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**COMMUNICATION FROM THE COMMISSION TO THE EUROPEAN
PARLIAMENT AND THE COUNCIL**

**AN ACTION PLAN FOR
FAIR AND SIMPLE TAXATION SUPPORTING THE RECOVERY STRATEGY**

1. General context - EU tax policies in times of transition

The unprecedented COVID-19 crisis has deeply disrupted the economies in the EU and elsewhere. The EU, its institutions, Member States, businesses and citizens, are facing this immense crisis in fundamentally transformative times, shaped by climate and environmental-related challenges, a digital revolution, growing inequality, and a geopolitical shift.

The Commission aims to lead the transition into a greener and more digital world that is compatible with the principles of our social market economy. Fair, efficient and sustainable taxation is central in delivering on those ambitions: EU tax policies have to ensure that everyone from individuals to corporations pays their fair share. At the same time, EU tax policies have to be designed so that businesses and citizens alike can fully reap the benefits of the Single Market, work and invest cross-border, innovate and create jobs. All of this, while creating the right incentives for sustainable and climate-friendly behaviour, including sustainable investment, and ensuring that the polluter pays principle is respected.

Fair and efficient taxation will be even more important in the months and years ahead, as the EU and the global community seek to recover from the fallout of the COVID-19 crisis. As stressed in the Commission Communication ‘Europe's moment: Repair and Prepare for the Next Generation’¹, to ensure that solidarity and fairness is at the heart of the recovery, the Commission will step up the fight against tax fraud and other unfair practices. This will help Member States generate the tax revenue needed to respond to the major challenges of the current crisis. This Communication delivers on that commitment and sets out an ‘Action plan for fair and simple taxation supporting the recovery’ containing a set of 25 actions. It is designed to respond to the dual challenge of the current crisis: supporting a swift and sustainable economic recovery and ensuring sufficient public revenue in the EU. The action plan:

- Sketches out measures aimed at reducing tax obstacles for businesses in the Single Market. Tax simplification will improve the business environment, enhance business competitiveness and contribute to economic growth.
- Announces a number of initiatives that will help Member States enforce existing tax rules and improve tax compliance. We need to ensure that Member States secure the tax revenue needed to finance the response to the major challenges of the current crisis, without imposing an undue burden on those already badly affected by the crisis. The fight against tax fraud, avoidance and evasion remains crucial in this respect. This should also contribute to collect in a fairer, well-adjusted, effective and efficient manner among Member States the revenues for both national and EU budget.

This action plan is one key element of a comprehensive and ambitious EU tax agenda for the coming years, which also includes the following important initiatives:

- A well-designed tax system plays an important role in supporting the green transition. The use of taxation as a policy instrument will help to reach climate neutrality by 2050 as well as

¹ COM(2020) 456 final.

the other environmental objectives of the European Green Deal.² In the process, it will also bring additional public tax revenues to public budgets to support the smart investments for a green transition. Environmental taxes help to provide the right price signals and right incentives to producers, users and consumers to encourage less polluting consumption and contribute to sustainable growth. They may also offer opportunities to reduce taxes in other areas, for example on labour, and if revenue for adequate social protection is protected, they can be a win-win option to address both environmental and employment issues.

- **A deep reform of the corporate tax system to fit our modern and increasingly digitalised economy** is now even more important to support growth and generate needed revenues in a fair way, by **realigning taxing rights with value creation and setting a minimum level of effective taxation of business profits**. The Commission is actively supporting the global discussions led by the OECD and the G20 and stands ready to act if no global agreement is reached. Before the end of the year, the Commission will set out the next steps, following up on the global discussions in an **Action Plan for Business Taxation for the 21st century**.
- **The global fight against tax evasion and avoidance requires decisive action.** The covid-19 outbreak has prompted unprecedented action at national and Union level to support Member States' economies and facilitate their recovery. This includes State intervention to ensure liquidity and access to finance for undertakings, a considerable part of which has been subject to Union State aid rules. The Union list of non-cooperative jurisdictions for tax purposes ('EU list of non-cooperative jurisdictions') is designed to address threats to EU Member States' tax bases. Against this background, the Commission puts forward a recommendation that Member States make their financial support to undertakings in the Union conditional on the absence of links between those undertakings and jurisdictions that feature on the Union list.
- To fully deliver on the EU's fair tax agenda, all existing policy levers have to be activated. It is in this context, that the Commission will explore how to make full use of the provisions of the Treaty on the functioning of the EU (TFEU) that allow **proposals on taxation to be adopted by ordinary legislative procedure, including article 116 TFEU**.

Next to those flagship tax initiatives, **EU tax policies will continue to feed into the wider Commission agenda**. For instance, the revision of the tobacco tax directive³ and the alcohol tax directives⁴ as well as the provision on cross-border acquisitions by individuals in the horizontal directive on excise duties⁵ will be launched to better contribute to public health objectives and to

² Initiatives such as the review of the Energy Tax Directive and the establishment of a Carbon Border Adjustment Mechanism are part of the European Green Deal, which also aims to create the context for broad-based tax reforms at national level, removing subsidies for fossil fuels, shifting the tax burden from labour to pollution, while taking into account social considerations. As part of the work in support of this objective, the Commission will organise a Conference on *Greening Taxation* in 2020.

