VAT registration number verifier.

## Annex 8

### VAT REFUNDS - CONTROL TECHNIQUES APPLIED

#### **BELGIUM:**

The individual taxpayer files to be checked are selected by an automated procedure on the basis of various parameters designed to establish the plausibility of the tax credits declared. The files selected are examined on the basis of the dossier in the tax authorities possession or at the taxable persons head office on the basis of the accounts and the documents which the latter must keep in accordance with the VAT legislation.

In addition, the amount of VAT repayable, for which an express claim for repayment has been made, is checked systematically. This is done at the control office on the basis of the original documents supporting the claim and, if necessary, on the spot when the request is made by person established in Belgium.

The plausibility of the quarterly returns is checked for each taxable person concerned using a variety of criteria. These criteria are based on an examination of the individual situation of the taxable person and a comparison of a number of factors, including:

- pre-existing VAT debt(s);
- taxable person having commenced activity less than two years previously
- amount to be repaid in relation to the system for sending in returns (turnover);
- comparisons of the amount to be repaid with the amount of repayments for the previous four quarters;
- entry on a repayment control list during the previous year;
- so called "risk" sectors.

Certain taxable persons in possession of an authorisation issued by the administration may obtain monthly repayment of their tax credit when this reaches BFR 10 000. These are taxable persons, who in the course of the previous calendar year, have carried out exempt transactions (exports, intracommunity deliveries, etc.) to a value at least 30 % of their turnover and who, in the same period, have had a tax excess of BFR 500 000 or more. A list of these taxable persons requesting the repayment of their tax credit is drawn up for each VAT control office on the basis of information from the periodic returns.

#### **DENMARK:**

A series of control data has been drawn up from the computer system for the purposes of planning controls of VAT refunds (payments control). This information is drawn up in respect of seven specific categories:

- 1) Negative returns from normal firms which do not come under category 7 and which meet one of the following conditions:
  - negative tax liability exceeding DKR 50 000
  - negative tax liability between DKR 15 000 and DKR 50 000 or of more than DKR 30 000 in the last two periods without payment controls.

- 2) Negative returns exceeding DKR 2000, which do not fall under category 7 or 1 and which meet one of the following conditions:
  - negative tax liability of between DKR 15 000 and DKR 50 000;
  - total arrears exceeding DKR 2000;
  - at least one missing return;
  - more than DKR 30 000 in negative tax liability in the latest four settlement periods without a control;
  - VAT-registered for less than nine months;
  - control leading to adjustment within the last two years:
- 3) Negative returns exceeding DKR 2000 which are not in categories 7, 2, or 1.
- 4) Negative returns from firms with monthly or weekly settlement (special control procedures).
- 5) Negative returns from firms with a credit limit.
- 6) Negative returns, with the exception of ex post negative returns obtained as a result of controls
- 7) Negative returns from normal firms currently subject to guidance or controls.

From these control lists, computer searches and any information in the firms file, a decision has to be taken on whether the returns can be approved on the basis of the data available (possibly supplemented by telephone calls to the firm) or whether a control of the firm is necessary.

The purpose is to identify returns where there is a risk of a refund being wrongly granted, especially returns in categories 1, 2, 5, and 6. The basis for the negative tax liability is examined during the control of refunds, i.e. both the firms sales and purchases are checked to ensure that the tax liability is in conformity with legal provisions and the firm's activities.

#### **NETHERLANDS:**

Each trader is assigned an individual negative norm in the computerised VAT administration. New traders are automatically given a negative norm of 1 guilder. The result of this system is that all negative returns and claims for refunds which exceed the norm are singled out and examined by the administration. This may be done by examining the file, requesting documents (invoices etc.) or by conducting an inspection on the spot. Inquiries may also be made with third parties, for example the party issuing a particular invoice. The necessary internal control measures are taken within the Tax Department to ensure that decisions on claims for refunds are correct.

## PORTUGAL:

Overall the procedures take account of the States need to establish the legitimacy of refunds in an effective way with adequate guarantees as far as this is possible, and they also aim to avoid burdening companies with extra costs which could jeopardise their competitiveness.

So, instead of a guarantee, taxable person may:

- a) in the case of intracommunity transfers, submit a declaration issued by the credit institution which is handling the transfer, providing that the sale price amount has been or is to be transferred by the institution.
- b) in the case of exports to third countries, submit a photocopy of the export document issued by the relevant customs office.

