

# Fair Taxation: Commission proposes new tools to combat VAT fraud

The new rules aim to build trust between Member States so that they can exchange more information and boost cooperation between national tax authorities and law enforcement authorities.

The most cautious estimates show that VAT fraud can lead to lost revenues of over €50 billion a year for EU Member States – money that should be going towards public investment in hospitals, schools and roads. Revelations in the ‘Paradise Papers’ have again shown how tax avoidance schemes can be used to help wealthy individuals and companies to circumvent the EU’s VAT rules to avoid paying their fair share of tax. Recent reports also suggest that VAT fraud schemes can be used to finance criminal organisations, including terrorists.

Today’s proposals would enable Member States to exchange more relevant information and to cooperate more closely in the fight against these activities.

Valdis **Dombrovskis**, Vice-President for the Euro and Social Dialogue, said: *“Cross-border VAT fraud is a major cause of revenue loss for Member States and EU budgets. Today’s proposal will help to strengthen the cooperation between institutions working nationally and at EU level in order to effectively tackle this problem and improve tax collection.”*

Pierre **Moscovici**, Commissioner for Economic and Financial Affairs, Taxation and Customs, said: *“The Paradise Papers have again shown how some are taking advantage of lax application of EU VAT rules to get away with paying less VAT than others. And we know that VAT fraud can be a source of financing for criminal acts, including terrorism. Combating this requires far more effective information-sharing than currently exists between the competent national authorities – and today’s proposals will make that happen. As an example, the EU’s network of anti-fraud experts Eurofisc will have access to car registration data from other Member States, helping to cut off one major source of VAT fraud linked to new vs used car sales.”*

While the tax authorities of Member States already exchange some information on business and cross-border sales, this cooperation relies heavily on the manual processing of information. At the same time, VAT information and intelligence on organised gangs involved in the most serious cases of VAT fraud are not shared systematically with EU enforcement bodies. Finally, a lack of investigative coordination between tax administrations and law enforcement authorities at national and EU level mean that this fast-moving criminal activity is not currently tracked and tackled quickly enough.

Today’s proposals would strengthen cooperation between Member States, enabling them to tackle VAT fraud more quickly and more efficiently, including on fraud that takes place online. Taken together, the proposals

would give a major boost to our ability to track and clamp down on fraudsters and criminals who steal tax revenues for their own gain.

Key measures in this legislation include:

- **Strengthening cooperation between Member States:** VAT fraud can happen in a matter of minutes, so Member States need to have the tools to act as quickly as possible. Today's proposal would put in place an online system for information sharing within 'Eurofisc', the EU's existing network of anti-fraud experts. The system would enable Member States to process, analyse and audit data on cross-border activity to make sure that risk can be assessed as quickly and accurately as possible. To boost the capacity of Member States to check cross-border supplies, joint audits would allow officials from two or more national tax authorities to form a single audit team to combat fraud – especially important for cases of fraud in the e-commerce sector. New powers would also be given to Eurofisc to coordinate cross-border investigations.
- **Working with law enforcement bodies:** The new measures would open new lines of communication and data exchange between tax authorities and European law enforcement bodies on cross-border activities suspected of leading to VAT fraud: OLAF, Europol and the newly created European Public Prosecutor Office (EPPO). Cooperation with European bodies would allow for the national information to be cross-checked with criminal records, databases and other information held by Europol and OLAF, in order to identify the real perpetrators of fraud and their networks.
- **Sharing of key information on imports from outside the EU:** Information sharing between tax and customs authorities would be further improved for certain customs procedures which are currently open to VAT fraud. Under a special procedure, goods that arrive from outside the EU with a final destination of one Member State can arrive into the EU via another Member State and transit onwards VAT-free. VAT is then only charged when the goods reach their final destination. This feature of the EU's VAT system aims to facilitate trade for honest companies, but can be abused to divert goods to the black market and circumvent the payment of VAT altogether. Under the new rules information on incoming goods would be shared and cooperation strengthened between tax and customs authorities in all Member States.
- **Information sharing on cars:** Trading in cars is also sometimes subject to fraud due to the difference in how VAT is applied to new and used cars. Recent or new cars, for which the whole amount is taxable, can be sold as second-hand goods for which only the profit margin is subject to VAT. In order to tackle this type of fraud, Eurofisc officials would also be given access to car registration data from other Member States.

These legislative proposals will now be submitted to the European Parliament for consultation and to the Council for adoption.

## Background

The proposed measures follow up on the ['cornerstones' for a new definitive single EU VAT area](#) proposed in October 2017, and the [VAT Action Plan](#) towards a single EU VAT area presented in April 2016.

The common Value Added Tax (VAT) system plays an important role in Europe's Single Market. VAT is a major and growing source of revenue in the EU, raising over €1 trillion in 2015, which corresponds to 7% of EU GDP. One of the EU's own resources is also based on VAT.

Despite many reforms, the VAT system has been unable to keep pace with the challenges of today's global, digital and mobile economy. The current VAT system dates from 1993 and was intended to be a transitional system. It is fragmented and overly complex for the growing number of businesses operating cross-border and leaves the door open to fraud: domestic and cross-border transactions are treated differently and goods or services can be bought free of VAT within the Single Market. The Commission has consistently pressed for the reform of the VAT system. For companies trading across the EU, borders are still a fact of daily life when it comes to VAT. Current VAT rules are one of the last areas of EU law not in line with the principles underpinning the Single Market.

### **For More Information**

[Q&A](#) on the proposed tools to combat VAT fraud

[Action Plan on VAT – Towards a single EU VAT area](#)

[Press release](#) on reform of EU VAT rules

[Q&A](#) on reform of EU VAT rules

[Factsheet](#) on reform of EU VAT rules

[Q&A](#) on VAT for e-commerce