³ Council Directive 2011/64/EU of 21 June 2011 on the structure and rates of excise duty applied to manufactured tobacco (OJ L 176 5.7.2011, p. 24 – 36)

⁴ Council Directive 92/83/EEC of 19 October 1992 on the harmonization of the structures of excise duties on alcohol and alcoholic beverages (OJ L 316, 31.10.1992, p. 21-27) and Council Directive 92/84/EEC of 19 October 1992 on the approximation of the rates of excise duty on alcohol and alcoholic beverages (OJ L 316, 31.10.1992, p. 29 – 31)

⁵ Council Directive 2008/118/EC of 16 December 2008 concerning the general arrangements for excise duty and repealing Directive 92/12/EEC, OJ L 9, 14.1.2009, p. 12.

avoid tax fraud. The Commission will also continue to pursue its agenda for fair, simple, and sustainable taxation in the European Semester, comprising taxation as a tool to shape a holistic agenda for a socially just green transition, including through the promotion of green budgeting. Moreover, the Commission continues to support the implementation of its agenda for fair and simple taxation through its technical support programmes.

Tax Package for fair and simple taxation supporting the recovery strategy – July 2020

This tax package consists of three elements:

1. The present Communication, outlining an Action Plan for a fair and simple taxation supporting the recovery strategy and presenting a number of upcoming initiatives in the field of direct and indirect taxation.
2. A legislative **proposal⁶ to revise the directive on administrative cooperation⁷**, which will:
 - introduce an **automatic exchange of information between Member States' tax administrations for income/revenues generated by sellers on digital platforms**. Information will help tax administrations verify that those who earn money through digital platforms pay the appropriate share of taxes; and
 - strengthen administrative cooperation through the clarification of existing rules.
3. The Communication on “Tax good governance in the EU and beyond”⁸ will review progress made in enhancing tax good governance in the EU but also externally and suggest areas for improvement. We must act within the EU but also globally. The main areas for action will include:
 - a reform of the **Code of Conduct** for Business Taxation,
 - a review of the **EU list** of non-cooperative jurisdictions for tax purposes,
 - improvements to reinforce **tax good governance** *vis-à-vis* EU funds and improved coordinated defensive measures by EU Member States, and
 - support to **developing country partners** in enhancing tax good governance.

2. We already achieved a lot – but more needs to be done

2.1 Fight against tax fraud, evasion and avoidance:

In recent years, the EU has focused its efforts on tackling tax evasion and boosting transparency. Several legislative initiatives have made it harder for taxpayers to avoid and evade their taxes than ever before, including ground-breaking transparency and Member States' cooperation projects. Specific examples include the anti tax avoidance directive,⁹ the Commission

⁶ COM(2020) 314 final

⁷ Council Directive 2011/16/EU of 15 February 2011 on administrative cooperation in the field of taxation, OJ L 64, 11.3.2011, p. 1.

⁸ COM(2020) 313 final

⁹ Council Directive (EU) 2016/1164 of 12 July 2016 laying down rules against tax avoidance practices that directly affect the functioning of the internal market, OJ L 193, 19.7.2016, p. 1–14.

recommendation on implementation of measures against tax treaty abuse¹⁰, and transparency rules for tax rulings¹¹ and introduction of country-by-country reporting between tax authorities.¹²

Tax authorities today have therefore a broader set of tools to detect and address abusive behaviour and cooperate with other law enforcement authorities. Automatic exchange of information and joint actions have become common in the EU between Member States, as the evaluations of the framework for administrative cooperation in the EU show.¹³ Tax authorities have also gained access to anti-money laundering information¹⁴. Moreover, avoidance schemes now need to be reported, thanks to the new EU rules on potentially aggressive tax planning schemes.¹⁵

The **VAT e-commerce package**¹⁶ applicable as from 2021 removed the VAT exemption on imports of goods below EUR 22, obliging to pay VAT on all goods imported into the EU, which will reduce the possibility for fraud. Administrative cooperation instruments in the field of VAT have also been strengthened: Eurofisc¹⁷ on its initiative can now cooperate and exchange information with the European Anti-Fraud Office (OLAF) and Europol¹⁸; tax authorities can exchange information with customs authorities on importations subject to VAT and custom fraud¹⁹ and organise joint audits with the active participation of foreign tax officials in administrative enquiries.

However, tax fraud and evasion remain a threat for sound public finances. Revenue loss in the EU due to international tax evasion by individuals, covering personal income tax, capital income taxes and wealth and inheritance taxes, has been estimated at EUR 46 billion in 2016.²⁰ The VAT

¹⁰ Commission Recommendation (EU) 2016/136 of 28 January 2016 on the implementation of measures against tax treaty abuse, OJ L 25, 2.2.2016, p. 67–68

¹¹ Council Directive (EU) 2015/2376 of 8 December 2015 amending Directive 2011/16/EU as regards mandatory automatic exchange of information in the field of taxation, OJ L 332, 18.12.2015, p. 1–10.

¹² Council Directive (EU) 2016/881 of 25 May 2016 amending Directive 2011/16/EU as regards mandatory automatic exchange of information in the field of taxation, OJ L 146, 3.6.2016, p. 8–21.

¹³ European Commission. (2017). Evaluation of Regulation (EU) 904/2010. Commission Staff Working Document, SWD(2017) 428 final (for VAT) and European Commission. (2019). Commission staff working document Evaluation of the Council Directive (EU) no 2011/16/EU on administrative cooperation in the field of taxation and repealing Directive 77/799/EEC (SWD(2019)328 final).

¹⁴ Council Directive (EU) 2016/2258 of 6 December 2016 amending Directive 2011/16/EU as regards access to anti-money-laundering information by tax authorities, OJ L 342, 16.12.2016, p. 1–3

¹⁵ Council Directive (EU) 2018/822 of 25 May 2018 amending Directive 2011/16/EU as regards mandatory automatic exchange of information in the field of taxation in relation to reportable cross-border arrangements (OJ L 139, 5.6.2018, p. 1).