In addition to any inspection visits to companies which may prove necessary, the legitimacy of refunds is also verified by the tax authorities carrying out internal checks on applications for refunds of over 1,5 million escudos. For this purpose, taxable persons must provide certain supporting documents enabling an initial check to be carried out on the authenticity and legitimacy of the credit in question.

If the data analysed indicate that an on-the-spot check is needed, an external inspection will be conducted.

## UNITED KINGDOM

Checks are carried out on claims and only indirectly on "traders" in the first instance.

Claims are subject to a series of separate automated test. The tests at their simplest compare the amount currently claimed with past claim history, taking account of the trader's reliability if known. Claims from newly registered traders and first, or infrequent, claims from other traders undergo additional tests, designed to help identify potential fraudsters. The value of the claim is used to decide automatically whether a credibility query should be raised and, if so, whether inquiries before or after repayment of the claim appear justified. Each test comprises a number of components for which variable parameters (in a pre-set range) are applied. Adjustments to parameters is a feature targeting the control effort. Stringent security is maintained over this operation.

Claims which fail the automated test are subject to manual scrutiny. Those claims which have not yet been paid are examined centrally by people who have immediate access to additional data and who are empowered to make decisions on whether repayment may now be made, and whether any further inquiries are needed post payment. Further inquiries are referred to VAT Offices whether visits to the traders are appropriate. Most inquiries on unpaid claims, and fewer on paid claims, require immediate visits by control staff.

VAT REFUNDS <sup>1</sup>

The number of controls carried out and the number and value of refunds made (in millions of national currency), in the years 1991, 1992 and 1993

Member State	1991			1992			1993		
	N° controls	Vol.	Value	N° controls	Vol.	Value	N° controls	Vol.	Value
Belgium	9 687		163	10 058		167	9 268		1 994
Denmark	14 647			14 014			13 000		
Germany									
Greece			109 993			95 302			134 500
France		620 738	133		624 806	135		636 844	118
Ireland	6 800	124 956	878	5 671	120 297	923	6 118	102 757	772
Italy		145 308	11 893 000		148 069	14 466 000		136 098	10 610 000
Luxembourg		3 869	5 995		5 820	7 148		5 836	7 121
Netherlands					788 000	15 290		782 000	14 402
Portugal		71 405	319 333		63 340	297 490		49 853	226 579
Spain									
United Kingdom	151 000	2 500 000	23 000	200 500	2 400 000	23 500	193 500	2 300 000	23 500

<sup>1</sup> Source: Member States Responses to E. C. Questionnaire 1994

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Annex 10

**CO-OPERATION WITH OTHER MEMBER STATES AND/OR  
THIRD COUNTRIES IN COMBATING VAT -FRAUDS (IN  
ADDITION TO THE MUTUAL ASSISTANCE PROVIDED FOR  
UNDER DIRECTIVE 77/799/CEE OF 19.12.1977) <sup>1</sup>**

**BELGIUM :**

The Benelux Convention on the recovery of Taxes of 5th September 1952.

The agreement of 29th April 1969 on administrative and criminal-law co-operation in the matters of regulations connected with the realisation of the Benelux Economic Union and the supplementary protocol laying down special provisions concerning taxes.

The special agreement between Belgian and France. Direct and immediate co-operation procedures are being tried in the VAT field.

VAT-controls of multinational companies on an experimental bases are being undertaken in co-operation with UK, Denmark and Spain.

**DENMARK:**

The Nordic Assistance Convention Article 12 concerning assistance in tax matters. Several simultaneous audits have been carried out.

VAT-controls of multinational companies on an experimental bases are being undertaken in co-operation with UK, Belgium and Spain.

**GERMANY:**

No indication.

**GREECE:**

Bilateral co-operation with USA and Scandinavian countries.

**FRANCE:**

Tax conventions providing for assistance in recovery of VAT with Monaco, Benin, Burkina Faso, Cameroon, Central African Republic, Ivory Cost, Gabon, Madagascar, Mali, Mauritania, Niger, Senegal, Togo and Mayotte. Assistance occurs when the VAT debtor is established in one of these countries or in Mayotte and the proceedings taken in France have not allowed the debts to be recovered.

Bilateral experiment in VAT control with UK.