¹⁶ Council Directive (EU) 2017/2455, Council Regulation (EU) 2017/2454, Council Implementing Regulation (EU) 2017/2459, Council Directive (EU) 2019/1995, Council Implementing Regulation (EU) 2019/2026, Implementing Regulation (EU) 2020/194; https://ec.europa.eu/taxation_customs/business/vat/modernising-vat-cross-border-ecommerce_en#heading_1

¹⁷ Eurofisc is a network for the swift exchange, processing and analysis of targeted information on cross-border fraud between Member States and for the coordination of follow-up actions.

¹⁸ Furthermore, Europol launched the new European Financial and Economic Crime Centre (EFECC). The Centre will enhance the operational support provided to the EU Member States and EU bodies in the fields of financial and economic crime and promote the systematic use of financial investigations; <https://www.europol.europa.eu/newsroom/news/europol-launches-european-financial-and-economic-crime-centre>

¹⁹ Council Regulation (EU) 2018/1541 of 2 October 2018 amending Regulations (EU) No 904/2010 and (EU) No 2017/2454 as regards measures to strengthen administrative cooperation in the field of value added tax, OJ L 259, 16.10.2018, p. 1–11.

²⁰ https://ec.europa.eu/taxation_customs/sites/taxation/files/2019-taxation-papers-76.pdf

gap (i.e. the difference between expected VAT revenues and VAT amounts actually collected) has been estimated at EUR 137 billion in 2017, including cross-border VAT fraud of EUR 50 billion.²¹ The Commission presented in 2018 a major overhaul of the VAT system for intra-EU trade²². The adoption of this proposal on the definitive regime of VAT would, by removing the exemption on intra-Community supplies, help reduce that gap and make compliance easier. Likewise, corporate tax avoidance in the EU amounts to more than EUR35 billion per year, according to several estimates.²³ These remarkable amounts of revenue lost are even more problematic given that the economic ramifications of COVID-19 will inevitably lead to substantially lower levels of tax revenue. In addition, VAT fraud is in some cases also linked to fraud of customs duties. The tax revenue loss undermines the fair burden sharing between taxpayers as well as the fair national contribution to the EU budget. Almost 75% of Europeans demand more action at EU level to fight tax evasion.²⁴

2.2 Tax administration in the digital era

Further action is needed at EU level to reinforce the fight against tax evasion and help tax administrations to keep pace with a constantly evolving economy. The digital economy and the development of new business models create new challenges for tax administrations. Moreover, tax authorities have limited resources at national level to exploit the massive volume of data that they collect through the implementation of measures taken during recent years.

Digitalisation of the economy and of national authorities should also be understood as an opportunity. The use of digital solutions facilitates the tasks of tax administrations and will be instrumental in cutting compliance costs, both for tax administrations and businesses. Furthermore, data analytics is crucial for the use of the growing amount of data collected. In the field of e-commerce, where customs and tax authorities will have at their disposal massive volumes of data and information systems, synergies between tax and customs authorities become particularly crucial at this regard. Digitalisation is also a key factor to alleviate the reporting burden on businesses, especially SMEs, among others through the reuse of information by statistical authorities.

A conference organised by the Commission in December 2019 on **VAT in the digital age** highlighted the need to deepen the reflection in this area. This reflection should focus on how technology can be used by tax authorities to fight tax fraud and benefit businesses, and whether the current VAT rules are adapted to doing business in the digital age.

²¹ https://ec.europa.eu/taxation_customs/sites/taxation/files/vat-gap-full-report-2019_en.pdf

²² Proposal for a Council Directive amending Directive 2006/112/EC as regards the introduction of the detailed technical measures for the operation of the definitive VAT system for the taxation of trade between Member States, COM(2018) 329, 25 May 2018.

²³ While the existence of tax avoidance practices is demonstrated in many studies, it is hard to measure revenues lost to it given the complexity of the phenomenon and data limitation. Dover et al. (2015) finds that the revenue loss from profit shifting within the EU amounts to about EUR 50-70 billion, equivalent to at least 17 % of corporate income tax (CIT) revenue in 2013. Using a General Equilibrium Model approach, Álvarez-Martínez et al. (2018) find that tax avoidance in the EU-28 entails EUR 36 billion corporate tax revenues losses annually. Zucman et. al (2018) estimate that the EU-28 loses around EUR 37 billion.

²⁴ European Parliament. (2016). Tax fraud: 75% of Europeans want EU to do more to fight it, European Parliament News, 29-07-2016.

2.3 Simple EU tax policies for a competitive single market

The EU has also made progress in simplifying taxation. New rules have been put in place to ensure quicker and more effective resolution of tax disputes in direct taxation arising from the interpretation or application of agreements and conventions that provide for the elimination of double taxation concluded between Member States.²⁵ The adopted VAT e-commerce package has lifted one of the biggest barriers for small businesses trading cross-border. Companies that sell goods online to consumers can deal with their VAT obligations in the EU through an easy-to-use online portal in their own language.

Initiatives have also been taken at EU level to help Member States using taxation as a tool for sustainable economic growth, including in the context of the European Semester. In particular, the Commission underlined that growth-friendly tax systems can support private investment and improve the business environment, encourage employment, reduce inequalities and contribute to an environmentally resilient economy. Moreover, simplifying the tax system can help limit economic distortions and reduce the administrative burden for companies. The adoption of the VAT rates²⁶ proposal, currently under discussion in Council, will provide Member States the flexibility to set, under strict criteria, their own rates - needed for the recovery from the current crisis - but will also enable Member States to better align VAT policy with environmental and health objectives.

However, tax compliance costs remain high in the EU. Particularly, we need to support young and innovative businesses that struggle more with administrative complexity than big multinationals. Compliance costs are typically substantially higher for small than for large companies.²⁷ Estimated tax compliance costs for large companies amount to about 2% of taxes paid, while for SMEs the estimate is about 30% of taxes paid.²⁸ Moreover, the complexity that arises from the patchwork of 27 different tax systems not only creates loopholes for tax abuse, but also uncertainty for honest taxpayers that are simply overwhelmed and thus inadvertently do not comply with the rules.

Therefore, action is also needed at EU level to have a simpler and more modern tax environment. This would help compliant businesses to reap the benefits of the Single Market and sustain economic growth in the EU. As outlined in the Commission's recent Communication on barriers to the Single Market, national rules and procedures in the area of taxation are consistently highlighted by businesses as one of the biggest obstacles they face.²⁹ These obstacles impact in particular businesses that are active cross-border, as they need to adapt to different national systems and administrations. The obstacles that businesses indicate include a wide variety of issues covering registration as well as reporting obligations regarding both VAT and business income taxes.

²⁵ Council Directive (EU) 2017/1852 of 10 October 2017 on tax dispute resolution mechanisms in the European Union, OJ L 265, 14.10.2017, p. 1–14.

²⁶ COM(2018)20 of 18.1.2018.

²⁷ European Commission. (2018). Study on tax compliance costs for SMEs, Final report - Study (Published: 2018-12-12).

²⁸ https://ec.europa.eu/taxation_customs/sites/taxation/files/resources/documents/tax_survey.pdf

²⁹ COM(2020) 93 final and accompanying document SWD(2020) 54 final.

3. A new action plan for fair and simple taxation supporting the recovery strategy

This Communication sets out a new, balanced approach, combining actions against tax fraud and evasion with measures simplifying the life of honest taxpayers. It puts the taxpayer at its centre. Therefore, the various actions envisaged in the action plan are structured along a taxpayer's journey. At various milestones of this taxpayer's journey, the associated actions are described as a way forward for the EU to deliver on the dual objective of fighting tax evasion and making taxation simple and easy.

The plan comprises 25 actions (see Annex) that the Commission will propose and implement until 2024. The possible legislative changes outlined are subject to the results of an impact assessment, including on fundamental rights and especially the right to the protection of personal data that will be prepared where necessary in order to assess the different policy options in accordance with Better Regulation principles³⁰.

3.1 Registration

Effective and efficient registration is the first step in making sure that taxpayers pay their fair share.³¹ Within the EU, taxpayers are identified by a taxpayer identification number (TIN).³² VAT-liable taxpayers are identified by a VAT registration number. Databases holding taxpayers' data need to be kept up to date: taxpayers have to communicate all the necessary data to tax authorities. When changes occur (for instance, a taxpayer moves permanently to another Member State), registration information should be adapted.

To be efficient, registration should be made as simple as possible. Obtaining TINs and/or VAT numbers should not be burdensome. When taxpayers move to another Member State to work or decide to set up a business there, the process to update registries of taxpayers needs to be smooth so as to keep the administrative burden on taxpayers as low as possible. If taxpayers have to prove their tax residency status, in other words where they are registered as taxpayers, to a tax administration other than their own, the procedure needs to be simple.

To simplify tax registration for taxpayers, the Commission will take the following actions:

In 2022/2023

1. Even after the implementation of the VAT e-commerce package, taxpayers registered in their Member State of establishment will be required to obtain additional VAT registrations in Member States where they are not established but carry out certain taxable transactions. The

³⁰ https://ec.europa.eu/info/law/law-making-process/planning-and-proposing-law/better-regulation-why-and-how_en.

³¹ This chapter focuses on taxpayers and tries to conceptualise them as customers of tax administrations. The taxpayers' experience is divided into five key steps of interaction between taxpayers and tax administrations: registration, reporting, verification, payment and disputes. These five steps are borrowed from: OECD (2017), Tax Administration 2017: Comparative Information on OECD and Other Advanced and Emerging Economies https://doi.org/10.1787/tax_admin-2017-en. The steps are adapted to the focus chosen so for instance 'collection' (from a tax administration's perspective) becomes payment, from a taxpayer's standpoint. On customer journey more generally: Lemon, K. N., & Verhoef, P. C. (2016). Understanding customer experience throughout the customer journey. Journal of marketing, 80(6), 69-96.

³² Or equivalent. The "TIN on Europa" webpage of the Commission gives an overview of TINs in the EU: https://ec.europa.eu/taxation_customs/tin/tinByCountry.html

Commission will propose to amend the VAT Directive³³ with the objective of moving towards a **single EU VAT registration**, with which they would be able to provide services and/or sell goods anywhere in the Union.

2. “A Europe fit for the digital age” is one of the six top priorities of the Commission. More specifically, modernising public administration is one of the objectives of the Commission’s eGovernment Action Plan.³⁴ To contribute to this goal, it is of importance to ensure the **efficient use of taxpayers’ data**, in full compliance with the EU data protection rules. As shown by the recent Commission evaluation of administrative cooperation in the area of direct taxation, there remains scope to increase the quality and the use of tax data.³⁵ The Commission will conduct a pilot project to assess which digital solution(s) can be used and how in order to ensure better exploitation of data, create new digital services for taxpayers and to better support the work of tax administrations at a Union level. The Commission will publish a staff working document reporting about the conclusions and recommendations of the pilot project.