**IRELAND:**

Memorandum of Understanding with UK HM Customs & Excise of 29th July 1992. The MOU provides for operational co-operation regarding the risk to tax revenues in trade between Northern Ireland and the Republic of Ireland. A programme of audit and control visits is agreed each year whereby traders involved in cross-border trade are selected for control action.

<sup>1</sup> Source: Member States Responses to E.C. Questionnaire 1994

**ITALY:**

Agreements on undertaking simultaneous control exercises with USA, France and Austria.

**LUXEMBOURG:**

The co-operation of Benelux countries (see BELGIUM above).

**NETHERLANDS:**

The co-operation of Benelux countries (see BELGIUM above).

Administrative assistance arrangements with the following countries relating to VAT on imports, exports and transit of goods:

-agreement of 7th September 1967 with Belgium, Germany, France, Italy and Luxembourg on mutual assistance between the various customs authorities

-agreement of 20th December 1983 with Norway on mutual administrative assistance in customs matters

-agreement of 20th March 1985 with Sweden on mutual administrative assistance in customs matters

-agreement of 4th April 1984 with Finland on mutual administrative assistance in customs matters

**PORTUGAL:**

Discussions have begun with Spain with a view to drawing up a protocol on bilateral co-operation in the area of intracommunity VAT control.

**SPAIN:**

VAT-controls of multinational companies on an experimental bases are being undertaken in co-operation with UK, Belgium and Denmark. Discussions with Portugal (as above)

**UNITED KINGDOM:**

VAT-controls of multinational companies on an experimental bases are being undertaken in co-operation with Belgium, Denmark and Spain.

Bilateral experiment in VAT control with France.

Co-operation between Northern Ireland and the Republic of Ireland (see IRELAND above).

## Annex 11

Information access on debtor's financial position <sup>1</sup>

<u>Type of information</u>	<u>Member States</u>
1. Tax registers and records	B, DK, D, E, F, I, L, P
2. Other registers and official sources <ul style="list-style-type: none"> <li>- courts</li> <li>- mortgage</li> <li>- land</li> <li>- vehicle</li> <li>- commercial and business</li> </ul>	B B, GR, F IRL, P, DK F, P, DK DK, F, IRL, P
3. Banks	DK, E, F, I, NL D, GR, IRL, P (exceptionally) not allowed in L
4. Third parties	DK, D, E, F, NL, UK

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<sup>1</sup> Source: Member States Responses to E.C. Questionnaire 1994

## Annex 12

**Bankruptcies. VAT written off or remitted in millions of national currency in the years 1991-1993.**

Member State	1991		1992		1993	
	Bankruptcy amount	Pct. of total revenue	Bankruptcy amount	Pct. of total revenue	Bankruptcy amount	Pct. of total revenue
B (1)	72,2	0,015	4,5	0,001	6,2	0,001
DK						
D (2)	334,3	0,186	689,0	0,348	813,1	0,376
GR						
E (3)					22257,0	
F (2)	32420,0	4,880	35970,0	5,373	40210,0	6,314
IRL (3)	6,0	0,298	4,0	0,184	2,0	0,089
I						
L (4)	27,7	0,120	39,2	0,151	77,4	0,269
NL						
P						
UK	509,8	1,505	530,6	1,413	1289,6	3,419

- (1) Insolvency: 172,2 (1991), 135,7 (1992), 24,2 (1993).  
(2) Including composition proceedings.  
(3) Liquidation amounts (bankruptcy procedure seldom used).  
(4) Including write-off.