3.2 Reporting

Taxpayers keep tax administrations regularly informed of their tax liability, thereby fulfilling several information requirements. To ensure that reporting from taxpayers is as efficient as possible, tax returns have to be simple, the data requested are to be kept to a minimum and the procedures and systems by which taxpayers can submit tax returns to tax administrations should be straightforward. Returns should be pre-filled as much as possible. The principles of e-Government should also apply to tax information, especially when it comes to reporting. Taking a holistic approach, taxpayers should only be required to provide information once via digital, secure, inclusive ‘one stop shop’ e-services. The reuse of such information, e.g. by statistical authorities, should respect appropriate confidentiality regimes.

Effective reporting is rooted in voluntary compliance by taxpayers. Tax administrations rely on taxpayers to provide them with correct information on their taxable income and taxable events. Actions to promote and sustain voluntary compliance and increase trust between tax authorities on the one hand and taxpayers on the other hand can increase the effectiveness of reporting.

Reporting by taxpayers is supported and complemented by reporting from third parties, such as employers, financial institutions and increasingly from other tax administrations.

To simplify reporting from business and to ensure the accuracy of reported information, the Commission will take the following actions:

In 2020/2021

3. The Commission will prepare with Member States an initiative for facilitating and promoting tax compliance for businesses – **an EU cooperative compliance framework** – based on greater

³³ Council Directive 2006/112/EC of 28 November 2006 on the common system of value added tax, OJ L 347, 11.12.2006, p. 1.

³⁴ European Commission. (2016). EU eGovernment Action Plan 2016-2020. Accelerating the digital transformation of government. COM(2016) 179 final.

³⁵ European Commission. (2019). Commission staff working document Evaluation of the Council Directive (EU) no 2011/16/EU on administrative cooperation in the field of taxation and repealing Directive 77/799/EEC (SWD(2019)328 final).

cooperation, trust and transparency amongst tax administrations. The initiative should provide a clear framework for a preventive dialogue between tax administrations for the common resolution of cross-border tax issues in the area of corporate income tax. The initiative would cover both SMEs and larger companies, albeit with a different focus to better fit their respective realities. The programme would complement existing national and international programmes on cooperative compliance. The Commission is working together with experts from Member States on the preparatory phase for the launching of non-legislative pilot projects targeting SMEs and larger companies in 2021.

In 2022/2023

4. Member States are already employing new technologies in order to obtain quicker and/or more detailed information on domestic transactions. The measures taken differ however from one Member State to another, which significantly increases the burden for businesses operating cross-border. The Commission will present a legislative proposal for **modernising VAT reporting obligations**. It should ensure a quicker, possibly real-time, and more detailed exchange of information on VAT intra-EU transactions and at the same time streamline the mechanisms that can be applied for domestic transactions. **The need to further expand e-invoicing** will be examined in this context.
5. The Commission will propose an amendment to the VAT Directive in view of **further extending the scope of the VAT One Stop Shop (OSS)** which is in place since 2015 for the declaration and payment of VAT on TBE³⁶ services and which is to be extended in 2021 by the VAT e-commerce package to distance sales of goods and services other than TBE services. This action aims at including all remaining business to consumer (B2C) transactions not yet covered. Taxpayers should then be able to report all B2C transactions in the EU through a single VAT return to be submitted in their Member State of establishment. The possibility to provide for the obligatory use of the import One Stop Shop and the threshold set for its use will also be examined in this context.

3.3 Payment

A crucial step in the taxation process is the payment of taxes due. Taxpayers are expected to pay their taxes on time and in full. Most taxpayers do so and voluntarily pay what they have to. To ensure that payments take place in the most efficient way, tax administrations should expand electronic payment methods available to taxpayers. For instance, in some Member States it is possible to pay several taxes also via a smartphone app.

Businesses liable to pay VAT and employers or other agents and intermediaries who pay tax on behalf of taxpayers should also benefit from e-services and simplifications. Ease of payment matters especially for small and medium sized businesses, which tend to face disproportionate relatively higher costs of compliance.³⁷

To reach better compliance in the payment of taxes, tax administrations should use new ways of engaging with taxpayers, for instance by making use of a behavioural approach or cooperative compliance.

³⁶ Telecommunications, broadcasting and electronic services.

³⁷ European Commission. (2018). Study on tax compliance costs for SMEs, Final report - Study (Published: 2018-12-12).

The amount of tax due should be correct from the start, to avoid that taxpayers have to ask and wait for a refund. Refunds take time and are prone to fraud. When refunds are expected, tax administrations should handle them as quickly as possible, to avoid that taxpayers have to wait long and suffer from cash-flow problems.

To increase the efficiency of tax payment procedures in the EU, the Commission will take the following actions:

In 2020/2021

6. The Commission will present **recommendations for improving the assistance for the recovery of unpaid taxes**. These recommendations will also pay attention to the need to respect taxpayers' rights. The Commission report on the operation of the arrangements concerning mutual assistance for the recovery of claims relating to taxes, duties and other measures³⁸ concluded that in order to guarantee the efficiency and effectiveness of mutual recovery assistance, Member States should strengthen their internal tax recovery systems and deploy sufficient resources to deal with recovery assistance requests. It also concluded that improving different aspects of the functioning of the tax recovery assistance system (under Directive 2010/24³⁹) may still be considered. The new⁴⁰ Commission report will provide a follow-up on the above conclusions.

In 2022/2023

7. Taxpayers should know clearly and in advance, where they are expected to pay tax. The Commission will propose legislation to clarify where taxpayers active cross-border in the EU are to be considered residents for tax purposes. Today, Member States still use different and various criteria to determine tax residence status, resulting in risks of double taxation (or double non-taxation). This initiative will seek to ensure a **more consistent determination of tax residence** within the Single Market.
8. Improving the business taxation environment is a priority of the Commission. Despite actions undertaken during the period 2016-2019,⁴¹ tax barriers to cross-border investment persist.⁴² The Commission will propose a legislative initiative for introducing a common, standardised, EU-wide system for withholding tax relief at source, accompanied by an exchange of information and cooperation mechanism among tax administrations. In addition, the Commission will assess the need for exchange of information and cooperation between tax authorities and financial markets supervisory authorities.⁴³ Options considered will include both legislative and non-

³⁸ COM(2017)778.

³⁹ Council Directive 2010/24/EU of 16 March 2010 concerning mutual assistance for the recovery of claims relating to taxes, duties and other measures, OJ L 84, 31.3.2010, p. 1.

⁴⁰ The Commission has to report every five years to the European Parliament and the Council (Art. 27(3) of Directive 2010/24/EU).

⁴¹ European Commission. (2017). Code of Conduct on Withholding Tax.

https://ec.europa.eu/taxation_customs/sites/taxation/files/code_of_conduct_on_withholding_tax.pdf

⁴² For recent evidence of the persistence of the problem, refer to Advisory Group to the ECB on Market Infrastructures for Securities and Collateral (2020), "10th T2S Harmonisation Progress Report - Harmonisation of European securities settlement and collateral management arrangement".

⁴³ Reference is made here to the EU and national authorities responsible for the supervision of financial markets. More information is available on the website of the European Securities and Markets Authority (ESMA) at: <https://www.esma.europa.eu/>.

legislative interventions and take into account the OECD Treaty Relief and Compliance Enhancement (TRACE) initiative.⁴⁴ The objective will be on the one hand to lower significantly tax compliance costs for cross-border investors and on the other hand to prevent tax evasion.⁴⁵

3.4 Verification, monitoring and administrative cooperation.

Fair taxation is a cornerstone of the European social model for the benefit of business and citizens. To sustain it, taxpayers are expected to file tax returns and to pay tax on time. Most of them do and the starting point for tax administrations should be a presumption of honesty and compliance. Yet, regrettably, some taxpayers do not play fair. Tax administrations have the duty to check taxpayers' tax affairs, verify and in some cases run tax audits.

Verifications maintain trust in the fairness of the tax system, ensure a level playing field in taxation and avoid that honest taxpayers end up paying more because other taxpayers are not compliant and do not pay their fair share. Moreover, effective tax control can deter future non-compliance.

To run tax controls efficiently and effectively, tax administrations should rely on risk management techniques to better target tax control at the right taxpayer groups. Verifications should be based on a wide range of sources of information, in particular – in the case of taxpayers active cross-border – information coming from other Member States and third countries thanks to the exchange of information.

To streamline the verification procedure and improve controls targeting the Commission will take a number of actions to develop further the Eurofisc network:

9. Eurofisc 2.0 – in 2022/2023

- ✓ The Commission will propose possibly by means of a legislative initiative amending Council Regulation (EU) No 904/2010⁴⁶ to **establish in Eurofisc a true EU capability against VAT fraud in cross-border transactions**. This platform of anti-VAT fraud experts from tax administrations has been given in 2018⁴⁷ a new legal mandate authorising a joint processing of data at EU level. With this in place, the verification process fractioned across tax jurisdictions can now be streamlined inside Eurofisc. The Commission will take steps to ensure that Eurofisc can be transformed into such an EU capable Eurofisc with more data and tools at its disposal.
- ✓ Besides making Eurofisc more efficient, its connections with other relevant EU-bodies and Member States authorities should be reinforced as well. **Eurofisc should become an EU hub for tax information serving not only VAT purposes, but also financial markets**

⁴⁴ <http://www.oecd.org/ctp/exchange-of-tax-information/treatyreliefandcomplianceenhancementtrace.htm>

⁴⁵ Costs for investors have been estimated to amount to more than € 8 billion/year: European Commission. (2017). Accelerating the capital markets union: addressing national barriers to capital flows. COM(2017) 147 final. On the other hand, tax fraud in the area of withholding tax on cross-border dividends has been estimated to more than € 55 billion, <https://www.europarl.europa.eu/news/en/press-room/20181120IPR19552/cum-ex-tax-fraud-meps-call-for-inquiry-justice-and-stronger-tax-authorities>

⁴⁶ Council Regulation (EU) No 904/2010 of 7 October 2010 on administrative cooperation and combating fraud in the field of value added tax, OJ L 268, 12.10.2010, p. 1.

⁴⁷ Council Regulation (EU) 2018/1541 of 2 October 2018 amending Regulations (EU) No 904/2010 and (EU) 2017/2454 as regards measures to strengthen administrative cooperation in the field of value added tax, OJ L 259, 16.10.2018, p. 1.

authorities,⁴⁸ **customs**, OLAF and Europol for example. Some exchanges already exist today, but they need to be streamlined and strengthened, structured and potentially actively supported at Union-level. The transformation process will also take into account an **extension of the scope of Eurofisc**. In this context, **direct taxation** should benefit from the capacity provided by Eurofisc.

- ✓ **Tax administrations would benefit from sharing resources inside the EU capable Eurofisc serving all Member States in an automated way.** Within the EU capable Eurofisc, the required expertise for responding to new fraud patterns arising from changing business models could be developed jointly. In this way, a common investment at EU level would be directly beneficial for all Member States regardless of their resources and capabilities.