Source: Member States Responses to E.C. Questionnaire 1994

DEFERRED PAYMENT ARRANGEMENTS <sup>1</sup>

	YES	NO
Local decision or central decision?	B, DK, D, E, F, I, NL, UK  DK, GR, IRL, L (above certain amounts) B, E, D, I, NL	GR, IRL, L  F, UK
Maximum time? - up to 6 months - up to 1 year - up to 3 years - more	D (Instalment) DK (3m), GR (2-4m), UK B, I, L, NL IRL E, F	D (Deferment)
Rescheduling possible?	B, E, F, D, I, NL, UK	IRL (only exceptional), L
Revocable?	B, E, F, D, IRL, I, NL, UK	
Interest charged?	all Member States except UK	UK
Rate higher than bank rates?	B, DK, GR, F, IRL, L	E, D, NL
Refusal if bad payment history?	B, E, IRL, I, NL, UK	D (but closer observance)
Obligated to pay current tax?	B, DK, E, D, IRL, L, NL, UK	
Measure agreed if a) other finance possibilities available?	IRL except case 3 below: E, D (instalment) except cases 2, 3 below: I	B, DK, GR, F, L, NL, UK D (deferment, except case 1 below)
b) guarantees?	IRL, L except cases 2, 3 below: I, NL except case 3 below: B, DK, E, F, D (instalment)	GR, UK D (deferment, except case 1 below)
c) serious distress by enforcement?	GR except case 3 below: DK, E, F, D, IRL except cases 2, 3 below: I	NL, UK
d) imminent bankruptcy?		all Member States
1. if distress due to reasons not to be influenced by taxpayer	except case d) above: DK, E, F, D, IRL, I except cases a), c), d) above: NL, UK	
2. negligence	except case d) above: DK, E, D (instalment), IRL except case c) above: D (deferment)	I, NL, UK
3. abuse, fraud		B, DK, E, F, D, I, NL, UK IRL: except cases a), b) above

## Notes

In Portugal VAT is not deferrable

<sup>1</sup> Source: EC VAT seminar London 1994

## ANNEX 14

NATIONAL OBJECTIVES AND KEY PERFORMANCE INDICATORS <sup>1</sup>

MS	Comment
B	The two main national objectives reported are: - that at least 50% of the files controlled relate to persons carrying out intra-community transactions (1993). - 20% of persons filing a return under Article 53b of the VAT code will be controlled for the whole of 1993.
DK	Total goals for the control of revenue are determined, but they are not specified for different types of control visit or on VAT. From 1994 'contracts' are being agreed with regional offices on the definition of objectives and the allocation of resources for the following year.
D	There are no quantitative objectives. Large firms to be inspected every 4 years for all exercises.
E	No specific objective or indicators reported.
F	Performance indicators set include: - rate of implementation of the verification programme - number of reminders sent and abandonments sent - amount of penalties applied - number of criminal proceedings
GR	Target yields from controls expressed as a proportion of overall VAT revenue. Target for the number of controls expressed as a proportion of the annual number of VAT account final declarations
I	A comprehensive range of 47 indicators are used to monitor and compare the administrative offices functions on a national, regional and local basis. These fall under the following main headings: a) the measurement of quantitative objectives (6 indicators) b) utilisation of staff resources (7 indicators) c) measurement of qualitative objectives (15 indicators) d) evaluation of results obtained (19 indicators)
IRL	Specific objectives and indicators are currently being developed.
L	Local rather than national objectives applied. No Performance indicators used specifically.
NL	No specific objectives or indicators reported.
P	Computerised system for Performance indicators (SIG) integrated to annual national inspection plan to measure quality and quantity of the effectiveness of inspection departments. Efficiency indicators measure resources used: time taken, number of staff involved and miscellaneous costs. Performance indicators measure extent to which goals in annual plan are met with regard to quantity i.e. number of operations and quality, corrections to the taxable base and corrections to underpaid tax. Combining efficiency and performance indicators gives an indication of cost effectiveness.

<sup>1</sup> Source: Member States Responses to E.C. Questionnaire 1994

UK	<p>National objectives:</p> <ul style="list-style-type: none"><li>- to ensure management, collection and payment on time of VAT</li><li>- to maximise the potential yield by targeting resources effectively and encouraging voluntary compliance by businesses</li><li>- to provide businesses with full and understandable information about VAT</li></ul> <p>Efficiency indicators include:</p> <ul style="list-style-type: none"><li>- gross and net underdeclarations found on assurance visits</li><li>- net additional liability found per half day 'session' of allocated assurances resources</li><li>- achieving progressive reductions in VAT arrears.</li></ul>
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Annex 15

Estimates of Cost Performance in administering VAT<sup>1</sup>

Member States	Cost Performance Estimate Yes/No	Pourcentage of VAT income
B	Yes	1.03%
D	Yes	c. 2%
DK	---	
E	Yes	0.8 - 1%
F	Yes	1.6%
GR	Yes	c. 2%
I	---	
IRL	Yes	c. 1%
L	---	
NL	Yes	0.9%
PT	Yes	No figures supplied
UK	Yes	0.8%

Note

- i) For those Member States for which a cost estimate is shown the costs are expressed as a percentage of the VAT receipts in the year.
- ii) Some Member States do not undertake such exercises (L, I, DK) whilst some others do not carry out the exercise each year (B, D, GR).
- iii) The specific costing methodologies used by the individual Member States were not communicated (except NL).