Moreover, to improve the capabilities of Member States tax authorities to enforce existing tax rules, the Commission will take the following actions:

In 2020/2021

10. The emergence of alternative means of payment and investment –such as crypto-assets and e-money – threaten to undermine the progress made on tax transparency in recent years and pose substantial risks for tax evasion. In 2021, the Commission will update the **directive on administrative cooperation** to expand its scope to an evolving economy and strengthen the administrative cooperation framework.
11. The European Parliament initiated the launch of an **EU Tax Observatory** as a preparatory action, following up to the EU Pilot Project on Fair taxation.⁴⁹ Financed by the European Parliament, a preparatory action can last for up to three consecutive years. The Commission has recently launched the call for proposals.⁵⁰ The tasks of the EU Tax Observatory will be to monitor and quantify trends in the level and scope of tax abuse and thereby further contribute to evidence-based policy making and to stimulate a European debate on international tax issues.

In 2022/2023

12. The **verifications of cross-border transactions must be reinforced** to secure VAT. The mere exchange of information or warnings between Member States, as it is mainly the case today, is not fit for purpose given the volume of transactions, in particular with the change of VAT rules for e-commerce entering into force in 2021. The Commission will explore how to switch from the manual exchange to the automated share of data through electronic systems, as it is already the case now with sharing of customs data on imports from third countries and, if necessary, will make a proposal to amend Council Regulation (EU) No 904/2010.
13. Furthermore, new technologies at disposal of Member States would make **cross-border transactions easier for honest businesses that want to be compliant with VAT rules**. Tax

⁴⁸ Reference is made here to the EU and national authorities responsible for the supervision of financial markets. More information is available on the website of the European Securities and Markets Authority (ESMA) at: <https://www.esma.europa.eu/>

⁴⁹ Pilot projects and Preparatory Actions introduce new temporary initiatives that might turn into standing EU funding programmes.

⁵⁰ For more details on the call for proposals: https://ec.europa.eu/taxation_customs/calls-tenders-grants-calls-expression-interest/TAXUD/2020/CFP-01-eu-tax-observatory_en

authorities would focus more their controls on non-compliant taxpayers following a risk-based approach while honest taxpayers would enjoy more uninterrupted operation. Furthermore, a modern tax governance to coordinate verifications at EU level would also ease the life of honest businesses. The Commission will also look at possible ways of boosting these cross-border investigations and, if necessary, will make a proposal to amend Council Regulation (EU) No 904/2010.

14. **Closer dialogue with international partners:** Effective cooperation with third countries is often necessary to ensure that EU tax policy works: in a global economy, the tax administrations of the Member States not only need to work together but there is a need to cooperate with third countries. Specifically, the Commission will propose starting the process to negotiate administrative cooperation agreements in VAT with relevant third countries (similar to the one between the EU and Norway), starting from some of the main trade partners of the EU. The aim is to ensure fair and effective tax administration.

3.5 Disputes

Taxation relies on voluntary compliance and as much as possible should be based on a cooperative, positive and harmonious relationship between taxpayers and tax administrations. Yet, reality is not always ideal and sometimes taxpayers and tax administrations disagree

Preventing the possibility of disputes and providing legal certainty to taxpayers would be the primary objective.

However, if a dispute does arise, taxpayers should still have the opportunity to correct or clarify possible misunderstandings in order to avoid the dispute escalating.

Disputes, especially judicial ones, are costly and time consuming. Ideally, such disputes should be avoided but when that is not possible, their fast resolution allows keeping costs for taxpayers and taxing administrations to a minimum. In this respect, some stakeholders have already expressed their preference for more intervention at EU level, specifically on dispute prevention and resolution.⁵¹

To avoid disputes or resolve them as efficiently as possible, the Commission will take the following actions:

In 2020/2021

15. **Monitoring of dispute resolution mechanism directive.** The Commission will follow up with the implementation and monitoring the effectiveness of the dispute resolution mechanism directive regarding disputes arising from the interpretation or application of agreements and conventions that provide for the elimination of double taxation concluded between Member States. In cooperation with Member States, the Commission will continue to work on the implementation of a permanent body for dispute resolution, a so-called Standing Committee, for

⁵¹ Responses to the public consultation on the evaluation of the Directive on Administrative Cooperation in taxation, summarised in annex 2 of European Commission. (2019), "Commission staff working document Evaluation of the Council Directive (EU) no 2011/16/EU on administrative cooperation in the field of taxation and repealing Directive 77/799/EEC" (SWD(2019)328 final) .

which the legal basis is already provided for in the Directive 2017/1852⁵². The Standing Committee is expected to contribute to the effectiveness of the dispute resolution among Member States.

In 2022/2023

16. VAT dispute prevention and resolution. Mechanisms to prevent and to solve disputes concerning the implementation of the VAT Directive are needed at every stage of the VAT transaction life cycle to ensure the VAT principles of legal certainty, neutrality and fairness. The Commission will examine all possible options and, where appropriate, it will come forward with a legislative proposal on a prevention and dispute resolution mechanism for VAT.

3.6 Simplify EU tax rules for more competitiveness in the Single Market

The actions presented above focus on tax administration, the day-to-day implementation of tax rules. Yet, there are limits to what can be achieved by streamlining tax administration alone. To benefit taxpayers, it is important to simplify the rules.

Irrespective of any simplification measure that tax administrations can take, tax policy remains often very complicated to administer and to comply with. Most taxpayers want to pay their fair share. It is regrettable, however, that in some cases the complexity of tax rules may be a disincentive for them to do so.

To make tax simpler and easy, while supporting compliance, there is a need to update and simplify existing legislation in certain areas. A key benefit will be reinstating a level playing field between EU businesses and competitors outside the EU. Furthermore, coherence with key policy objectives such as the European Green Deal needs to be ensured. It is also important that taxpayers know their rights.

To simplify the life of taxpayers operating in the Single Market, the Commission will take the following actions:

In 2020/2021

17. Charter on taxpayer's rights. The Commission will publish a Communication taking stock of taxpayers' existing rights under EU law together with a Recommendation to Member States to facilitate the implementation of taxpayers' rights and to simplify tax obligations.

18. Update VAT rules on financial services. The exemption of financial services laid down in the VAT Directive dates back to when VAT legislation was first put into place in 1977. The Commission will present a legislative proposal for amending these outdated provisions. The modernisation will take account of the rise of the digital economy (fintech) and the increase in the outsourcing of input services by financial and insurance operators as well as the way this sector is structured. The proposal should ensure a level playing field within the Union and take into consideration the international competitiveness of EU companies.

⁵² Council Directive (EU) 2017/1852 of 10 October 2017 on tax dispute resolution mechanisms in the European Union, OJ L 265, 14.10.2017, p. 1.

19. **Transforming the status of the VAT Committee.** The VAT Committee is currently an advisory committee made up of representatives of the Member States and of the Commission without any competences in the procedure of adoption of the implementing measures. The Commission will propose a change to the VAT Directive in order to turn the VAT Committee into a ‘comitology committee’ that would, acting by qualified majority, oversee the adoption of implementing acts by the Commission. Conferring certain implementing powers on the Commission, subject to the control of that Committee, should enhance the efficiency of the decision making process in the area of VAT. It should contribute to a more uniform application of the EU VAT legislation to the benefit of taxable persons having economic activities in several Member States. In the area of indirect taxation, comitology procedures are already used for administrative cooperation and excise duties. The precise scope of those implementing powers would have to be determined.
20. The Commission will organize a **conference on Data Analytics and Digital Solutions** in 2021. This event will be a ‘big tax data summit’, to take stock of the most interesting and innovative ideas from tax experts, businesses, academia, statisticians and national authorities on how to use technology for taxing smarter and to avoid unnecessary reporting burden on businesses. This event will provide a platform for all stakeholders to voice their needs and expectations as regards the use of data analytics and other digital solutions in the area of taxation. It will also provide the opportunity to share best practices.
21. The Commission will establish an **expert group on transfer pricing** to elaborate pragmatic, non-legislative solutions to practical problems posed by transfer pricing practices relevant for the EU. The group will be structured in a way that it will accommodate input from both Member States and stakeholders from the business and civil society. Such an expert group will increase tax certainty and reduce at the same time risk of double taxation.

In 2022/2023

22. **Revise the VAT special scheme for travel agents.** The VAT Directive includes special arrangements for travel agents and tour operators, which are not applied in the same way within the Union. The current rules also lead to a certain degree of distortion of competition between EU established and non-EU established travel agencies organising travels in the EU. Digitalisation exacerbates the problem. Based on the results of the ongoing evaluation⁵³, the Commission will propose amending the VAT Directive in order to simplify the special scheme and to ensure a level playing field within the EU taking into consideration the competitiveness of EU travel industry.
23. **Adapt the VAT framework to the platform economy.** The rapid development of the platform economy raises questions as regards the VAT treatment of the transactions between users facilitated by the platforms (are the persons offering services or goods on the platforms taxable persons for VAT or not?) and of the services provided by the platforms (what is the nature of that service?). The Commission will present a legislative proposal to amend the VAT Directive that should provide clarity and legal certainty to the actors involved. Also, the role platforms could have in securing the collection of the tax will be examined.

⁵³ <https://ec.europa.eu/info/law/better-regulation/have-your-say/initiatives/11883-Evaluation-of-the-special-VAT-scheme-for-travel-agents>.

24. **Greener taxation of the passenger transport sector.** The VAT Directive currently contains several exemptions related to the passenger transport sector. Some of these exemptions relate only to certain types of passenger transport. This leads, for example, to the de facto non-taxation under VAT of international air and maritime passenger transport. The Commission will present a legislative proposal for reviewing these exemptions in order to ensure their coherence with the goals of the European Green Deal. The review would include the simplification of VAT rules regarding the place of taxation of passenger transport services.
25. **E-commerce package for excise duties.** The current rules effectively make distance selling of excise goods impossible due to the high regulatory burden and costs involved for economic operators. The Commission will look at ways to simplify these rules to minimise fraud and distortion of competition between economic operators based online and those with physical shops. If necessary, a legislative proposal will be made to amend the Council Directive on General Arrangement for Excise Duty⁵⁴.

4. Conclusion

The Commission puts forward this ambitious action plan for a fair and simple taxation supporting the recovery strategy in a time of unprecedented challenges. The Commission has activated and will continue to activate all existing policy levers at hand to contribute to a swift economic recovery, while shaping the EU's transition into a green, digital, and fairer social market economy. The EU's tax agenda is and will be at the heart of this transition.

The Commission calls upon the European Parliament, the Council but also other stakeholders such as NGOs, trade unions and businesses to actively engage in a constructive and inclusive fashion, so that this action plan will translate into concrete initiatives for the benefit of the EU's citizens, businesses, and Member States alike.

⁵⁴ Council Directive 2008/118/EC of 16 December 2008 concerning the general arrangements for excise duty and repealing Directive 92/12/EEC, OJ L 9, 14.1.2009, p. 12.