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<sup>1</sup> Source: Member States Responses to E.C. Questionnaire 1994

## ANNEX 16

DEFINITION OF EVASION AND ABUSE OF THE LAW<sup>1</sup>

MS	Comment
B	Distinctions between individual and organised evasion are only made on a local basis by the controlling officials.
DK	No distinctions made between individual and organised evasion of tax.
D	<p>Tax abuse is where a legal contrivance is used that is excessive in comparison with the aim pursued, is designed to reduce tax and cannot be justified on economic or other significant non-tax-related grounds.</p> <p>Tax evasion is where there is deliberate deception of the tax authorities as regards a taxpayer's circumstances to obtain a reduction in taxes or unwarranted tax advantages. Deception may involve giving the tax or other authorities incorrect or incomplete details of facts relevant for tax purposes or failing to inform the tax authorities of such facts where required to do so.</p>
E	Not reported.
F	<p>There is no definition of tax avoidance either in law or in court judgements. The tax authorities do not distinguish it from evasion.</p> <p>Tax evasion presupposes both an element of intent (will to escape the tax) and a material element (recourse to illegal proceedings, such as absence of return, dissimulation of income). It therefore constitutes an infringement of tax law. No distinction is drawn between individual evasion and organised evasion.</p>
GR	There is a distinction between tax evasion and abuse of the law. In the latter case the tax is levied. Tax is charged together with fines and surcharges if appropriate.
I	<p>One of the differences between fraud (e.g. issuing or using invoices for fictitious transactions) and evasion (e.g. failure to invoice taxable transactions) is that the former is always subject to criminal penalties in addition to the value of the evaded tax, whereas the latter is an offence only if the evaded tax is over a certain amount fixed by law. Otherwise, only administrative penalties may be applied. Another difference is that in the case of evasion traders are entitled to make amends voluntarily within certain deadlines and have the penalties reduced, whereas in the case of fraud this opportunity is excluded.</p> <p>No distinction is made between individual fraud and organised fraud.</p>

<sup>1</sup> Source: Member States Responses to E.C. Questionnaire 1994

IRL	<p>From an operational viewpoint there is usually no distinction made between evasion and abuse of the tax. What appears in the first instance to be abuse of the law may in the final analysis turn out to be evasion.</p> <p>Organised evasion (e.g. collusion between parties to defraud) may result in heavier monetary penalties and/or criminal prosecution depending on the evidence.</p>
L	<p>Reported not applicable.</p>
NL	<p>Evasion is understood in the Netherlands to mean contravening the statutory regulations. A taxpayer who is found to have evaded tax receives a supplementary assessment and may be liable to penalties. Avoidance is taken to mean acting in a way that is contrary to the spirit of a provision of national or European law but without actually contravening a statutory regulation. Avoidance can only be combated by amending the national legislation, if necessary after obtaining authorisation from the Council of the European Communities to derogate from a Directive.</p> <p>It is reported as being impossible to make a distinction between individual and organised fraud.</p>
P	<p>In Portugal there is no distinction between fraud and abuse of law.</p> <p>A distinction is made between tax crimes (crimes fiscais) and tax offences (contra-ordanações fiscais) in the legal framework for tax offences other than customs offences (RJIFNA).</p> <p>Tax evasion covers unlawful practices with the intent of not settling, remitting or paying tax or unduly obtaining tax benefits, refunds or other financial advantages which would reduce tax revenue.</p>
UK	<p>The investigation of evasion must prove intent and dishonesty and is dependant upon many issues, including the size of the fraud. Investigations are either criminally or civilly based. Individuals or companies can be, and are, held liable for both penalties and arrears. Where there are concerted attacks on the "system", the first option will normally be to prosecute.</p>

## ANNEX 17

MEASUREMENT OF EVASION ON A NATIONAL SCALE <sup>1</sup>

MS	Comment
B	No specific data or procedures.
DK	No specific data or procedures.
D	No specific data or procedures.
E	Not reported.
F	Trends monitored in the results of tax controls and fiscal receipt forecasts against actual returns.
GR	Comparisons of macroeconomic data (private consumption and investment against family budgets).
I	The impact is measured by comparing the data from assessments made with the data on traders VAT returns.
IRL	No procedures operating at present
L	A feasibility study is currently being performed by the National Statistical Institute (STATEC).
NL	No specific data or procedures.
P	The number of new verification proceedings are monitored daily.
UK	There is continuous monitoring of criminal and evasion statistics from which then is produced a national profile each year.

<sup>1</sup> Source: Member States Responses to E.C. Questionnaire 1994

## Annex 18

TYPES OF EVASION AND TYPICAL SECTORS <sup>1</sup>

Evasion commonly takes several familiar forms and arises more frequently in certain trade sectors than others.

Types of Evasion

- Failure to issue invoices
- Issuing of false or fictitious invoices
- Underdeclared sales
- Exports to non-Member States
- Amounts deducted twice
- Displacement of period
- VAT deducted without supporting documents
- Credit notes not booked
- Undeclared or falsified intracommunity purchases
- Fictitious intra-community deliveries
- Companies with short lives who register and disappear
- Use of wrong VAT numbers / fictitious firms
- Fictitious livestock exports

Typical high risk sectors

- Manufacturing
- Trading and distribution
- Construction
- Service Sector  
e.g. employment agencies; hotels and restaurants; supply to private individuals
- Transport vehicles
- Commercial intermediaries
- Whole sale and retailing traders
- Clothing
- Drinks, brewing
- Cash and carry
- Livestock

<sup>1</sup> Source: Member States Responses to E.C. Questionnaire 1994

**ANNEX 19****COUNTERING ORGANISED FRAUD AND EVASIONS****AN EXAMPLE**

Below the Commission summarises the presentation made by DK - at the second seminar in Bonn (November 1993). This is a practical example of a control exercise carried out against organised fraud in the cleaning sector in the Copenhagen region.

A co-ordinated and simultaneous control operation yielded around DKR 100 million with a further DKR 50 million expected in fines.

The investigation was initiated as when VAT evasion was detected in the form of turnover shrinkage in the cleaning companies.

The Danish identified a systematic evasion method. Companies would have a short life, initially submitting correct VAT returns and paying the amounts due, but then after 6-7 months stopping their returns and payments.

If a firm was considered for control it would stop trading, only to re-emerge as a new legal entity continuing the same business activities, with the same staff and customers, but a new manager.

Using their VAT database the Danish administration undertook a search using various parameters to identify the companies to be controlled and additional information sought.

**PARAMETERS**

Age: company no more than 2 years old

Names: similar sounding: spelling of successive company names.

Turnover: compared with payroll costs

**ADDITIONAL INFORMATION**

- Hotels and restaurants were asked to supply the names of cleaning firms used and the total contract price.
- Copies of cleaning contracts requested.

One region selected 40 cleaning companies for control. Control was done by unannounced visits to companies to collect all relevant accounting materials (e.g. invoices issued by the company; purchase vouchers; wages and salaries accounts; customer files; contracts). Assets of companies were confiscated.

#### **NATURE OF DISCREPANCIES DISCOVERED**

The underlying fraud discovered was to conceal the costs of staff by drawing up false invoices from a subcontractor for the amount which has been partly used for undeclared payments to the labour force and partly for the operators own profit. Thus

- customers are omitted from company turnover
- use of fictitious supplies i.e. companies established exclusively to provide legal documentation for expenses who disappear very quickly.

#### **CONSEQUENTIAL EVASION**

Such VAT evasion often indicates evasion in the direct income tax, social services, and unemployment funds as staff draw public benefit while receiving undeclared income from such firms. The Danish identified an impact on VAT and other particularly direct income taxes.

A number of the organisers have disappeared often leaving the country. Police and customs staff are alerted.

#### **RESULTS AND FINDINGS**

Summaries were communicated to other regions for information.

In total 31 of 40 cases irregularities discovered. In 21 of 40 cases reports prepared with a view to prosecution.

The success of the operation in terms of control results (potentially DKR 150 million) was qualified by the inability of many traders to pay. This involved a considerable increase in VAT arrears. Seizure of firms assets reduced this potential loss by about 10%.

- the control operation effectively stopped the firms and stifled the activities. The users of such services hotels and restaurants are now less motivated to use them.
- this control case received wide media attention in Denmark.

ISSN 0254-1475

COM(95) 354 final

# DOCUMENTS

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Catalogue number : CB-CO-95-380-EN-C

ISBN 92-77-91823-3

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Office for Official Publications of the European Communities

L-2985 Luxembourg